Securities Prospectus

dated 31 October 2016

for the public offering in Germany and Luxembourg

of

5,012,950 no-par registered shares

- each with a notional participation in the registered share capital of EUR 1,00 per no-par share and with dividend rights from 1 January 2016 on -

and for the admission to the regulated market of the Düsseldorf Stock Exchange and to the regulated market with simultaneous admission to the sub-segment of the regulated market with additional post-admission obligations ("Prime Standard") of the Frankfurt Stock Exchange

of

up to 5,012,950 no-par registered shares

- each with a notional participation in the registered share capital of EUR 1,00 per no-par share and with dividend rights from 1 January 2016 on -

of

Biofrontera Aktiengesellschaft

Leverkusen

International Securities Identification Number (ISIN): DE0006046113

German Securities Identification Number (WKN): 604611

Stock Ticker Symbol: B8F

The issuer is a small / medium enterprise (SME) in the meaning of art. 2 paragraph 1 lit. (f) of the Prospectus Directive. The disclosures made in this prospectus are in accordance with the requirements applicable under art. 26b of the Prospectus Regulation.

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1. Summary

Summaries are composed of disclosure requirements, which are referred to as "elements". These elements are numbered in sections A through E (A.1 through E.7).

This summary contains all elements, which are required to be included into a summary for this type of securities and issuer. Since certain elements are not required for this type of securities and issuer, gaps may exist in the numbering sequence of the elements.

Even though an element, due to the type of security and issuer, may be required to be included in this summary, it is possible that no relevant information regarding this element exists. In this case, a short description of the summary with the term "Not Applicable" is inserted.

Section A – Introduction and Warnings

A.1	Warnings	This summary should be read as introduction to the prospectus; Any decision to invest in the securities should be based on consideration of the prospectus as a whole by the investor; Where a claim relating to the information contained in the prospectus is brought before a court, the plaintiff investor might, under the national legislation of the Member States, have to bear the costs of translating the prospectus before the legal proceedings are initiated. Biofrontera AG with registered seat in Leverkusen, and business address Hemmelrather Weg 201, 51377 Leverkusen (also the "***Issuer***" and together with its subsidiaries "***Biofrontera Group***") and Lang & Schwarz Broker GmbH with seat in Düsseldorf, Breite Str. 34, 40213 Düsseldorf (also „**Lang & Schwarz Broker GmbH**") assume the responsibility for the contents of this summary, including any translation thereof, pursuant to sec. 5 para. 2b no. 4 of the German Securities Prospectus Law (Wertpapierprospektgesetz, WpPG). The persons who have assumed responsibility for this summary and any translations thereof, or from whom its issuance originates, can be held liable, but only insofar as the summary is misleading, inaccurate or inconsistent when read together with other parts of the prospectus or does not provide, when read together with the other parts of the prospectus, all necessary key information.
A.2	Consent to the use of	Not applicable. The issuer did not grant consent for the use of the pro-

	the prospectus by financial intermediaries	spectus for subsequent resale or final placement of securities by financial intermediaries.

Section B - Issuer

B.1	Legal and commercial name of the issuer.	The legal and commercial name of the issuer is „Biofrontera Aktiengesellschaft“.
B.2	Domicile and legal form of the issuer, legislation under which the issuer operates and its country of incorporation.	The domicile of the issuer is Leverkusen. The issuer is a public stock corporation (Aktiengesellschaft, AG) operating under German law, which was incorporated in Germany and registered at the lower court of Cologne under HRB 49717.
B.3	Description of and key factors relating to the nature of the issuer’s current operations and its principal activities.	The strategic objective of the Biofrontera Group is to establish the company as a pharmaceutical company specializing in the dermatological sector. In addition to further expansion of business in Germany , the main priorities are to increase the range of indications for existing products and toexpand international sales activities. ***Products*** Biofrontera Group was the first small German enterprise to receive a centralized European drug approval for a completely independently developed drug, Ameluz®. Ameluz® is the most important product of Biofrontera Group. It received a centralized European drug approval for the treatment of mild and moderate actinic keratoses (“**AK**”) on the face and scalp in December 2011. The Issuer received marketing approval from the U.S. Food and Drug Administration (“**FDA**”) for its combination topical prescription drug Ameluz® and medical device BF-RhodoLED® in May 2016, for lesion- as well as field-directed treatment of mild to moderate AK on the face and scalp. Actinic keratoses are superficial forms of skin cancer, and there is a risk that they can spread to deeper layers of the skin

		and develop into a squamous cell carcinoma, which represents the second most dangerous form of skin cancer. According to international dermatology guidelines actinic keratosis is classified as an indication that requires treatment. There is a variety of therapy options to treat actinic keratoses, the currently most used therapy approach in Europe is the treatment of lesions with topical creams which have to be applied by the patient over a longer period of time (weeks or months). Alternatively, the degenerated skin may be removed by mechanical intervention (curettage) or freezing (cryotherapy), which usually leads to scar formation or permanent pigment changes. The treatment of actinic keratosis with Ameluz® is based on photodynamic therapy ("**PDT**"). In a PDT, the respective lesion is treated by applying a gel to the relevant parts of the skin which then delivers the active substance into the cells, where it is metabolized into a molecule ring that can absorb energy from light at certain wavelengths. By shining light onto the skin the reaction is triggered and will selectively kill tumorous cells. The international treatment directives list PDT as gold standard for the removal of actinic keratosis, particularly for patients with large areas of keratoses. Biofrontera Group offers a drug with such an active substance, Ameluz®, as well as an optimized light source called BF-RhodoLED®. 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. When used for PDT, Ameluz is applied to the affected area of skin. Three hours after application, the skin is then exposed to red light from the powerful BF-RhodoLED® lamp (see below) for a period of 10-15 minutes. This triggers a chemical reaction, which kills the diseased skin cells without scarring. This process also stimulates collagen formation in the dermis, which leads to skin rejuvenation in the treated areas. BF-RhodoLED® is the corresponding lamp designed for PDT, which uses LEDs emitting red light at the required 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. It makes it possible to counteract the pain experienced by patients during the exposure by adjusting the light intensity and increasing the period of exposure, or by increasing ventilation of the relevant area of skin. A further activity is the distribution of the Belixos® product family. Belixos® is a medical skin care product with herbal ingredients for the regeneration of damaged skin. The Belixos® skin cosmetics range combines selected extracts of traditional medicinal plants with a modern formulation technology. Belixos® Cream soothes itching and is a basic treatment for itchy, reddened and flaky skin. Belixos® Liquid treats the problems of itchy and flaky scalp. Belixos® Gel is used for care of skin that is vulnerable and prone to redness and blemishes. Belixos® Protect is particularly suitable for the prevention of skin damage caused by the sun. ***Sales*** In the months prior to the market launch of Ameluz®, Biofrontera Group's own sales division was gradually developed. Currently, Biofrontera Group sells Ameluz® via its own field sales team to dermatologists in Germany, Spain and the UK. Ameluz® is distributed in other European Union member states, as well as in Israel and Switzerland, by licensing partners. Ameluz® is marketed by Desitin Arzneimittel GmbH in Denmark, Sweden and Norway, by BiPharma N.V. in Benelux and by Pelpharma Handels GmbH in Austria. In Slovenia, the marketing partner is PHA Farmed d.o.o. Louis Widmer SA has been granted the Ameluz® distribution license for Switzerland and Liechtenstein, and the Ameluz® distribution license for Israel has been allocated to Perrigo Israel Agencies LTD. In these countries, it is necessary to obtain an independent local approval, which the above-mentioned distribution partners have obtained from their respective local authorities out in cooperation with Biofrontera Group. The contracts with the respective sales partners have been concluded in such a way that Biofrontera Group has received no or only a modest down payment (a down payment is a one-time payment by a distributing partner paid at closing of the agreement, a customary term in the area of pharma distribution agreements), and the regional partners purchase

		Ameluz® from Biofrontera Group at a price that is coupled to their own sales price. Depending on the market conditions, Biofrontera Group's share of the sales price varies considerably from country to country, ranging from 35% to 60% of net sales. Distribution to public pharmacies in Germany takes place via pharmaceutical wholesalers, whereas hospital pharmacies are supplied directly. In addition to regular sales force visits to dermatologists, Biofrontera Group has presented Ameluz® at major dermatological conferences in Germany and internationally. The response from dermatologists has been positive. Biofrontera Group has already initiated preparations for sales and distribution activities in USA. With the help of a consulting company specializing in market access and a team of consultants specializing in medical issues, Biofrontera Group has started to analyze the market for actinic keratosis medications and the reimbursement systems in the American health care system. In this regard, Biofrontera Group can make use of the experience of a competitor product already sold and distributed in the USA, Levulan Kerastick®, from the company DUSA Pharmaceuticals Inc. A dedicated local subsidiary, Biofrontera Inc., with seat in Wilmington, Delaware, was established in March 2015 and a very experienced CEO was appointed in the person of Monica L. Tamborini. Biofrontera Group is currently hiring sales and other personnel as well as preparing further permits and reimbursements to begin sales and distribution in the US. ***Business Expansion*** The extension of the European approval of Ameluz® to the treatment of basal cell carcinoma ("BCC") was initiated in 2014. Basal cell carcinoma is the most common infiltrating tumor in humans: in the USA alone, approx. 2.8 million such treatments are carried out annually (source: www.skincancer.org/skin-cancerinformation/skin-cancer-facts), the Issuer expects European figures to be comparable. As basal cell carcinoma is also caused by lifelong UV exposure, this number is rapidly growing due to demographic factors. Compared with the surgical procedures that are still most commonly used today, PDT offers significant advantages, particularly for thin tumors.

		The results of the phase III clinical study were published in April 2016 and showed excellent results from treatment of basal cell carcinomas with Ameluz®. Biofrontera Group has filed the application for extension of the approval with the European Medicines Agency ("EMA") in July 2016. Grant of approval by the EMA is expected by January 2017. To date, Metvix® has had a competitive advantage over Ameluz® due to its approval for the treatment of basal cell carcinoma, despite its proven inferiority with regard to the treatment of actinic keratosis. In particular in other European countries, in which PDT is carried out mainly in hospitals and less in the registered doctors sector, the market opportunities for Ameluz® are significantly reduced as a result. An extension of the indication would therefore put Biofrontera in a significantly improved market position. Biofrontera Group has also started a Phase III clinical trial to evaluate the safety and efficacy of Ameluz® in combination with daylight photodynamic therapy in comparison with Metvix® for the treatment of mild to moderate actinic keratosis. The head-to-head, randomized, observer-blinded, multi-center study in the European Union will include a total of eight sites in Spain and Germany and enroll approximately 50 patients, with 3 to 9 mild to moderate AK lesions in each of two comparable treatment areas on the face and/or scalp. For an intra-patient comparison of the treatments, each patient will receive daylight-PDT with Ameluz® on one side and with Metvix® on the other side of the face or scalp. The assignment of sides will be random. The last patient is expected to conclude treatment by year end 2016. The study will identify potential additional effective applications of Ameluz®. Daylight PDT offers a convenient and painless alternative to PDT with a specialized lamp. In daylight PDT the topical medication is activated by exposure to natural or artificial daylight, which among other benefits saves physician office visit time for the patient. A label extension to include daylight PDT would allow Biofrontera Group to compete directly with self-applied topical drugs and the cryotherapy market.
B.4a	Most significant recent trends affecting the issuer	Business development of Biofrontera Group In comparison to 2015 and 2014, Biofrontera Group achieved a significant increase in sales of more than 34%. The Ameluz® market share in

	and the industries in which it operates.	the PDT medication segment was consistently at approx. 70%, with the remaining approx. 30% going to the competing products Metvix® and Alacare®. However Ameluz® still only has a small share of the actinic keratosis market as a whole, because only approximately 5% of patients are treated with proprietary medicinal products for photodynamic therapy. Although PDT achieves by far the highest healing rates, the complexity of the treatment and the time required by medical practitioners have so far prevented significant market penetration in the public health insurance sector, as doctors in Germany usually do not receive any compensation from statutory health insurance for performing PDT in this payment regime. Regarding the extension of the European approval of Ameluz® for the treatment of basal cell carcinoma in the EU, the clinical phase-III trial has been concluded in direct comparison with the competitor product Metvix®. The latter currently enjoys a competitive advantage over Ameluz® with its approval to treat both basal cell carcinoma and actinic keratoses. In particular in those European countries, in which PDT is mainly established as a hospital discipline and less so in physician's offices, the market success of Ameluz® is currently significantly limited. With the desired indication expansion, the Issuer expects an improved market position. Biofrontera Group is striving to achieve extension of the indication late-2016. A further trend is the application of PDT in a so-called daylight therapy. The drug is applied to the respective skin parts, and the patient is exposed immediately afterwards to approx. two hours of natural sunlight. The comparable drug Metvix® has already received an approval in several European countries. Biofrontera Group has started a clinical study required for an own approval. The study might be finished in the second half of 2016.
B.5	Description of the group and the issuer's position within the group.	Biofrontera Group consists of the Issuer (Biofrontera Aktiengesellschaft) as ultimate parent company and five wholly owned direct subsidiaries, Biofrontera Bioscience GmbH, Biofrontera Pharma GmbH, Biofrontera Development GmbH, Biofrontera Neuroscience GmbH, each with seat in Leverkusen, and Biofrontera Inc., with seat in Wilmington, Delaware, USA.

B.6	Persons who, directly or indirectly, have a (notifiable) interest in the issuer's capital and voting rights.	Insofar as known to the issuer, the following persons who, directly or indirectly, have an interest in the issuer's capital or voting rights which is notifiable under German law: **Direct Interest:** • Deutsche Balaton AG, Heidelberg, Germany: 8.28% • Maruho Deutschland GmbH, Düsseldorf, Germany: 14.72 % • FEHO Vermögensverwaltungsgesellschaft mbH, Frankfurt, Germany: 3.14 % Heidelberg Innovation Management GmbH & Co. KG: 3.22% **Indirect Interest:** • Maruho Co., Ltd., Osaka, Japan: 14.72 % • Universal Investment Gesellschaft mbH, Frankfurt, Germany: 3.14 % • Wilhelm K. T. Zours: 11.21 % • Prof. Dr. Abshagen: 3.84 % • Christoph Kronabel: 3.63 %
	Different voting rights of major shareholders, if any.	Not applicable. The Issuer's major shareholders do not have different voting rights.
	To the extent known to the issuer, whether the issuer is directly or indirectly owned or controlled.	Not applicable; to the extent known to the Issuer, the Issuer is not directly or indirectly owned or controlled.

B.7	Selected historical key financial information:	

	Fiscal year ending 31 December 2015	**Fiscal year ending 31 December 2014**	**Half year ending 30 June 2016**	**Half year ending 30 June 2015**
Source of the financial information : (all numbers given in thousand Euros)	audited consolidated financial statements as per 31 December 2015	audited consolidated financial statements as per 31 December 2014	Unaudited consolidated financial statements as per 30 June 2016	Unaudited consolidated financial statements as per 30 June 2015
Sales revenue	4,138	3,096	1,709	1,568
Cost of sales (1)	-1,236	-1,117	-764	-534
Gross Profit	2,902	1,979	945	1,034
Research and development costs	-6,204	-4,534	-1,852	-4,498
General administrative costs	-2,759	-3,244	-1,372	-1,348
Sales costs (1)	-4,170	-3,847	-2,832	-2,038
Net loss before taxes	-11,203	-10,721	-3,472	-7,323
Loss after taxes	-11,203	-10,721	-3,472	-7,323
Long term liabilities (end of period)	11,230	10,774	3,060	11,321
Current liabilities (end of period)	3,077	3,257	11,410	2,529
Equity (end of period)	-4,809	-21	1,076	-4,299
Cash & cash equivalents (end of period)	3,959	8,509	10,173	4,127
Employees (end of period) (2)	58	46	59	54

(1) Note: While "cost of sales" refers to general costs of revenue, "sales costs" refers to distribution costs.

(2) Unaudited; source: management report for the respective period.

	Significant changes to the issuer's financial condition and operating results	Not applicable. The Issuer's and Biofrontera Group's financial condition and operating results were not subject to significant changes during or subsequent to the period covered by the historical key financial information. There has been no material adverse change in the prospects of the Issuer since the date of the consolidated financial statements as per 31 December 2015.
B.8	Selected key pro forma financial	Not applicable. The Issuer and Biofrontera Group were not required to prepare pro forma financial information.

	information.	
B.9	Profit forecast or estimate.	The Issuer has published a profit forecast in its 2015 financial report, as updated in October 2016, pursuant to which it expects a net result of EUR -11 to -12 million in 2016.
B.10	Qualifications in the audit report on the historical financial information.	Not applicable. The audited historical financial information were not subject to qualifications in the audit reports. However, the auditors' opinion regarding the report for the fiscal year 2015 contained the following note: "*Without qualifying this opinion we refer to the explanations in the combined management report. In particular, the Management Board clarifies under section "Opportunities and risks relating to future business performance", "Liquidity risk" that further capital measures are necessary until the break even is reached. Particularly to obtain approval in the USA, the planned investments into marketing in the US and to meet obligations from the issued option bond further capital measures during the fiscal year 2016 will be necessary. On the basis of its previous, invariably successful experience with capital measures, the Management Board assumes that the liquidity required for business activities can be further ensured. If these valid estimates are, contrary to expectations, not realized, this could constitute a threat to the company's continued existence."* The auditors' opinion regarding the report for the fiscal year 2014 contained the following note: "*Without qualifying this opinion we refer to the explanations in the combined management report. The Management Board clarifies under section "Opportunities and risks relating to future business performance", "Liquidity risk" that further capital measures are necessary until the Break Even and admission of Ameluz in the US is reached. Because of the Management boards successful experiences with corporate capital actions, the Management board acts on the assumption that the necessary liquidity for further business development is guaranteed for the forecasting horizon and beyond. In the case and against all expectations that these valid estimations could not be realized, this could lead to a fact endangering the going concern assumption.*"
B.11	Insufficient work-	The Issuer is of the opinion that the working capital of Biofrontera

	ing capital for the Issuer's present requirements.	Group is currently not sufficient to meet the obligations due in the next twelve months. The current working capital will, in the Issuer's current estimation, be sufficient to cover due obligations until approx. December 2016. For the coming twelve months, the Issuer will require under the current estimate, approx. EUR 15 Million more in order to cover the payment obligations due in the next twelve months. This includes, in particular, the repayment of the option bond due on 1 January 2017, ongoing operative business of Biofrontera Group, including the marketing activities in Europe, maintaining and extending the European approval, as well as costs for the establishment of a sales and marketing presence in the US, including the working capital required to manufacture a number of US-versions of the BF-RhodoLED® lamp. The Issuer plans to rectify a part of this shortfall with the capital increase described in this prospectus. However, it should be noted that only an amount of approximately EUR 5 million is currently intended to be used to cover the working capital requirements; the remaining part of the proceeds will be invested in the US distribution structures. The Issuer will strive to cover the remaining part of the shortfall with equity or debt capital measures. In particular, the Issuer's management is currently in negotiations with several investors regarding the subscription of convertible bonds in a total amount of approximately EUR 10 million. At the date of this prospectus, the Issuer's management is optimistic that such bonds can be placed with new investors and existing shareholders. However, no binding purchase / subscription orders have yet been made. A success of such further capital measures is therefore not guaranteed. Cost-cutting measures might be possible, but not to the extent necessary to ensure the ability to cover all payment obligations that become due in the next twelve months on their own. Furthermore, such cost-cutting measures would cause material constraints to Biofrontera Group's business and future prospects. The Issuer expects that cost-cutting measures could reduce expenses by approx. EUR 100 thousand per month. The Issuer only considers to implement such cost-cutting measures as a supplemental means if proceeds from the capital measure described in this prospectus are insufficient as such, but will suffice together with cost-cutting measures. On their own, cost-cutting measures will not be suffi-

		cient to provide for sufficient working capital to meet the obligations due in the next twelve months. Regarding the obligations due under the option bond on 1 January 2017, the Issuer might convene a creditors' meeting, which could extend the maturity date. However, this would be in the sole discretion of the creditors. A failure of financing measures would result in the inability of the Issuer to meet its obligations and therefore an insolvency in the short term. Potential investors should therefore be aware that the Issuer is dependent on raising additional capital to avoid an insolvency during the next twelve months, and that the success of raising such capital is outside of the Issuer's influence.

Section C – Securities

C.1	Type and the class of the securities being offered, security identification number.	Subject of the offering are 5,012,950 new, no-par registered shares, representing a total notional participation in the registered share capital of the Issuer of EUR 5,012,950, with the German Securities Identification Number (WKN) 604611 and the International Securities Identification Number (ISIN) DE0006046113 („***New Shares***"). The subscription rights have the German Securities Identification Number (WKN) A2BPKY and the International Securities Identification Number (ISIN) DE000A2BPKY9.
C.2	Currency of the securities issue.	EUR.
C.3	Issued shares.	Currently, the Issuer has 30,347,813 shares issued. All shares are fully paid up. The issued shares, as well as the New Shares, do not have a par value.
C.4	Rights attached to the securities.	The New Shares shall carry dividend rights from 1 January 2016 on. Each New Share grants one vote in the Issuer's general shareholder meeting. The New Shares furthermore generally entitle to receive further shares from capital measures, and to participate in

		liquidation proceeds after a dissolution of the Issuer. The rights attached to the New Shares are pari passu to the rights attached to the existing shares.
C.5	Restrictions on the free transferability of the securities.	Not applicable. The New Shares are freely transferable.
C.6	Application for admission to trading on a regulated market; regulated markets where the securities are or are to be traded.	The Issuer intends to have the shares admitted to the regulated market of the Frankfurt Stock Exchange and the regulated market of the Düsseldorf Stock Exchange. The application is intended to be filed on 28 November 2016; the Issuer expects the admission of the New Shares on 2 December 2016 and an inclusion of the New Shares in the existing quotation of the Issuer's shares on 8 December 2016. An admission for trading to other regulated markets is not intended. An admission to the regulated markets referred to above is not guaranteed.
C.7	Dividend policy.	The Issuer has not made any dividend payments to date. Considering the substantial loss carry-forward, no dividend payments are expected in the near future.

Section D – Risks

D.1	Key information on the key risks that are specific to the Issuer or its industry.	***Key risks related to the Issuer's financial situation*** The Issuer and its operative subsidiaries in Biofrontera Group have a history of operating losses. The Issuer anticipates that Biofrontera Group will continue to incur operating losses in the foreseeable future. It may never sustain profitability. Increased revenues by future extensions of business, including marketing Biofrontera Group's products in the US and extending the indication of Ameluz® to the treatment of basal cell carcinoma, may be set off by increased expenses. The existing and any future indebtedness of Biofrontera Group could adversely affect its ability to operate its business. In particular, a high liquidity risk exists with regard to the bond due on 1 January 2017.

		If the Issuer fails to obtain additional financing, it may be unable to complete the development and commercialization of Biofrontera Group's product candidates. ***Key risks generally related to pharmaceuticals and medical products*** Biofrontera Group's products may cause side effects which are currently unknown. This may lead to loss of sales (whether by administrative restrictions or loss of trust), and claims for damages. If product liability lawsuits are brought against Biofrontera Group, it may incur substantial liabilities and may be required to limit commercialization of its products. A recall of Biofrontera Group's drug or medical device products, e.g. due to the discovery of serious safety issues with Biofrontera Group's drug or medical device products, could have a significant negative impact on Biofrontera Group. Biofrontera Group has engaged in only limited sales of its products to date. The planning of Biofrontera Group provides for significant extensions of its marketing, both domestically and abroad. If Biofrontera Group does not achieve this extension, it may not reach profitability. In particular, the financial means of Biofrontera Group may not be sufficient to achieve a significant market share in the US market. ***Key risks related to regulatory issues*** The current European approval for Ameluz® is, in accordance with generally applicable statutory law, currently valid until December 2016. If Biofrontera Group does not comply with legal obligations regarding the extension of the approval, or if currently unknown risks related to drug safety arise, the competent authority may decline the extension of the approval. Existing approvals may be revoked, if Biofrontera Group does not comply with legal obligations regarding the upkeep of the approval, or if currently unknown risks regarding drug safety arise. ***Key risks related to Intellectual Property*** If Biofrontera Group's efforts to protect the proprietary nature of the intellectual property related to technologies are not adequate, Biofrontera Group may not be able to compete effectively in the mar-

		ket. Third-party claims, whether justified or not, of intellectual property infringement may prevent or delay product discovery, development and distribution efforts, as well as subject Biofrontera Group to injunctions and claims for damages. ***Key risks related to litigation*** A shareholder has filed a suit against the Issuer, contesting the appointment of three members of the Issuer's supervisory board in the 2016 annual general meeting. If this lawsuit is successful, decisions taken by the supervisory board may be deemed ineffective retroactively. ***Key risks related to particulars of the Issuer's business*** Biofrontera Group does not have production capacities, and is entirely dependent on third parties for manufacturing its products. Biofrontera Group has only limited control over the third party manufacturers. Such third party manufacturers might fail to deliver the substances on which Biofrontera Group's products are based, or the products themselves, in time, in the required quantity or quality, or at all. If Biofrontera Group fails to have Ameluz® or BF-RhodoeLED® or other marketed products and product candidates manufactured in sufficient quantities and at acceptable quality and cost levels, or to fully comply with current Good Manufacturing Practice ("cGMP") or other applicable manufacturing regulations, Biofrontera Group may face a bar to, or delays in, the commercialization of its products. Thereby, it may breach obligations to its licensing partners or be unable to meet market demand, and not achieve potential projected revenues. Furthermore, approval processes may be negatively affected. Biofrontera Group relies on third parties to conduct clinical trials. If these third parties do not successfully carry out their contractual duties or meet expected deadlines, Biofrontera Group may not be able to obtain or keep regulatory approval for or commercialize products and its business could be substantially harmed. Biofrontera Group currently licenses the commercialization rights for some of its products, which exposes it to additional risks of conducting business in international markets, since Biofrontera Group is not in a

		position to fully control whether its licensing partners conduct their business in compliance with applicable laws and regulations, and may still be liable for their acts or omissions. The business of Biofrontera Group depends substantially on the success of its lead product Ameluz®. If Biofrontera Group is unable to successfully commercialize Ameluz®, or experience significant delays in doing so, the business of Biofrontera Group will be materially harmed.
D.3	Key information on the key risks that are specific to the securities.	An investment in shares always bears the risk of a total loss of the invested capital. If the capital increase set out in this prospectus is not executed, buyers of subscription rights may lose the investment made into the subscription rights. In particular, the commercial register might refuse entering the capital increase into the commercial register due to the litigation against the appointment of supervisory board members. An investment in the New Shares is not an appropriate investment for every investor. The stock price and the trade volume of the New Shares may be subject to high volatility. A large-scale disposal of shares would have detrimental effects on the stock price of the New Shares. Shareholder with large shareholding may exercise or achieve a controlling influence on the general shareholder meeting of the Issuer. A future exercise of option rights and potential further capital rounds may cause a dilution of the investors' shareholding. Currency exchange risks exists for investors with foreign currencies. Short sales of shares of the Issuer may cause losses to investors. The New Shares may not be tradable temporarily or permanently. In particular, a down-listing or delisting of the New Shares might affect the liquidity and the stock market price of the New Shares.

Section E – Offer

E.1	Total net proceeds, estimate of the total expenses of the issue/offer, including estimated expenses charged to the investor.	Under the assumption that all New Shares are placed at a subscription price of of EUR 3.00, the issuer expects net proceeds from this offer in an amount of approximately EUR 14.5 Million. Total financing costs of this issue are expected to be EUR 0.5 Million. Financing costs will not be charged to the investor, neither by the issuer nor by any agent.
E.2a	Reasons for the offer, use of proceeds, estimated net amount of the proceeds.	Under the assumption that all New Shares are placed at a subscription price of EUR 3.00, the issuer expects net proceeds from this offer in an amount of EUR 14.5 Million. Of this amount, approximately EUR 5 Million will be used to cover a part of the working capital shortfall of the operational expenses in the next 12 months. The remainder will be used to build up a sales, marketing and operational infrastructure in the USA, including expenses for further clinical trials in the US as well as working capital requirements for the production of a larger number of a US-specific version of the PDT lamp BF-RhodoLED® which will then be distributed to dermatologists in the US.
E.3	Description of the terms and conditions of the offer.	The offer is first addressed to the shareholders of the Company, and, respectively, holders of subscription rights, to which the subscription offer is communicated via Lang & Schwarz Broker GmbH. Lang & Schwarz Broker GmbH will offer New Shares not subscribed to by shareholders or holders of subscription rights to selected investors in a private placement. Pursuant to section 7 paragraph 3 of the articles of association, the management board is authorized to increase the registered capital of the company until 27 August 2020 with the approval of the supervisory board by up to EUR 5,012,950 by way of issuing, on one or several occasions,

		up to 5,012,950 no-par registered shares against contribution in cash and/or kind ("Authorized Capital"). Based on said authorization, the management board of the Company has resolved on 31 October 2016 with approval of the supervisory board of the same day to increase the registered capital of the Company from currently EUR 30,347,813 by up to EUR 5,012,950 from Authorized Capital to up to EUR 35,360,763 by issuing up to 5,012,950 new no-par registered shares representing a notional amount of registered capital of EUR 1.00 each („***New Shares***"). The exact definition of the amount of the capital increase as well as the respective amendment of the articles of association will be effected after the end of the offer. **Subscription Rights** The statutory subscription right of the shareholders is granted by admitting Lang & Schwarz Broker GmbH to subscribe and take over up to 5,012,950 New Shares at an issue price of EUR 1.00 per New Share, together with the obligation to offer the New Shares to the shareholders for subscription ("Subscription Offer") in a quota of 6:1 against payment of a subscription price of EUR 3.00 ("**Subscription Price**"). The shareholders are requested to execute their subscription right to the New Shares, in order to avoid exclusion, within the period from 3 November 2016 to 16 November 2016 („**Subscription Period**") at Bankhaus Gebr. Martin Aktiengesellschaft, Kirchstraße 35, 73033 Göppingen ("Bankhaus Gebr. Martin Aktiengesellschaft"), acting as settlement agent for Lang & Schwarz Broker GmbH, during the usual business hours. In order to execute their subscription rights, we request our shareholders or the holders of subscription rights, respec-

		tively, to instruct the bank managing their securities account accordingly. For 6 old shares of the Issuer, 1 New Share may be subscribed to at the Subscription Price. For any fractions resulting from the subscription quota of 6:1 for the respective number of old shares held in each case, no New Shares may be subscribed to, only a subscription of one (1) entire New Share or a multiple thereof is possible. The amount of shares held at the end of 2 November 2016 shall be relevant for calculating the number of subscription rights allocated to each shareholder. At this time, the subscription rights (ISIN DE000A2BPKY9) are separated from the shares to the extent of the existing subscription rights and booked to the shareholders' securities accounts by their respective banks. The subscription rights cannot be traded, neither on the stock market, nor will a private trade be organized by the Company. Subscription rights not executed are forfeit and will be booked out as invalid at the end of the subscription period. From 3 November 2016 on, the old shares will be traded as "ex subscription rights". Shareholders executing subscription rights shall pay the Subscription Price upon execution of the subscription right, but no later than the end of the Subscription Period on 16 November 2016. The subscription rights shall be proof that the shareholder is entitled to subscribe to New Shares. The receipt of the subscription request and the Subscription Price at the agent referred to above is relevant for keeping the deadline. Shareholders / holders of subscription rights are charged the usual bank fee for the subscription. **Additional subscription** In the case that not all New Shares are subscribed to in the execution of the statutory subscription right, the New

		Shares which have not been subscribed to may be acquired by shareholders executing subscription rights in an additional subscription from Lang & Schwarz Broker GmbH. Each shareholder executing subscription rights may therefore, beyond the subscription rights arising out of the shares held by the shareholders in accordance with the subscription quota, make further binding subscription requests ("**Additional Subscription**"). Shareholders desiring to subscribe to further New Shares beyond the allocated subscription quota must transfer their binding subscription request within the subscription period via the bank managing their securities account to Bankhaus Gebr. Martin Aktiengesellschaft as settlement agent. If the shares are over-subscribed, they shall be allocated in the discretion of the Issuer according to the statutory provisions. The banks managing the securities accounts are requested to communicate the subscription rights collectively in on registration no later than and including 16 November 2016 at Bankhaus Gebr. Martin Aktiengesellschaft, Kirchstraße 35, 73033 Göppingen, Telefax +49 (0)7161 969317, and to transfer the Subscription Price per New Share also no later than the end of the Subscription Period on the following account of Lang & Schwarz Broker GmbH at Bankhaus Gebr. Martin Aktiengesellschaft: Bank: Bankhaus Gebr. Martin Aktiengesellschaft Account no. 9673 IBAN: DE88 610 300 00 000 000 9673 BIC: MARBDE6G Reference: „W/Biofrontera" **Private Placement** At the end of the Subscription Period, Lang & Schwarz Broker GmbH will, at a price not less than the Subscription Price, offer any New Shares which are not subscribed

		for in the context of the execution of subscription rights or in Addition Subscription including the residual amounts resulting from the subscription ratio to investors selected and addressed by the Issuer in Germany, Luxembourg and in other countries ("Private Placement"). The offer period of the Private Placement shall end on 20 November 2016..
E.4	Any interest that is material to the issue/offer, including conflicting interests	Lang & Schwarz Broker GmbH will receive a fixed amount for its services in connection with the offer. Due to the nature of the fixed compensation the issuer does not expect any conflicts of interest. Members of the Management Board and the Supervisory Board hold shares of the issuer as well as option rights to purchase shares of the issuer. They have therefore an intrinsic interest in the positive development of the share price of the issuer's shares. The issuer does not anticipate any conflicts of interest due to this intrinsic interest. The issuer does not recognize any interest from natural or judicial persons which may be of fundamental importance for the issuer.
E.5	Name of the person or entity offering to sell the security. Lock-up provisions.	The New Shares will not be sold by existing shareholders; New Shares will solely be generated by the Issuer and offer via Lang & Schwarz Broker GmbH as issuing bank. Not applicable. There are no lock-up provisions related to the New Shares.
E.6	The amount and percentage of immediate dilution resulting from the offer. In the case of a subscription offer to existing equity holders, the amount and percentage of immediate dilution if they do not subscribe to the new offer.	Before the consummation of the capital increase the net carrying amount of the Biofrontera Group amounted to approximately EUR 1,076,272.96 or to approximately EUR 0.04 per share (calculated on the basis of the number of 30,347,813 issued shares of the Issuer as of the date of this prospectus). The net carrying amount of the Biofrontera Group is calculated on the basis of the unaudited consolidated interim financial statements ended 30 June 2016 by deducting the amount of the long-term liabilities (EUR 3,059,864.92) and the current liabilities (EUR

		11,409,601.74) as of 30 June 2016 (total: EUR 14,469,466.66) from the amount of total assets as of 30 June 2016 (EUR15,545,739.62). Under the assumption that all New Shares are placed at the subscription price of EUR 3.00, the issuer expects net proceeds from this offer in an amount of EUR 14.5 Million. Assuming the capital increase against cash contributions is consummated in full and the net proceeds amount to approximately EUR 14.5 Million, the net carrying amount of the Biofrontera Group as 30 June 2016 would have amounted to approximately EUR 15,576 thousand or to approximately EUR 0.44 per share (calculated on the basis of the number of 35,360,763 issued shares of the Issuer after the consummation of the share capital increase against cash contributions). Based on a subscription price of EUR 3.00, this would result in an increase of the net carrying amount of Biofrontera Group as of 30 June 2016 by approximately EUR 0.40 per share to EUR 0.44 per share for existing shareholders. There would be an immediate dilution of EUR 2.56 per share or approximately 85.3 % for the purchasers of the New Shares since the subscription price of EUR 3.00 per share would be above the calculated net carrying amount per share of approximately EUR 0.44. For existing shareholders, the net carrying amount per existing share would correspondingly increase by EUR 0.44 per share, from EUR 0.04 to EUR 0.44. This would amount to an increase by approximately 1,000 %. Insofar as shareholders do not exercise their subscription rights, and the New Shares from the capital increase which is described in this prospectus (5,012,950 shares) are subscribed in full, the participation of such shareholders will be reduced by approx. 14.2%. The dilution will be lower if not all New Shares are subscribed to.
E.7	Estimated expenses charged to	Not applicable. Neither the issuer nor any other potential

	the investor by the issuer or the offeror.	offeror will charge any costs to subscribers of the New Shares. Subscribers' depot holding banks may charge a customary securities provision for the acquisition of the New Shares.

2. German Translation of the Summary of the Prospectus – Zusammenfassung des Prospekts

Zusammenfassungen bestehen aus Offenlegungserfordernissen, die als „Elemente“ bezeichnet werden. Diese Elemente sind in die Abschnitte A bis E (A.1 bis E.7) eingeteilt.

Diese Zusammenfassung enthält alle Elemente, die in eine Zusammenfassung für diese Art von Wertpapieren und Emittenten aufzunehmen sind. Da einige Elemente nicht angeführt werden müssen, können Lücken in der Zahlenreihenfolge der Elemente bestehen.

Auch wenn ein Element, bedingt durch Art des Wertpapiers und des Emittenten, in die Zusammenfassung aufzunehmen ist, kann es sein, dass keine relevante Information betreffend dieses Elements besteht. In diesem Fall wird eine kurze Beschreibung des Elements mit dem Hinweis „entfällt“ aufgenommen.

Abschnitt A – Einleitung und Warnhinweise

A.1	Warnhinweise	Die Zusammenfassung sollte als Einführung zum Prospekt verstanden werden. Der Anleger sollte sich bei jeder Entscheidung zur Anlage in die hier beschriebenen Wertpapiere auf die Prüfung des gesamten Prospekts stützen. Für den Fall, dass vor einem Gericht Ansprüche auf Grund der in dem Prospekt enthaltenen Informationen geltend gemacht werden sollen, könnte der als Kläger auftretende Anleger in Anwendung der einzelstaatlichen Rechtsvorschriften der Staaten des Europäischen Wirtschaftsraums die Kosten für die Übersetzung des Prospekts vor Prozessbeginn zu tragen haben. Die Biofrontera Aktiengesellschaft mit Sitz in Leverkusen, Hemmelrather Weg 201, 51377 Leverkusen, (auch „**Emittentin**“ und zusammen mit ihren Tochtergesellschaften „**Biofrontera Gruppe**“) und die Lang & Schwarz Broker GmbH mit Sitz in Düsseldorf, Breite Str. 34, 40213 Düsseldorf (auch „**Lang & Schwarz Broker GmbH**“) übernehmen gemäß § 5 Abs. 2b Nr. 4 Wertpapierprospektgesetz (WpPG) die Verantwortung für den Inhalt dieser Zusammenfassung einschließlich etwaiger Übersetzungen hiervon. Diejenigen Personen, die die Verantwortung für die Zusammenfassung einschließlich etwaiger

		Übersetzungen hiervon übernommen haben oder von denen der Erlass ausgeht, können haftbar gemacht werden, jedoch nur für den Fall, dass die Zusammenfassung irreführend, unrichtig oder widersprüchlich ist, wenn sie zusammen mit den anderen Teilen des Prospekts gelesen wird, oder sie, wenn sie zusammen mit den anderen Teilen des Prospekts gelesen wird, nicht alle erforderlichen Schlüsselinformationen vermittelt.
A.2	Verwendung des Prospekts durch Finanzintermediäre	Entfällt. Eine Zustimmung zur Verwendung des Prospekts für eine spätere Weiterveräußerung oder endgültige Platzierung von Wertpapieren durch Finanzintermediäre ist nicht erteilt worden.

Abschnitt B – Emittent

B.1	Juristische und kommerzielle Bezeichnung der Emittentin	Die juristische und kommerzielle Bezeichnung der Emittentin lautet „Biofrontera Aktiengesellschaft“.
B.2	Sitz und Rechtsform, geltendes Recht, Land der Gründung	Sitz der Emittentin ist Leverkusen. Die Emittentin ist eine Aktiengesellschaft nach deutschem Recht, die in Deutschland gegründet wurde und im Handelsregister des Amtsgerichts Köln unter HRB 49717 eingetragen ist.
B.3	Art der derzeitigen Geschäftstätigkeit und Haupttätigkeiten der Emittentin samt der hierfür wesentlichen Faktoren	Das strategische Ziel der Biofrontera Gruppe ist die Positionierung der Gesellschaft als Spezialpharmaunternehmen in der Dermatologie. Aktivitätsschwerpunkte sind neben dem weiteren Ausbau des Geschäftes in Deutschland die Indikationserweiterung bei bestehenden Produkten sowie die Expansion des internationalen Vertriebs. ***Produkte*** Die Biofrontera Gruppe hat als erstes kleineres deutsches Unternehmen eine zentralisierte europäische Medikamentenzulassung für ein komplett eigenständig entwickeltes Medikament, das Ameluz®, erhalten. Ameluz® ist das wichtigste Produkt der Biofrontera Gruppe. Es hat im Dezember 2011 eine zentrale europäische Medikamentenzulassung für die Behandlung von milden und moderaten aktinischen Keratosen („**AK**“) im Gesicht und auf der Kopfhaut erhalten. Die Biofrontera Gruppe hat im Mai 2016 von der amerikanischen Zulassungsbehörde Food and Drug Administration (FDA) die Zulassung für das ver-

		schreibungspflichtige Medikament Ameluz® in Kombination mit der PDT-Lampe BF-RhodoLED® zur Behandlung von milden und moderaten aktinischen Keratosen auf dem Gesicht und der Kopfhaut erhalten. Aktinische Keratosen sind oberflächliche Formen von Hautkrebs, bei denen die Gefahr einer Ausbreitung in tiefere Hautschichten, und damit die Fortentwicklung in die zweitgefährlichste Form des Hautkrebs, das Stachelzellkarzinom, besteht. Die aktinische Keratose ist in den internationalen Behandlungsrichtlinien als behandlungspflichtiger Tumor eingestuft. Aktinische Keratosen werden durch unterschiedlichste Maßnahmen therapiert. Der derzeit in Europa am häufigsten verwendete Therapieansatz ist die Behandlung der Läsionen mit häufig wenig effektiven topischen Cremes, die vom Patienten über einen längeren Zeitraum (Wochen oder Monate) angewendet werden. Alternativ wird die entartete Haut durch einen mechanischen Eingriff (Kürettage) oder Erfrieren (Kryotherapie) entfernt, was in der Regel zu Narbenbildungen oder bleibenden Pigmentstörungen führt. Die Behandlung von aktinischer Keratose durch Ameluz beruht auf der photodynamischen Therapie („**PDT**“). Bei der PDT wird ein Gel mit einer Wirksubstanz auf das betroffene Hautareal aufgetragen, die Wirksubstanz wird sodann in der Zelle verstoffwechselt und bildet Molekülringe, die Lichtenergie bei bestimmten Wellenlängen aufnehmen können. Bei der Bestrahlung mit diesem bestimmten Lichtspektrum wird die Reaktion in der Haut angestoßen und die Tumorzellen selektiv abgetötet. Die internationalen Behandlungsrichtlinien listen die photodynamische Therapie als Goldstandard bei der Entfernung von aktinischen Keratosen, insbesondere bei Patienten mit ausgedehnten keratotischen Flächen. Die Biofrontera Gruppe bietet mit Ameluz® zum einen ein Arzneimittel mit der Wirksubstanz, und mit BF-RhodoLED® zudem eine optimierte Lichtquelle für die PDT an. Ameluz® ist eine Kombination des Wirkstoffs Aminolävulinsäure (ALA) mit einer Nanoemulsion (BF-200), durch die ALA chemisch stabilisiert wird und gute Hautpenetrationseigenschaften erhält. Bei der Verwendung in der PDT wird Ameluz® auf den betroffenen Hautbereich aufgetragen. Nach einer dreistündigen Inkubationszeit wird die Haut einer 10- bis 15-minütigen Beleuchtung mit der starken BF-RhodoLED®-Lampe ausgesetzt. Dadurch wird eine chemische

		Reaktion ausgelöst, die die erkrankten Hautzellen ohne Narbenbildung abtötet. Die dabei stattfindende Stimulation der Kollagenbildung in der Lederhaut führt auch zu einer Hautverjüngung in den behandelten Arealen. BF-RhodoLED® ist eine Rotlichtlampe für die PDT, deren LEDs Licht mit einer Wellenlänge von ca. 635 nm abgeben. Licht bei dieser Wellenlänge, das für die Beleuchtung bei der PDT mit ALA- oder Methyl-ALA-haltigen Arzneimitteln optimal geeignet ist, ist rot, aber noch unterhalb des wärmenden Infrarotbereichs. Die BF-RhodoLED® kombiniert eine kontrollierte und konstante Lichtabgabe in der gewünschten Wellenlänge mit einfacher Bedienung, Nutzerfreundlichkeit und Energieeffizienz. Lichtenergie und Gebläseleistung können während einer PDT-Behandlung verändert werden, um auf behandlungsbedingte Schmerzen zu reagieren. Ein weiterer Geschäftsbereich ist der Vertrieb der Belixos®-Produktfamilie. Belixos® ist eine medizinische Hautpflegeserie mit pflanzlichen Inhaltsstoffen zur Regeneration von geschädigter Haut. Die Belixos® Hautkosmetikserie kombiniert ausgesuchte Extrakte traditioneller Heilpflanzen mit einer modernen Formulierungstechnologie. Die Belixos® Creme lindert Juckreiz und ist eine Basispflege für juckende, gerötete und schuppende Haut. Das Belixos® Liquid begegnet den Problemen juckender und schuppender Kopfhaut. Das Belixos® Gel wurde für die Pflege besonders empfindlicher und zu Rötungen und Unreinheiten neigender Haut entwickelt. Belixos® Protect ist eine Tagescreme mit schützenden Anti-Aging-Eigenschaften speziell für lichtgeschädigte Haut. ***Vertrieb*** In den Monaten vor der Markteinführung von Ameluz® wurde der Aufbau des eigenen Vertriebs sukzessive vorangetrieben. Derzeit vertreibt die Biofrontera Gruppe Ameluz® mit einem eigenen Außendienst bei Dermatologen in Deutschland, Spanien und Großbritannien. Der Vertrieb in weiteren Ländern der Europäischen Union sowie in Israel und der Schweiz erfolgt über Lizenzpartnerschaften. In Dänemark, Schweden und Norwegen wird Ameluz® von der Desitin Arzneimittel GmbH, in Benelux von Bipharma N.V. und in Österreich von der Pelpharma Handels GmbH vermarktet. In Slowenien erfolgt

		die Vermarktung über PHA Farmed d.o.o.. Für die Schweiz und Liechtenstein hat Louis Widmer SA Ameluz® unter Lizenz genommen, für Israel wurde Ameluz® von Perrigo Israel Agencies LTD lizensiert; in diesen Ländern bedarf es eines unabhängigen lokalen Zulassungsverfahrens, das von den erwähnten Vertriebspartnern in Zusammenarbeit mit der Biofrontera Gruppe durchgeführt wurde. Die Verträge mit verantwortlichen Vertriebspartnern wurden so abgeschlossen, dass die Biofrontera Gruppe kein oder nur ein moderates Downpayment (ein „Downpayment“ ist eine im Bereich von Pharma-Distributionsverträgen übliche Einmalzahlung des Vertriebspartners bei Vertragsabschluss) erhalten hat und die regionalen Partner das Ameluz® bei der Biofrontera Gruppe zu einem Preis einkaufen, der an den jeweils eigenen Verkaufspreis gekoppelt ist. Je nach den Marktgegebenheiten eines Landes variiert der Anteil der Biofrontera Gruppe am Verkaufspreis deutlich und liegt zwischen 35% und 60% der Nettoumsätze. Die Belieferung öffentlicher Apotheken in Deutschland erfolgt über den Pharmagroßhandel, Klinik-Apotheken werden direkt beliefert. Neben den regelmäßigen Außendienstbesuchen bei Dermatologen hat die Biofrontera Gruppe Ameluz® an wesentlichen dermatologischen Kongressen in Deutschland und international vorgestellt. Die Resonanz der Dermatologen war positiv. Die Vorbereitungen für den Vertrieb in USA wurden von der Biofrontera Gruppe bereits in Angriff genommen. Mit Hilfe eines „Market Access“- Beratungsunternehmens und eines medizinischen Beraterstabes wurde begonnen, den Medikamentenmarkt für aktinische Keratosen sowie die Erstattungssysteme im amerikanischen Gesundheitswesen zu analysieren. Hierbei kann auf Erfahrungen mit dem in USA bereits vertriebenen Konkurrenzprodukt, dem Levulan Kerastick® der Firma DUSA Pharmaceuticals Inc. zurückgegriffen werden. Im März 2015 wurde eine eigene lokale Tochtergesellschaft, die Biofrontera Inc., mit Sitz in Wilmington, Delaware, gegründet und mit Monica L. Tamborini eine sehr erfahrene Geschäftsführerin eingestellt. Die Biofrontera Gruppe ist derzeit damit befasst, Vertriebsfachkräfte und anderes Personal zur Aufnahme des Vertriebs in den USA sowie für die Bearbeitung weiterer Genehmigungen und Erstattungen einzustellen.

		Geschäftliche Expansion Eine Erweiterung der europäischen Zulassung von Ameluz® auf die Indikation Basalzellkarzinom wurde 2014 angestoßen. Das Basalzellkarzinom ist der häufigste infiltrierend wachsende Tumor im Menschen, allein in USA gibt es jedes Jahr ca. 2,8 Mio. (Quelle: www.skincancer.org/skin-cancer-information/skin-cancer-facts) entsprechende Behandlungen, europäische Zahlen sind nach Einschätzung der Emittentin vergleichbar. Da auch das Basalzellkarzinom durch lebenslange UV-Belastung ausgelöst wird, steigt diese Zahl aufgrund der demographischen Entwicklung nach Einschätzung der Emittentin an. Eine Behandlung mit PDT bietet, insbesondere bei dünnen Tumoren, gegenüber den heute meist verwendeten operativen Eingriffen deutliche Vorteile. Die klinische Phase-III-Studie wurde im April 2016 veröffentlicht und zeigte ausgezeichnete Wirkungen für die Behandlung des Basalzellkarzinoms. Die Emittentin hat im Juli 2016 den Antrag bei der Europan Medicines Agency („**EMA**“) für die Erweiterung der Zulassung gestellt. Die Genehmigung der EMA wird im Januar 2017 erwartet. Metvix® hat trotz schlechterer klinischer Daten bei der Behandlung von aktinischer Keratose mit seiner Zulassung zur Behandlung von Basalzellkarzinomen bisher einen Wettbewerbsvorteil gegenüber Ameluz®. Insbesondere im Europäischen Ausland, wo die PDT vor allem in den Krankenhäusern und weniger im niedergelassenen Bereich angesiedelt ist, sind die Marktchancen von Ameluz® durch die fehlende Zulassung für die Behandlung von Basalzellkarzinomen erheblich eingeschränkt. Mit der angestrebten Indikationserweiterung verspricht sich die Biofrontera Gruppe somit eine deutlich verbesserte Marktposition. Die Biofrontera Gruppe hat ferner eine klinische Phase-III Studie begonnen, in der die Wirksamkeit und Sicherheit von Ameluz® in Kombination mit photodynamischer Therapie (PDT) bei Tageslicht im Vergleich zu Metvix® bei der Behandlung von milden und moderaten aktinischen Keratosen gemessen wird. Die vergleichende, randomisierte, Beobachter-blinde multizentrische Studie wird in acht Studien-

		zentren in Spanien und Deutschland durchgeführt und etwa 50 Patienten umfassen. Alle haben jeweils 3 bis 9 milde bis moderate aktinische Keratosen auf jedem von zwei vergleichbaren Behandlungsarealen auf dem Gesicht und/oder der Kopfhaut. Die Wahl des Medikaments für die jeweilige Behandlungsseite ist zufällig. Der letzte Patient wird voraussichtlich gegen Ende des Jahres 2016 die Behandlung abschließen. Im Rahmen der Tageslicht-PDT wird das topisch angewendete Medikament durch natürliches oder künstliches Tageslicht aktiviert. Neben weiteren Vorteilen reduziert dies vor allem die Verweilzeit des Patienten in der Arztpraxis. Die Zulassungserweiterung auf Tageslicht-PDT würde der Biofrontera Gruppe die Möglichkeit eröffnen, mit topischen, vom Patienten selbst anzuwendenden Medikamenten sowie mit Kryotherapie zu konkurrieren.
B.4a	Wichtigste jüngste Trends, die sich auf die Emittentin und die Branchen, in denen sie tätig ist, auswirken.	Geschäftsentwicklung der Biofrontera Gruppe Im Vergleich der Jahre 2015 und 2014 konnte die Biofrontera Gruppe in Deutschland ein deutliches Umsatzwachstum von über 34 % verzeichnen. Der Marktanteil von Ameluz® im Segment der PDT-Medikamente liegt inzwischen in Deutschland konstant bei ca. 70 %, wobei die restlichen ca. 30 % auf die Konkurrenzprodukte Metvix® und Alacare® entfallen. Trotzdem besetzt Ameluz® damit bisher nur einen kleinen Teil des Gesamtmarktes für die aktinische Keratose, da nur etwa 5 % der Patienten mit Fertigarzneimitteln für die PDT behandelt werden. Die PDT erzielt zwar mit großem Abstand die höchsten Heilungsraten, die Komplexität der Therapie und der damit verbundene Zeitaufwand für die Arztpraxis verhindern bisher jedoch eine signifikante Durchdringung des Marktes im Bereich der gesetzlichen Krankenversicherungen, da in diesem Bereich der Arzt für die Durchführung der PDT bisher in der Regel in Deutschland weiterhin keine Vergütung von den gesetzlichen Krankenkassen bekommt. Betreffend die Erweiterung der europäischen Zulassung von Ameluz® für die Indikation Basalzellkarzinom läuft derzeit die klinische Phase III-Studie im direkten Vergleich mit dem Konkurrenzprodukt Metvix®. Letzteres hat derzeit mit seiner Zulassung zur Behandlung von sowohl Basalzellkarzinomen als auch Aktinischen Keratosen einen Wettbewerbsvorteil gegenüber Ameluz®. Insbesondere im europäischen Ausland, wo die PDT vor allem eine Krankenhausdisziplin und weniger im niedergelassenen Bereich angesiedelt ist, ist der Markter-

		folg von Ameluz® dadurch deutlich eingeschränkt. Mit der angestrebten Indikationserweiterung verspricht sich die Emittentin somit eine verbesserte Marktposition. Die Indikationserweiterung wird für Ende 2016 angestrebt. Als weiterer Trend zeichnet sich die Anwendung der PDT als sog. Daylight-Therapie ab. Das Medikament wird auf die betroffenen Hautstellen aufgetragen und der Patient setzt sich unmittelbar danach ca. zwei Stunden natürlichem Sonnenlicht aus. Das Vergleichsmedikament Metvix® hat für diese Behandlung bereits in einzelnen europäischen Ländern eine Zulassung erhalten. Die Biofrontera Gruppe hat die Durchführung einer zum Erhalt einer eigenen Zulassung erforderlichen kleineren Zulassungsstudie begonnen. Die Studie könnte im zweiten Halbjahr 2016 beendet werden.
B.5	Gruppenstruktur	Die Biofrontera Gruppe besteht aus der Emittentin (Biofrontera Aktiengesellschaft) als Muttergesellschaft und fünf 100%igen unmittelbaren Tochtergesellschaften, der Biofrontera Bioscience GmbH, der Biofrontera Pharma GmbH, der Biofrontera Development GmbH, und der Biofrontera Neuroscience GmbH, jeweils mit Sitz in Leverkusen, und der Biofrontera Inc. mit Sitz in Wilmington, Delaware, USA.
B.6	Meldepflichtige direkte oder indirekte Beteiligungen am Eigenkapital der Emittentin	Soweit der Emittentin bekannt, halten die nachfolgenden Personen direkt oder indirekt eine Beteiligung am Eigenkapital der Emittentin oder den entsprechenden Stimmrechten, die nach deutschem Recht zu melden sind. **Direkte Beteiligungen:** • Deutsche Balaton AG, Heidelberg, Deutschland: 8,28% • Maruho Deutschland GmbH, Düsseldorf, Deutschland: 14,72 % • FEHO Vermögensverwaltungsgesellschaft mbH, Frankfurt, Deutschland: 3,14 % • Heidelberg Innovation Management GmbH & Co. KG: 3,22 % **Indirekte Beteiligungen:** • Maruho Co., Ltd., Osaka, Japan: 14,72 % • Universal Investment Gesellschaft mbH, Frankfurt, Germany: 3,14% • Herr Prof. Abshagen indirekt: 3,84 %Kronabel, Dr. Christoph,

		Deutschland: 3,63 % • Wilhelm K. T. Zours: 11,21%
	Unterschiedliche Stimmrechte der Hauptanteilseigner	Entfällt. Die Hauptaktionäre der Emittentin haben keine unterschiedlichen Stimmrechte.
	Angabe, ob, soweit der Emittentin bekannt, an ihr unmittelbare oder mittelbare Beteiligungen oder Beherrschungsverhältnisse bestehen, wer diese Beteiligungen hält bzw. diese Beherrschung ausübt und welcher Art die Beherrschung ist.	Entfällt, da nach Kenntnis der Emittentin keine unmittelbaren oder mittelbaren Beteiligungen, die eine Beherrschung ermöglichen, oder sonstige Beherrschungsverhältnisse bestehen.

B.7	Ausgewählte wesentliche historische Finanzinformationen	

	Geschäftsjahr endend zum 31. Dezember 2015	**Geschäftsjahr endend zum 31. Dezember 2014**	**Halbjahr endend zum 30. Juni 2016**	**Halbjahr endend zum 30. Juni 3015**
Quelle der Finanzinformationen: (all Angaben in TEUR)	Geprüfter IFRS-Konzernabschluss zum 31. Dezember 2015	Geprüfter IFRS-Konzernabschluss zum 31. Dezember 2014	Ungeprüfter Halbjahresfinanzbericht zum 30. Juni 2016	Ungeprüfter Halbjahresfinanzbericht zum 30. Juni 2015
Umsatzerlöse	4.138	3.096	1.709	1.568
Umsatzkosten (1)	-1.236	-1.117	-764	-534
Bruttoergebnis vom Umsatz	2.902	1.979	945	1.034
Forschungs- und Entwicklungskosten	-6.204	-4.534	-1.852	-4.498
Allgemeine Verwaltungskosten	-2.759	-3.244	-1.372	-1.348
Vertriebskosten (1)	-4.170	-3.847	-2.832	-2.038
Nettoergebnis vor Steuern	-11.203	-10.721	-3.472	-7.323
Ergebnis nach Steuern	-11.203	-10.721	-3.472	-7.323
Langfristige Verbindlichkeiten (zum Periodenende)	11.230	10.774	3.060	11.321
Kurzfristige Verbindlichkeiten (zum Periodenende)	3.077	3.257	11.410	2.529
Eigenkapital (zum Periodenende)	-4.809	-21	1.076	-4.299
Liquide Mittel (zum Periodenende)	3.959	8.509	10.173	4.127
Angestellte (zum Periodenende) (2)	58	46	59	54

(1) Hinweis: während „Umsatzkosten“ die allgemeinen Kosten der Umsatzerzielung bezeichnen, bezieht sich „Vertriebskosten“ auf die ausschließlichen Kosten der Distribution

(2) ungeprüft; Quelle: jeweiliger Lagebericht

	Erhebliche Änderungen in Finanzlage oder Betriebsergebnis	Entfällt. Finanzlage und Betriebsergebnis der Biofrontera Gruppe haben sich weder in noch nach dem von den wesentlichen historischen Finanzinformationen abgedeckten Zeitraum erheblich geändert. Die Aussichten der Emittentin haben sich seit dem Datum des Konzernabschluss zum 31. Dezember 2015 nicht wesentlich verschlechtert.
B.8	Ausgewählte wesentliche Pro-forma-Finanzinformationen	Entfällt. Die Emittentin hat keine pro-forma-Finanzinformationen erstellt.

B.9	Gewinnprognosen oder Schätzungen	Die Emittentin hat im Jahresabschluss für das Geschäftsjahr 2015 eine Prognose abgegeben, die sie im Oktober 2016 aktualisiert hat, nach der sie Nettoerträge im Geschäftsjahr 2016 von EUR -11 bis -12 Mio. erwartet.
B.10	Etwaige Beschränkungen im Bestätigungsvermerk	Entfällt. Die in diesem Prospekt enthaltenen geprüften historischen Finanzinformationen wurden mit uneingeschränktem Bestätigungsvermerk versehen. Der Bestätigungsvermerk zum Konzernabschluss für das Geschäftsjahr 2015 enthielt allerdings folgenden Hinweis: „*Ohne diese Beurteilung einzuschränken, weisen wir auf die Ausführungen im zusammengefassten Lage- und Konzernlagebericht hin. Dort ist insbesondere in dem Abschnitt „Chancen und Risiken der zukünftigen Geschäftsentwicklung“ unter „Liquiditätsrisiko“ ausgeführt, dass bis zum Erreichen des Break Even und insbesondere durch die USA-Zulassung, die geplanten Investitionen in die Eigenvermarktung in den USA und zur Erfüllung der Verpflichtungen aus der begebenen Wandelanleihe im Laufe des Geschäftsjahres 2016 weitere Kapitalmaßnahmen nötig werden. Der Vorstand geht auf der Grundlage der bisherigen, stets erfolgreichen Erfahrungen mit Kapitalmaßnahmen davon aus, dass die für den Geschäftsverlauf erforderliche Liquidität weiterhin gewährleistet werden kann. Sollten sich diese validen Einschätzungen wider Erwarten nicht realisieren, so würde hieraus eine Bestandsgefährdung erwachsen*.“ Der Bestätigungsvermerk zum Konzernabschluss für das Geschäftsjahr 2014 enthielt folgenden Hinweis: „*Ohne diese Beurteilung einzuschränken, weisen wir auf die Ausführungen im zusammengefassten Lage- und Konzernlagebericht hin. Dort ist insbesondere in dem Abschnitt „Chancen und Risiken der zukünftigen Geschäftsentwicklung“ unter „Liquiditätsrisiko“ ausgeführt, dass bis zum Erreichen des Break Even und insbesondere durch die USA-Zulassung von Ameluz weitere Kapitalmaßnahmen nötig werden. Der Vorstand geht auf der Grundlage der bisherigen, stets erfolgreichen Erfahrungen mit Kapitalmaßnahmen davon aus, dass die für den Geschäftsverlauf erforderliche Liquidität auch über den Prognosezeitraum hinaus gewährleistet ist. Sollten sich diese validen*

		Einschätzungen wider Erwarten nicht realisieren, so könnte hieraus ein bestandsgefährdendes Risiko erwachsen.“
B.11	Nicht ausreichendes Geschäftskapital	Die Emittentin ist der Auffassung, dass die Biofrontera Gruppe aus heutiger Sicht nicht ausreichend Geschäftskapital hat, um in den nächsten zwölf Monaten ihren fälligen Zahlungsverpflichtungen nachzukommen. Das derzeitige Geschäftskapital wird nach derzeitiger Einschätzung der Emittentin etwa ausreichen, den fälligen Zahlungsverpflichtungen bis Dezember 2016 nachzukommen. Für die kommenden zwölf Monate werden nach der derzeitigen Einschätzung etwa EUR 15 Millionen zusätzliche Mittel benötigt werden, um den dann jeweils fälligen Zahlungsverpflichtungen nachzukommen. Dies beinhaltet vor allem die Rückzahlung der am 1. Januar 2017 fälligen Optionsanleihe, den laufenden operativen Betrieb der Biofrontera Gruppe, einschließlich der Vermarktungsaktivitäten in Europa, dem Erhalt bzw. der Erweiterung der europäischen Zulassung, sowie die die Kosten für den Aufbau einer Vertriebs- und Marketing-Präsenz in den USA, einschließlich der Kapitalerfordernisse für die Produktion einer Zahl von US-Versionen der BF-RhodoLED®-Lampe. Die Emittentin beabsichtigt, das fehlende Geschäftskapital zum Teil mit der in diesem Prospekt dargestellten Kapitalmaßnahme einzuwerben. Es sollte allerdings berücksichtigt werden, dass gegenwärtig nur ein Betrag von ca. EUR 5 Mio. für die Abdeckung des erforderlichen Geschäftskapitals verwendet werden soll; der Rest der Erträge wird in den Aufbau der US-Strukturen investiert werden. Die Emittentin wird sich bemühen, den weiteren Teil des fehlenden Geschäftskapitals durch Eigen- oder Fremdkapitalmaßnahmen einzuwerben. Insbesondere ist der Vorstand der Emittentin derzeit in Verhandlungen mit mehreren Investoren betreffend die Abnahme von Wandelanleihen in einem Gesamtbetrag von ca. EUR 10 Mio. Zum Datum dieses Prospekts ist der Vorstand optimistisch, dass solche Anleihen bei neuen Investoren und bestehenden Aktionären platziert werden können. Es wurden bislang allerdings noch keine bindenden Kauf- oder Bezugsvereinbarungen geschlossen. Ein Erfolg solcher Maßnahmen ist daher nicht gewährleistet.

		Einsparungsmaßnahmen wären möglich, allerdings nicht in einem Umfang, der für sich sicherstellt, in den nächsten zwölf Monaten den fälligen Zahlungsverpflichtungen nachzukommen. Zudem würden solche Einsparungen eine wesentliche Einschränkung des Geschäftsbetriebs und der Zukunftsaussichten bewirken. Die Emittentin schätzt, mit Einsparungsmaßnahmen die monatlichen Kosten um ca. TEUR 100 reduzieren zu können. Die Emittentin wird solche Einsparungsmaßnahmen nur als ergänzendes Mittel einsetzen, wenn die Erträge aus der Kapitalmaßnahme unzureichend sind, aber zusammen mit Einsparungsmaßnahmen den Fortbestand der Emittentin sichern können. Für sich allein werden Einsparungsmaßnahmen nicht hinreichend sein, um hinreichendes Geschäftskapital zur Deckung der in den kommenden zwölf Monaten fälligen Verbindlichkeiten zu erlangen. Betreffend die Forderungen aus der am 1. Januar 2017 fälligen Optionsanleihe käme auch die Abhaltung einer Gläubigerversammlung in Frage, die über die Verlängerung der Fälligkeit beschließen könnte. Dies läge allerdings im alleinigen Ermessen der Gläubiger. Folge des Scheiterns von Finanzierungsmaßnahmen wäre demnach eine Zahlungsunfähigkeit und mithin die Insolvenz der Emittentin in absehbarer Zeit. Potentielle Anleger sollten daher gewärtig sein, dass die Emittentin von der Beschaffung zusätzlichen Kapitals abhängig ist, um eine Insolvenz in den nächsten zwölf Monaten zu verhindern, und dass der Erfolg der Maßnahmen zur Kapitalbeschaffung nicht im Einfluss der Emittentin steht.

Abschnitt C – Wertpapiere

C.1	Art und Gattung der Wertpapiere, Wertpapierkennung	Gegenstand des Angebots sind insgesamt 5.012.950 auf den Namen lautende Stammaktien der Emittentin ohne Nennbetrag mit einem rechnerischen Anteil am Grundkapital der Emittentin von EUR 5.012.950 mit der WKN 604611 und der ISIN DE0006046113 (nachfolgend „***Neue Aktien***“). Die Bezugsrechte haben die WKN A2BPKY und die ISIN DE000A2BPKY9.
C.2	Emissionswährung	EUR.

C.3	Ausgegebene Aktien	Zurzeit sind 30.347.813 Aktien der Emittentin ausgegeben. Sämtliche Aktien sind voll eingezahlt. Die ausgegebenen Aktien, ebenso wie die Neuen Aktien, haben keinen Nennwert.
C.4	Mit den Wertpapieren verbundene Rechte	Die Neuen Aktien gewähren einen Anspruch auf Beteiligung am Gewinn der Emittentin ab dem 1. Januar 2016. Jede Neue Aktie gewährt eine Stimme in der Hauptversammlung der Emittentin. Die Aktien berechtigen ferner grundsätzlich zum Bezug weiterer Aktien aus Kapitalmaßnahmen sowie zur Beteiligung an Liquidationserträgen bei Beendigung der Gesellschaft. Die Ausstattung der Neuen Aktien entspricht der Ausstattung der bestehenden Aktien.
C.5	Beschränkungen der Übertragbarkeit	Entfällt. Die angebotenen Neuen Aktien der Emittentin sind uneingeschränkt übertragbar.
C.6	Erfolgte bzw. beabsichtigte Anträge auf Zulassung zu geregelten Märkten	Die Emittentin beabsichtigt, die Neuen Aktien am regulierten Markt der Frankfurter Wertpapierbörse und am regulierten Markt der Börse Düsseldorf zuzulassen. Der Antrag wird voraussichtlich am 28. November 2016 gestellt werden. Die Emittentin erwartet die Zulassung der Neuen Aktien am 2. Dezember 2016 und deren Einbeziehung in den Handel der bestehenden Aktien der Emittentin am 8. Dezember 2016. Eine Zulassung zum Handel an weiteren geregelten Märkten ist nicht beabsichtigt. Es wird darauf hingewiesen, dass eine Zulassung zu den genannten regulierten Märkten nicht mit Sicherheit gewährleistet ist.
C.7	Dividendenpolitik	Die Emittentin hat bislang keine Dividenden gezahlt. Eine Zahlung von Dividenden ist angesichts der wesentlichen Verlustvorträge in der nächsten Zeit auch nicht zu erwarten.

Abschnitt D – Risikofaktoren

D.1	Zentrale Angaben zu den zentralen Risiken, die der Emittentin oder ihrer Branche eigen	***Zentrale Risiken bezüglich der Finanzlage der Emittentin*** Die Emittentin und ihre operativen Tochtergesellschaften haben in der Vergangenheit operative Verluste gemacht. Die Emittentin geht davon aus, dass die Biofrontera Gruppe auch in der absehbaren Zukunft

	sind.	operative Verluste machen wird. Sie wird möglicherweise nie profitabel werden. Steigende Erträge durch künftige Ausweiterungen des Geschäfts, einschließlich des Vertriebs von Produkten der Biofrontera-Gruppe in den USA und der Ausweitung der Zulassung von Ameluz® auf die Behandlung von Basalzellkarzinomen, könnten durch erhöhte Kosten aufgezehrt werden. Die bestehende und etwaige künftige Verschuldung der Biofrontera-Gruppe könnte die Fähigkeit zur Führung des Geschäftsbetriebs nachteilig beeinflussen. Insbesondere besteht ein hohes Liquiditätsrisiko hinsichtlich der Rückzahlung der zum 1. Januar 2017 fälligen Optionsanleihe. Wenn es der Emittentin nicht gelingt, zusätzliche Finanzierungen zu erhalten, könnte sie nicht in der Lage sein, die Entwicklung und Verwertung von Produktkandidaten der Biofrontera-Gruppe abzuschließen. ***Zentrale Risiken betreffend Pharmazeutika und Medizinprodukte*** Die Produkte der Biofrontera-Gruppe könnten Nebenwirkungen verursachen, die gegenwärtig unbekannt sind. Dies kann zu Umsatzeinbrüchen führen (sei es durch administrative Maßnahmen oder Vertrauensverluste), wie auch zu Schadensersatzansprüchen. Wenn Produkthaftungsklagen gegen die Biofrontera-Gruppe angestrengt werden, könnte diese wesentlichen Verbindlichkeiten ausgesetzt werden, und die Vermarktung ihrer Produkte einschränken müssen. Ein Rückruf von Medikamenten oder Medizinprodukten der Biofrontera-Gruppe, z.B. aufgrund der Entdeckung ernster Sicherheitsprobleme von Medikamenten oder Medizinprodukten der Biofrontera-Gruppe, könnte wesentlich nachteilige Wirkungen für die Biofrontera-Gruppe haben. Die Biofrontera-Gruppe hat ihre Produkte bislang nur in beschränktem Umfang vertrieben. Die Planung der Biofrontera-Gruppe sieht eine wesentliche Ausdehnung der Vermarktungstätigkeiten vor, sowohl im Inland als auch im Ausland. Wenn die Biofrontera-Gruppe diese Ausweitung nicht erreicht, könnte sie nie profitabel werden. Insbesondere könnten die Finanzmittel der Biofrontera-Gruppe nicht

		hinreichend sein, um einen signifikanten Marktanteil in den USA zu erzielen. ***Zentrale Risiken betreffend regulatorische Themen*** Die europäische Zulassung für Ameluz® ist gemäß der zugrundeliegenden gesetzlichen Bestimmungen zunächst bis Dezember 2016 befristet. Wenn die Biofrontera Gruppe gesetzliche Auflagen zur Verlängerung der Zulassung nicht erfüllt, oder wenn heute unbekannte Risiken der Medikamentensicherheit auftreten, kann die zuständige Behörde die Verlängerung der Zulassung ablehnen. Bestehende Medikamentenzulassungen könnten widerrufen werden, wenn die Biofrontera Gruppe gesetzliche Auflagen zur Aufrechterhaltung der Zulassung nicht erfüllt, oder wenn heute unbekannte Risiken der Medikamentensicherheit auftreten. ***Zentrale Risiken betreffend gewerbliche Schutzrechte*** Wenn die Bemühungen der Biofrontera-Gruppe zum Schutz der gewerblichen Schutzrechte betreffend ihre Technologien nicht hinreichend sind, könnte die Biofrontera-Gruppe nicht in einer effektiven Wettbewerbslage sein. Behauptungen oder berechtigte Ansprüche Dritter betreffend die Verletzung von gewerblichen Schutzrechten könnten die Erforschung, Entwicklung und Vermarktung von Produkten verhindern oder verzögern sowie die Biofrontera Gruppe Unterlassungs- und Schadensersatzansprüchen aussetzen. ***Zentrale Risiken betreffend Rechtsstreitigkeiten*** Ein Aktionär hat Anfechtungsklage gegen die Emittentin betreffend die Wahl von drei Aufsichtsratsmitgliedern in der Hauptversammlung für das Geschäftsjahr 2016 erhoben. Wenn diese Klage Erfolg hat, können sich Entscheidungen des Aufsichtsrats nachträglich als unwirksam erweisen. ***Zentrale Risiken betreffend das Geschäft der Emittentin*** Die Biofrontera-Gruppe verfügt nicht über eigene Produktionsstätten, sondern ist zur Herstellung ihrer Produkte gänzlich auf dritte Parteien angewiesen. Die Biofrontera-Gruppe kann diese Auftragsfertiger nur eingeschränkt kontrollieren. Solche Auftragsfertiger könnten es ver-

		säumen, rechtzeitig, in der vereinbarten Qualität und Quantität, oder überhaupt, die Substanzen zu liefern, auf denen die Produkte der Biofrontera-Gruppe beruhen, oder die Produkte selbst. Wenn die Biofrontera-Gruppe nicht in der Lage ist, Ameluz® oder BF-RhodoLED® oder andere vertriebene Produkte und Produktkandidaten in hinreichenden Mengen und in angemessener Qualität und zu angemessenen Kosten herstellen zu lassen, oder die derzeit geltenden cGMP (current Good Manufacturing Practice) oder andere anwendbare Herstellungsanforderungen zu erfüllen, könnte die Biofrontera-Gruppe am Vertrieb ihrer Produkte gehindert oder dieser verzögert werden. Hierdurch könnten Verpflichtungen gegenüber ihren Lizenzpartnern verletzt werden bzw. sie könnte nicht in der Lage sein, die Nachfrage am Markt zu erfüllen und würde potentielle Erträge nicht realisieren können. Auch Zulassungsverfahren könnten beeinträchtigt werden. Die Biofrontera-Gruppe hängt für die Durchführung klinischer Versuchsreihen von dritten Parteien ab. Wenn diese dritten Parteien ihren vertraglichen Pflichten nicht erfolgreich nachkommen, oder erwartete Fristen nicht einhalten, könnte die Biofrontera-Gruppe nicht in der Lage sein, regulatorische Zulassungen für Produkte zu erlangen bzw. aufrechtzuerhalten, oder diese Produkte zu vermarkten, und ihr Geschäft könnte wesentlich geschädigt werden. Die Biofrontera-Gruppe lizenziert derzeit die Vertriebsrechte für einige ihrer Produkte, wodurch sie zusätzlichen Risiken der Durchführung ihres Geschäfts in internationalen Märkten ausgesetzt ist, da sie die Ordnungsgemäßheit der Geschäftstätigkeit ihrer Lizenzpartner nur eingeschränkt überwachen kann und für diese ggf. haften muss. Das Geschäft der Biofrontera-Gruppe hängt wesentlich vom Erfolg ihres Hauptprodukts Ameluz® ab. Wenn die Biofrontera-Gruppe nicht in der Lage ist, Ameluz® erfolgreich zu vermarkten, oder insoweit wesentlichen Verzögerungen ausgesetzt ist, wird das Geschäft der Biofrontera-Gruppe wesentlich geschädigt werden.
D.3	Zentrale Angaben zu den zentralen Risiken, die den Wertpapieren eigen sind.	Eine Investition in Aktien birgt stets das Risiko eines Verlusts des eingesetzten Kapitals. Wird die in diesem Prospekt beschriebene Kapitalerhöhung nicht durchgeführt, so können Erwerber von Bezugsrechten einen Verlust

		in Höhe der für die Bezugsrechte getätigten Aufwendungen erleiden. Insbesondere könnte das Handelsregister eine Eintragung der Kapitalerhöhung vor dem Hintergrund der Anfechtungsklage gegen die Wahl der Aufsichtsratsmitglieder verweigern. Eine Anlage in die Neuen Aktien ist nicht für jeden Anleger zweckmäßig. Der Kurs und das Handelsvolumen der Aktien der Biofrontera Aktiengesellschaft können starken Schwankungen unterliegen. Die Veräußerung von Aktien in großem Umfang kann negative Auswirkungen auf den Börsenkurs der Emittentin haben. Aktionäre mit größeren Aktienbeständen könnten über die Hauptversammlung einen beherrschenden Einfluss auf die Emittentin ausüben bzw. erlangen. Durch die künftige Ausübung von Optionsrechten und mögliche Kapitalerhöhungen besteht das Risiko der Verwässerung. Es bestehen Währungsrisiken für Anleger in Fremdwährungen. Leerverkäufe von Aktien der Emittentin können Verluste des Investors verursachen. Es könnte zeitweilig oder dauerhaft keine Handelbarkeit der Neuen Aktien bestehen. Insbesondere könnte ein Downlisting oder Delisting die Liquidität und den Kurs der Neuen Aktien nachteilig beeinflussen.

Abschnitt E – Angebot

E.1	Gesamterlöse und geschätzte Gesamtkosten der Emission/des Angebots, einschließlich der geschätzten Kosten, die dem Anleger vom Emittenten oder Anbieter in Rechnung gestellt werden	Die Emittentin erwartet unter der Annahme, dass sämtliche Neue Aktien bei einem Bezugspreis je Neuer Aktie von EUR 3,00 platziert werden, einen Netto-Gesamterlös der Emission von etwa EUR 14,5 Mio. Die Gesamtkosten der Emission werden voraussichtlich etwa EUR 0,5 Mio. betragen. Kosten des Angebots werden dem Anleger weder von der Emittentin noch von einem Anbieter in Rechnung gestellt.
E.2a	Gründe für das Angebot, Zweck-	Die Emittentin erwartet unter der Annahme, dass sämtli-

	bestimmung der Erlöse, geschätzte Netto-Erlöse.	che Neue Aktien bei einem Bezugspreis je Neuer Aktie von EUR 3,00 platziert werden, einen Netto-Gesamterlös der Emission von EUR 14,5 Mio. Hiervon sollen zunächst Mittel von ca. EUR 5 Mio. für die Deckung eines Teils der Kosten der Fortsetzung des laufenden Geschäfts über die nächsten zwölf Monate-verwendet werden. Die restlichen finanziellen Mittel sollen zum Aufbau einer Vertriebs-, Marketing- und operativen Infrastruktur in den USA verwendet werden, inklusive der Finanzierung von weiteren klinischen Studien sowie des Working Capital Bedarfs zur Herstellung einer größeren Anzahl der Lampe BF-RhodoLED®, die an Dermatologen in den USA vertrieben werden soll.
E.3	Beschreibung der Angebotskonditionen.	Die Neuen Aktien werden zunächst den Aktionären der Emittentin bzw. Inhabern von Bezugsrechten durch die die Lang & Schwarz Broker GmbH, zum Bezug angeboten. Die Lang & Schwarz Broker GmbH wird Neue Aktien, die nicht von Aktionären bzw. Bezugsrechtsinhabern bezogen wurden, ausgewählten Investoren in einem bestmöglichen Private Placement anbieten. Gemäß § 7 Abs. 3 der Satzung ist der Vorstand ermächtigt, das Grundkapital der Gesellschaft bis zum 27. August 2020 mit Zustimmung des Aufsichtsrats um bis zu EUR 5.012.950 durch ein- oder mehrmalige Ausgabe von bis zu 5.012.950 auf den Namen lautenden Stückaktien gegen Bar- und/oder Sacheinlagen zu erhöhen (Genehmigtes Kapital). Auf Grundlage dieser Ermächtigung hat der Vorstand der Gesellschaft am 31. Oktober 2016 mit Zustimmung des Aufsichtsrats vom gleichen Tage beschlossen, das Grundkapital der Gesellschaft in Höhe von derzeit EUR 30.347.813 um bis zu EUR 5.012.950 aus Genehmigtem Kapital auf bis zu EUR 35.360.763 durch Ausgabe von bis zu 5.012.950 neuen, auf den Namen lautenden Stückaktien mit einem auf die einzelne

		Stückaktie entfallenden anteiligen Betrag des Grundkapitals in Höhe von EUR 1,00 („**Neue Aktien**“) zu erhöhen. Die genaue Festlegung des Umfangs der Kapitalerhöhung erfolgt ebenso wie die entsprechende Änderung der Satzung nach Ablauf des Angebots. **Bezugsrechtsangebot** Den Aktionären wird das gesetzliche Bezugsrecht in der Weise gewährt, dass die Lang & Schwarz Broker GmbH zur Zeichnung und Übernahme der bis zu 5.012.950 Neuen Aktien zum Ausgabebetrag von EUR 1,00 je Neuer Aktie zugelassen wird, verbunden mit der Verpflichtung, die Neuen Aktien den Aktionären im Verhältnis 6:1 gegen Zahlung des Bezugspreises von EUR 3,00 („**Bezugspreis**“) zum Bezug anzubieten („**Bezugsangebot**“). Die Aktionäre werden aufgefordert, ihr Bezugsrecht auf die Neuen Aktien zur Vermeidung des Ausschlusses in der Zeit vom 3. November 2016 bis einschließlich 16. November 2016 („**Bezugsfrist**“) bei der für die Lang & Schwarz Broker GmbH als Abwicklungsstelle tätig werdenden Bankhaus Gebr. Martin Aktiengesellschaft, Kirchstraße 35, 73033 Göppingen („Bankhaus Gebr. Martin Aktiengesellschaft“), während der üblichen Geschäftszeiten auszuüben. Zur Ausübung des Bezugsrechts bitten wir unsere Aktionäre bzw. Inhaber von Bezugsrechten, ihrer Depotbank eine entsprechende Weisung zu erteilen. Für 6 alte Stückaktien der Gesellschaft kann 1 Neue Aktie zum Bezugspreis bezogen werden. Für sich aus dem individuellen Aktienbestand aufgrund des Bezugsverhältnisses 6:1 rechnerisch ergebende Bruchteile Neuer Aktien können keine Neuen Aktien bezogen werden, sondern es ist nur der Bezug von je einer (1) Neuen Aktie oder einem Vielfachen davon möglich. Maßgeblich für die Berech-

		nung der Anzahl der den Aktionären jeweils zustehenden Bezugsrechte ist deren jeweiliger Bestand an Aktien der Gesellschaft mit Ablauf des 2. November 2016. Zu diesem Zeitpunkt werden die Bezugsrechte (ISIN DE000A2BPKY9) von den Aktienbeständen im Umfang des bestehenden Bezugsrechts abgetrennt und den Aktionären von ihren Depotbanken eingebucht. Ein börslicher Bezugsrechtshandel für die Bezugsrechte findet nicht statt, es wird kein außerbörslicher Handel von der Gesellschaft organisiert. Nicht ausgeübte Bezugsrechte verfallen und werden nach Ablauf der Bezugsfrist wertlos ausgebucht. Vom 3. November 2016 an werden die alten Aktien „ex-Bezugsrecht“ notiert. Aktionäre, die Bezugsrechte ausüben, haben den Bezugspreis bei Ausübung des Bezugsrechts, spätestens jedoch zum Ende der Bezugsfrist am 16. November 2016, zu entrichten. Als Bezugsrechtsnachweis für die Neuen Aktien gelten die Bezugsrechte. Entscheidend für die Einhaltung der Frist ist der Eingang der Bezugsanmeldung sowie des Bezugspreises bei der genannten Stelle. Für den Bezug wird Aktionären bzw. Inhabern von Bezugsrechten die übliche Bankprovision berechnet. **Mehrbezug** Für den Fall, dass nicht alle Neuen Aktien im Rahmen des gesetzlichen Bezugsrechts bezogen werden, können die nicht bezogenen Neuen Aktien von denjenigen Aktionären, die Bezugsrechte ausüben, im Wege eines Mehrbezugs von der Lang & Schwarz Broker GmbH erworben werden. Jeder Aktionär, der Bezugsrechte ausübt, kann daher über den auf seinen Bestand nach Maßgabe des gesetzlichen Bezugsverhältnisses entfallenden Bezug hinaus weitere verbindliche Bezugsorders abgeben („**Mehrbezug**“). Aktionäre, die über ihre Bezugsrechts-

		quote hinaus weitere Neue Aktien zum Bezugspreis beziehen möchten, müssen ihren verbindlichen Bezugsauftrag innerhalb der Bezugsfrist über ihre Depotbank der Abwicklungsstelle Bankhaus Gebr. Martin Aktiengesellschaft übermitteln. Sind die Aktien überzeichnet, werden sie nach dem Ermessen der Emittentin entsprechend der gesetzlichen Regelungen zugeteilt. Die Depotbanken werden gebeten, die Bezugsanmeldungen und Mehrbezugswünsche in einer Anmeldung bis spätestens 16. November 2016 (einschließlich) bei der Bankhaus Gebr. Martin Aktiengesellschaft, Kirchstraße 35, 73033 Göppingen, Telefax +49 (0)7161 969317, aufzugeben und den Bezugspreis je Neuer Aktie (einschließlich Mehrbezugswünschen) ebenfalls bis spätestens zum Ende der Bezugsfrist auf folgendes Konto der Lang & Schwarz Broker GmbH bei der Bankhaus Gebr. Martin Aktiengesellschaft zu zahlen: Bank: Bankhaus Gebr. Martin Aktiengesellschaft Konto-Nr.: 9673 IBAN: DE88 610 300 00 000 000 9673 BIC: MARBDE6G Verwendungszweck „W/Biofrontera“ **Private Placement** Nach dem Ende der Bezugsfrist wird die Lang & Schwarz Broker GmbH mindestens zum Bezugspreis, Neue Aktien, die nicht im Rahmen des Bezugsangebots oder des Überbezugs erworben wurden einschließlich der sich aus dem Bezugsverhältnis ergebenden Spitzen, von der Emittentin angesprochenen und ausgewählten Investoren in Deutschland, Luxemburg und anderen Ländern anbieten („Private Placement“). Die Angebotsfrist des Private Placement endet am 20. November 2016. .

E.4	Wesentliche Interessen einschließlich Interessenkonflikten	Die Lang & Schwarz Broker GmbH erhält für ihre Tätigkeiten im Rahmen des Angebots eine feste Vergütung. Interessenkonflikte bestehen auf Grund der Gewährung der festen Vergütung nach Einschätzung der Gesellschaft nicht. Mitglieder des Vorstands und des Aufsichtsrats halten Aktien an der Emittentin sowie Optionsrechte auf den Erwerb von Aktien der Emittentin. Sie haben daher ein eigenes Interesse an der Entwicklung des Kurses der Aktien der Emittentin. Interessenkonflikte bestehen auf Grund des eigenen Interesses an der Entwicklung des Kurses der Aktien der Emittentin nach Einschätzung der Gesellschaft aber nicht. Andere Interessen von Seiten natürlicher und juristischer Personen, die für die Emission von ausschlaggebender Bedeutung sind, sind nicht erkennbar.
E.5	Anbieter der Wertpapiere. Lock-up Vereinbarungen.	Die Neuen Aktien stammen aus einer Kapitalerhöhung, werden also von der Emittentin über die Lang & Schwarz Broker GmbH als Emissionsbank angeboten. Entfällt. Es bestehen keine Lock-up-Vereinbarungen betreffend die Neuen Aktien.
E.6	Angebotsbetrag und Prozentsatz der aus dem Angebot resultierenden unmittelbaren Verwässerung. Im Falle eines Zeichnungsangebots an die existierenden Anteilseigner Betrag und Prozentsatz der unmittelbaren Verwässerung für den Fall, dass sie das neue Angebot nicht zeichnen.	Vor der Durchführung der Kapitalerhöhung beträgt der Nettobuchwert der Biofrontera Gruppe ca. EUR 1.076.272,96 oder ca. EUR 0,04 je Aktie (berechnet auf der Grundlage von 30.347.813 ausgegebenen Aktien der Emittentin zum Datum dieses Prospekts). Der Nettobuchwert der Biofrontera-Gruppe wird auf Grundlage des ungeprüften Quartalsabschluss auf den 30. Juni 2016 berechnet, indem von der Bilanzsumme zum 30. Juni 2016 (EUR 15.545.739,62) die gesamten kurzfristigen (EUR 11.409.601,74) und langfristigen Verbindlichkeiten (EUR 3.059.864,92) zum 30. Juni 2016 (insgesamt: EUR 14.469.466,66) in Abzug gebracht werden. Die Emittentin erwartet unter der Annahme, dass sämtli-

		che Neue Aktien bei dem Bezugspreis je Neuer Aktie von EUR 3,00 platziert werden, einen Netto-Gesamterlös der Emission von EUR 14,5 Mio. Unter der Annahme der vollständigen Durchführung der Kapitalerhöhung gegen Bareinlagen zu einem Bezugspreis in Höhe von EUR 3,00 je Aktie und einem Nettoerlös von ca. EUR 14,5 Mio. würde sich der Nettobuchwert der Biofrontera Gruppe mit Stand vom 30. Juni 2016 auf ca. TEUR 15.576 oder ca. EUR 0,44 je Aktie belaufen (berechnet auf der Grundlage von 35.360.763 ausgegebenen Aktien der Emittentin nach Durchführung der Barkapitalerhöhung). Ausgehend von einem Bezugspreis von EUR 3,00 je Aktie würde dies zu einer Erhöhung des Nettobuchwerts der Biofrontera-Gruppe zum 30. Juni 2016 um EUR 0,40 je Aktie auf EUR 0,44 je Aktie für die Altaktionäre führen. Für den Erwerber Neuer Aktien ergäbe sich eine unmittelbare Verwässerung von EUR 2,56 je Aktie oder ca. 85,3 %, da der angenommene Bezugspreis von EUR 3,00 je Aktie über dem errechneten neuen Nettobuchwert je Aktie von EUR 0,44 liegen würde. Für bestehende Aktionäre würde der Nettobuchwert bestehender Aktien dementsprechend um EUR 0,40 je Aktie steigen, von EUR 0,04 auf EUR 0,44. Dies entspräche einer Steigerung um ca. 1.000 %. Soweit Aktionäre von ihrem Bezugsrecht keinen Gebrauch machen und keine Neuen Aktien zeichnen, wird deren prozentualer Anteil am stimmberechtigten Kapital der Emittentin bei vollständiger Platzierung sämtlicher Aktien (5.012.950 Stück) aus der Kapitalerhöhung, die Gegenstand dieses Prospekts ist, um ca. 14,2 % verwässert. Werden nicht sämtliche Neuen Aktien platziert, wird die Verwässerung dementsprechend geringer ausfallen.
E.7	Schätzung der Ausgaben, die	Entfällt. Weder die Emittentin noch ein etwaiger Anbie-

	dem Anleger von der Emittentin oder Anbieter in Rechnung gestellt werden.	ter stellen den Zeichnern der Neuen Aktien Kosten in Rechnung. Die depotführenden Banken der Zeichner können ggf. eine marktübliche Effektenprovision für den Erwerb der Neuen Aktien berechnen.

3. Risk Factors

Before taking the decision whether to acquire shares of Biofrontera Aktiengesellschaft with registered seat in Leverkusen, business address Hemmelrather Weg 201, 51377 Leverkusen (also "***Issuer***" and together with its subsidiaries "***Biofrontera Group***"), in particular the 5,012,950 registered no-par shares of the Issuer with a notional participation in the registered share capital of EUR 1.00 per no-par share, WKN 604611, ISIN DE0006046113 subject to this prospectus (also "***New Shares***"), Investors should carefully read and consider the following risks and the other information contained in this prospectus.

The following risks, alone or together with additional risks and uncertainties not currently known to the Issuer, or which the Issuer might currently deem immaterial, could materially adversely affect the business, financial condition and results of operations of the Issuer and Biofrontera Group. If any of these risks were to materialize, the operations of the Issuer and Biofrontera group may be materially impaired, and the business, financial position and results of operation of the Issuer and Biofrontera Group may be materially adversely affected. In such cases, the trading price of the New Shares could materially decline. Investors could lose all or part of their investment (total loss risk). The order in which the following risks are presented does not indicate the likelihood of their occurrence, nor the scope of any potential impairment these risks may cause to the business, financial position and results of operation of the Issuer or Biofrontera Group. The risks mentioned may materialize individually or cumulatively.

This prospectus contains forward–looking statements that are subject to future events, risks and uncertainties. The actual results of the Issuer and Biofrontera Group could differ materially from those anticipated in these forward–looking statements as a result of many factors, including, but not limited to, the risks the Issuer and Biofrontera Group face as described below and elsewhere in this prospectus.

3.1. Risk factors specific to the Issuer and its industry

3.1.1. General risks

3.1.1.1. The risk management system of Biofrontera Group may be or become insufficient, which may lead to risks to materialize.

The organizational structure and the risk management system of Biofrontera Group might prove to be insufficient, or become insufficient due to growth of Biofrontera Group, e.g. with acquisitions and in

the context of expansions in different jurisdictions, in particular if such jurisdictions materially differ with regard to economic, legal and/or cultural frameworks from the jurisdictions where Biofrontera Group has operational experience. Specifically, Biofrontera Group may face numerous challenges with an expansion into the US market. An insufficient risk management system may cause otherwise avoidable risks to materialize, and lead to disadvantageous business development.

3.1.1.2. The compliance management system of Biofrontera Group might not be sufficient to prevent breaches of laws. Biofrontera Group's employees may engage in misconduct or other improper activities, including noncompliance with regulatory standards and requirements. Biofrontera Group may be subject to sanctions, claims for damages and loss of reputation due to the breaches or the insufficient compliance management system.

The compliance management system, which Biofrontera Group has in place to prevent breaches of law by its employees and intermediaries, might not be sufficient to prevent illegal actions which are attributable to the Issuer or Biofrontera Group. Biofrontera Group is exposed to the risk of employee fraud or other misconduct. Misconduct by employees could include intentional failures to comply with regulations, provide accurate information to regulatory authorities, comply with manufacturing standards, comply with healthcare fraud and abuse laws and regulations, report financial information or data accurately or disclose unauthorized activities to Biofrontera Group. In particular, sales, marketing and business arrangements in the healthcare industry are subject to extensive laws and regulations intended to prevent fraud, kickbacks, self-dealing and other abusive practices. These laws and regulations may restrict or prohibit a wide range of pricing, discounting, marketing and promotion, sales commission, customer incentive programs and other business arrangements. Employee misconduct could also involve the improper use of information obtained in the course of clinical trials, which could result in regulatory sanctions and serious harm to Biofrontera Group's reputation.

Both illegal actions themselves and a lack of an adequate compliance management system could result in sanctions, claims of third parties for damages and loss of reputation. In particular, if officers, directors, employees, agents and collaborators take action determined to be in violation of anti-corruption laws, including the U.S. Foreign Corrupt Practices Act of 1977, the U.K. Bribery Act 2010 and the European Union Anti-Corruption Act, as well as trade sanctions, such violation could result in substantial fines, sanctions, civil and/or criminal penalties or curtailment of operations in certain jurisdictions, and might adversely affect results of operations.

3.1.1.3. A tax reassessment of Biofrontera Group might show that Biofrontera Group has not or not fully complied with the obligation to pay taxes in the past, so that taxes may be levied for past periods, or tax losses might not exist in the amount currently assumed.

While the Issuer has taken efforts to comply with all applicable tax regulations, it cannot be excluded that a tax review of the Issuer and Biofrontera Group may show that not all tax regulations were complied with. This may result in a retroactive levy of taxes, and additional punitive interest and potentially other sanctions. Furthermore, the Issuer has accrued substantial loss carry forwards, which are considered for tax purposes. If these tax losses do not exist in the amount assumed by the Issuer, or if certain factual conditions related to the shareholder structure of the Issuer change, resulting in loss carry forwards being revoked for tax offsetting purposes, whether in part or in whole, this could impede the future development of Biofrontera Group, since Biofrontera Group would be unable to offset future taxable gains against losses incurred in the past.

3.1.1.4. The tax framework might develop to the disadvantage of Biofrontera Group, which might detrimentally influence the financial and operative situation of Biofrontera Group, e.g. by disallowing tax loss carry-forwards.

If the tax law applicable to the Issuer or Biofrontera Group changes, the Issuer or Biofrontera Group may be detrimentally affected. While the complexity of tax law may result in unforeseeable changes, a particular risk exists with regard to the substantial tax-effective loss carry-forward of the Issuer. If changes in tax law disallow consideration of the loss carry-forward for tax purposes, this could impede the future development of Biofrontera Group, since Biofrontera Group would be unable to offset future taxable gains against losses incurred in the past.

3.1.1.5. Biofrontera Group will need to grow the size of its organization and may experience difficulties in managing this growth.

As of the date of this prospectus, Biofrontera Group had 70 total employees. As development and commercialization plans and strategies develop, and as Biofrontera Group continues operating as a public company, Biofrontera Group expects to need additional managerial, operational, sales, marketing, financial and other personnel. Future growth would impose significant added responsibilities on members of management, including:

- identifying, recruiting, integrating, maintaining and motivating additional employees;
- managing internal development efforts effectively, including the clinical and FDA review process for product candidates, while complying with contractual obligations to contractors and other third parties; and

- improving operational, financial and management controls, reporting systems and procedures.

Biofrontera Group's future financial performance and its ability to commercialize its products will depend, in part, on its ability to effectively manage any future growth, and its management may also have to divert a disproportionate amount of its attention away from day-to-day activities in order to devote a substantial amount of time to managing these growth activities. To date, Biofrontera Group has used the services of outside vendors to perform tasks including clinical trial management, statistics and analysis and regulatory affairs. Biofrontera Group's growth strategy may also entail expanding its group of contractors or consultants to implement these tasks going forward. Because Biofrontera Group relies on numerous consultants, effectively outsourcing many key functions of its business, Biofrontera Group will need to be able to effectively manage these consultants to ensure that they successfully carry out their contractual obligations and meet expected deadlines. However, if Biofrontera Group is unable to effectively manage outsourced activities or if the quality or accuracy of the services provided by consultants is compromised for any reason, Biofrontera Group's clinical trials may be extended, delayed or terminated, and Biofrontera Group may not be able to obtain regulatory approval for product candidates or otherwise advance its business. There can be no assurance that Biofrontera Group will be able to manage its existing consultants or find other competent outside contractors and consultants on economically reasonable terms, or at all.

3.1.1.6. Biofrontera Group may be subject, directly or indirectly, to disadvantageous changes in law which may impede business practices or make them unviable.

The business activities of Biofrontera Group are subject to numerous legal regulations (e.g. in the fields of pharmaceutical law, medical products law, social insurance law regarding the remuneration of products). Legal provisions relevant to Biofrontera Group, its suppliers and customers may be subject to change, and any such changes may cause currently business practice to be unviable in general, or may only be continued in a changed form or with additional effort. Such changes may therefore have disadvantageous effects on Biofrontera Group and its suppliers and customers, especially if they enter into force on short term and/or unexpectedly. Biofrontera Group develops, produces and markets its products in numerous jurisdictions, which increases the number of applicable laws and regulations that might be changed.

3.1.1.7. Biofrontera Group may be subject to negative publicity, which may lead to losses in business and impede capital market financing.

By negative publicity, whether founded or unfounded, Biofrontera Group might lose trust and public credit in particular with doctors and patients, which in turn may lead to losses of turnover and profit. Furthermore, a negative public image may impede financing on the capital markets.

3.1.1.8. The operations of Biofrontera Group might be interrupted.

The operations of Biofrontera Group or its suppliers or customers might be interrupted, e.g. by political or natural events or incidents, but also by labor, trade and tariff disputes, or malfunctions of the operational assets of Biofrontera Group or third parties. In particular, IT systems, are vulnerable to damage from computer viruses, unauthorized access, natural disasters, terrorism, and telecommunication and electrical failures. Interruptions of the operations may cause losses of turnover and revenues. To the extent that any disruption or security breach were to result in a loss of, or damage to, data or applications, or inappropriate disclosure of confidential or proprietary information, Biofrontera Group could also incur liability.

3.1.1.9. Biofrontera Group is highly dependent on its key personnel, and if it is not successful in attracting and retaining highly qualified personnel, may be unable to successfully implement its business strategy.

Biofrontera Group's ability to compete in the highly competitive pharmaceuticals industry depends upon its ability to attract and retain highly qualified managerial, scientific and medical personnel. Biofrontera Group is highly dependent on its management, scientific, medical and operations personnel, including Prof. Hermann Luebbert, Ph.D., Chairperson of the management board and Chief Executive Officer; Thomas Schaffer, member of the management board and Chief Financial Officer; Christoph Dünwald, member of the management board and Chief Commercial Officer.

Despite Biofrontera Group's efforts to retain valuable employees, members of the management, scientific and development teams may terminate their employment on short notice. Although Biofrontera Group has employment agreements with key employees, these employment agreements provide for at-will employment, which means that any employee could leave employment at any time, with certain notice periods. Biofrontera Group does not maintain "key man" insurance policies on the lives of these individuals or the lives of any other employees.

Biofrontera Group's success also depends on its ability to continue to attract, retain and motivate highly skilled junior, mid-level and senior managers as well as junior, mid-level and senior scientific and medical personnel.

Biofrontera Group employs a comparatively low number of employees, does not have replacement employees for all functions, and in certain areas is dependent on the support of external third parties such as sales representatives and partners. If an employee becomes unexpectedly unavailable on short term, even if this employee is not a key employee per se, the business of Biofrontera Group may be impeded.

Many of the other biotechnology and pharmaceutical companies that Biofrontera Group competes against for qualified personnel have greater financial and other resources, different risk profiles and a

longer history in the industry than Biofrontera Group does. They may also provide more diverse opportunities and better chances for career advancement. Some of these characteristics may be more appealing to high quality candidates than what Biofrontera Group can offer. If Biofrontera Group is unable to continue to attract and retain high quality personnel, its ability to advance the development of products and product candidates, obtain regulatory approvals and commercialize products will be limited, even if no key or other personnel becomes unavailable.

3.1.1.10. The insurance coverage of Biofrontera Group may be or become insufficient. This may cause Biofrontera Group to have to bear costs which could have been covered by insurance.

The insurance coverage of Biofrontera Group may prove to be insufficient. This may, if not foreseen, cause situations where Biofrontera Group has to bear costs which the management of Biofrontera Group had assumed would be borne by the respective insurance, and thereby having, on short term, devote monies to covering the uninsured costs. This would lead to a lack of liquidity, which would harm the business prospects of Biofrontera Group. Furthermore, insofar as Biofrontera Group is not insured against risks which are unlikely to materialize but may cause high damage, these risks may materialize and cause costs for which Biofrontera Group has not created reserves. Furthermore, Biofrontera Group may in the future be unable to procure insurance policies at acceptable prices, which would make the above risks more likely.

3.1.1.11. Global economic, political and social conditions have adversely impacted Biofrontera Group's sales and operations and may continue to do so.

The uncertain direction and relative strength of the global economy, difficulties in the financial services sector and credit markets, continuing geopolitical uncertainties and other macroeconomic factors all affect spending behavior of potential end-users of Biofrontera Group's products. The prospects for economic growth in Europe, the United States and other countries remain uncertain and may cause end-users to further delay or reduce purchases of drugs or therapies that are not fully reimbursed by governmental payers. In particular, a substantial portion of Biofrontera Group's sales are made to customers in countries in Europe, which is experiencing a significant economic crisis. If global economic conditions remain volatile for a prolonged period or if European economies experience further disruptions, the results of operations could be adversely affected. The global financial crisis affecting the banking system and financial markets has resulted in a tightening of credit markets, lower levels of liquidity in many financial markets and extreme volatility in fixed income, credit, currency and equity markets. These conditions may make it more difficult for end-users to obtain financing.

3.1.2. Risks related to the Issuer's financial situation

3.1.2.1. The Issuer and its operative subsidiaries in Biofrontera Group have a history of operating losses. The Issuer anticipates that Biofrontera Group will continue to incur operating losses in the foreseeable future and may never sustain profitability. Increased revenues by future extensions of business, including marketing Biofrontera Group's products in the US and extending the indication of Ameluz® to the treatment of basal cell carcinoma ("BCC"), may be set off by increased expenses.

The Issuer has incurred operating losses in each year since incorporation because the research and development and general and administrative expenses of Biofrontera Group exceeded its revenue. The consolidated operating loss of the Biofrontera Group for the years ended 31 December 2014 and 2015 was EUR 10.7 million and EUR 11.2 million, respectively. As of 31 December, 2015, the Issuer had an accumulated deficit, on a consolidated basis, of EUR 109.8 million.

The Issuer as group holding and parent company is dependent on proceeds generated on the level of its subsidiaries. Therefore, the liquidity situation of the issuer is contingent on the distributions by and access to liquid assets of the subsidiaries. If the economic situation of the subsidiaries deteriorates, the revenues of the Issuer would be lost. Furthermore, the Issuer may incur losses if the economic situation of its subsidiaries makes it necessary to settle their losses in order to continue their operations.

The ability of Biofrontera Group to become profitable depends on its ability to further develop and commercialize its lead product Ameluz®. While Ameluz® has received a centralized approval in Europe and has been commercialized in some European countries, the Issuer considers the US market as material for the success of Ameluz®. Even after having successfully obtained the approval to market Ameluz® in the US, Biofrontera Group has neither a sales organization in place, nor specific experience with the economic or regulatory environment in the USA. Therefore, the Issuer does not know when, or if at all, Biofrontera Group will generate significant revenues from the sale of Ameluz® in the US.

Even if Biofrontera Group will generate enough product sales, it may never achieve or sustain profitability. The Issuer anticipates that the operating losses will decrease over the next several years as Biofrontera Group executes its plan to expand its commercialization activities, including the planned commercialization of Ameluz® in the US; the increase in revenues will be paralleled by the additional costs of larger-scale operations in foreign jurisdictions. In addition, if Biofrontera Group obtains regulatory approval of Ameluz® in Europe for the treatment of basal cell carcinoma, Biofrontera Group may achieve significantly higher revenues in European markets but may also incur significantly higher sales and marketing expenses. Because of the numerous risks and uncertainties associated with devel-

oping and commercializing pharmaceutical products, the Issuer is unable to predict the extent of any future losses or when Biofrontera Group will become profitable, if ever.

The litigation against the appointment of supervisory board members might deter investors from taking part in capital increases, since the commercial register might refuse to enter the capital increase into the commercial register until the end of the litigation process.

3.1.2.2. The existing and any future indebtedness of Biofrontera Group could adversely affect its ability to operate its business. In particular, a high liquidity risk exists with regard to the bond due on 1 January 2017.

Biofrontera Group has issued and outstanding two warrant bonds, as described in more detail under 6.9.5. These bonds could have significant adverse consequences, including:

- requiring Biofrontera Group to dedicate a portion of its cash resources to the payment of interest and principal, reducing money available to fund working capital, capital expenditures, product development and other general corporate purposes;
- increasing Biofrontera Group's vulnerability to adverse changes in general economic, industry and market conditions;
- limiting Biofrontera Group's flexibility in planning for, or reacting to, changes in its business and the industry in which it competes; and
- placing Biofrontera Group at a competitive disadvantage compared to its competitors that have less debt or better debt servicing options.

The Issuer may not have sufficient funds, and may be unable to arrange for additional financing, to pay the amounts due under its existing loan obligations. Failure to make payments or comply with other covenants under its existing debt could result in an event of default and subsequent bankruptcy.

3.1.2.3. If the Issuer fails to obtain additional financing, it may be unable to complete the development and commercialization of Biofrontera Group's product candidates.

The operations of Biofrontera Group have consumed substantial amounts of cash since inception. The Issuer expects to continue to spend substantial amounts to continue the clinical development of Biofrontera Group's product candidates, including the application process for basal cell carcinomas. Since Ameluz® has been approved in the United States in May 2016 and the Issuer has begun Marketing in October 2016, the Issuer has been requiring significant additional funds in order to launch and commercialize Ameluz® in the United States.

The Issuer believes that our existing cash and cash equivalents will be sufficient to fund operations until December 2016. However, changing circumstances may cause us to consume capital significantly faster than the Issuer currently anticipates, and Biofrontera Group may need to spend more money than currently expected because of circumstances beyond the Issuer's control.

Biofrontera Group will require additional capital for the further development and commercialization of its products. Future funding requirements, both near- and long-term, will depend on many factors, including, but not limited to:

- the timing, costs and results of clinical trials for the product Ameluz®
- the cost of filing, prosecuting, defending and enforcing any patent claims and other intellectual property rights;
- the effects of competing technological and market developments;
- the cost and timing of completion of commercial-scale manufacturing activities; and
- the cost of establishing sales, marketing and distribution capabilities for any product for which Biofrontera Group may receive regulatory approval in regions where Biofrontera Group chooses to commercialize its products on its own, including but not limited to the currently pending expansion to the USA.

The Issuer cannot be certain that additional funding will be available on acceptable terms, or at all. If the Issuer is unable to raise additional capital in sufficient amounts or on terms acceptable to the Issuer, Biofrontera Group may have to significantly delay, scale back or discontinue the development or commercialization of its products. Biofrontera Group also could be required to license on unfavorable terms the rights to its products in markets in which Biofrontera Group would otherwise seek to pursue commercialization itself.

3.1.2.4. Incorrect valuations of assets and liabilities may cause an overly optimistic estimate of the Issuer's and Biofrontera Group's economic situation. This may cause decisions which prove unsuitably risky and cause liquidity crises.

The assets and liabilities of the Issuer and Biofrontera Group might be wrongly valuated. This might cause an overly optimistic estimate of the economic situation of Biofrontera Group, and cause the management of the Issuer to take decisions which in retrospect prove to be affected with an unsuitable degree of risk. The Issuer may face liquidity crises and, in consequence, potential bankruptcy.

3.1.2.5. Exchange rate may change to the detriment of Biofrontera Group

Biofrontera Group's operating results may be affected by volatility in currency exchange rates and its ability to effectively manage currency transaction risks. In general, Biofrontera Group conducts its

business, earns revenues and incurs costs in the local currency of the countries in which it operates. In 2015, 98% of revenues were generated and approximately 80% of costs were incurred in EUR. If Biofrontera Group expands internationally, as intended by entering the US market, the exposure to currency risks will increase. Additional currency risks may occur in the case of exits from the Euro-zone, whether by Germany or other countries which are important markets for the distribution of products of Biofrontera Group.

Biofrontera Group incurs currency transaction risks whenever entering into either a purchase or a sale transaction using a different currency from the currency in which its reports revenues. In such cases Biofrontera Group may suffer an exchange loss because it does not currently engage in currency swaps or other currency hedging strategies to address this risk.

3.1.3. Risk generally related to pharmaceuticals and medical products

3.1.3.1. Biofrontera Group's products may cause side effects which are currently unknown. This may lead to loss of sales (whether by administrative restrictions or loss of trust), and claims for damages.

Products of Biofrontera Group may, in the future, prove to cause side effects which are currently not known. In the case of substances which require a market admission to be distributed (in particular prescription drugs such as Ameluz®), this may cause the admission of the respective product to be limited or revoked by the competent authority. In the case of substances which do not require a market admission (in particular cosmetics, such as the products of the Belixos® series), the distribution may be limited or prohibited, and a product recall may be ordered (see below). Such measures might even be taken if side effects are only suspected, and prove in hindsight not to exist.

Side effects in certain products may furthermore lead to a general loss of trust in Biofrontera Group, and cause doctors and patients to decline the use of other products of Biofrontera Group. All this would lead to a loss of sales, and thereby of revenues. Furthermore, side effects of products may also cause damage claims against Biofrontera Group, including potential class action suits filed in the US, which may be highly difficult and prohibitively expensive to defend against. In particular, side effects may cause product liability lawsuits (see below).

3.1.3.2. If product liability lawsuits are brought against Biofrontera Group, it may incur substantial liabilities and may be required to limit commercialization of its products.

Biofrontera Group faces an inherent risk of product liability, both for the distribution of its products, as well as for potential harm caused during clinical testing. For example, Biofrontera Group may be sued if products allegedly cause injury or are found to be otherwise unsuitable during clinical testing,

manufacturing, marketing or sale. Any such product liability claims may include allegations of defects in manufacturing; defects in design; a failure to warn of dangers inherent in the product, negligence, strict liability; and a breach of warranties. Claims could also be asserted under state consumer protection acts. In Europe and Germany, medical products and medical devices may, under certain circumstances, be subject to no-fault liability (*verschuldensunabhängige Haftung*). If Biofrontera Group cannot successfully defend against product liability claims, it may incur substantial liabilities or be required to limit commercialization of our product candidates. Even a successful defense would require significant financial and management resources. Regardless of the merits or eventual outcome, liability claims may result in:

- costs to defend litigation and other proceedings;
- a diversion of management's time and our resources;
- decreased demand for our products;
- injury to reputation;
- withdrawal of clinical trial participants;
- initiation of investigations by regulators;
- product recalls, withdrawals or labeling, marketing or promotional restrictions;
- loss of revenue;
- substantial monetary awards to trial participants or patients;
- exhaustion of any available insurance and capital resources;
- the inability to commercialize products.

An inability to obtain and retain sufficient product liability insurance at an acceptable cost to protect against potential product liability claims could prevent or inhibit the commercialization of products Biofrontera Group develops.

3.1.3.3. A recall of Biofrontera Group's drug or medical device products, or the discovery of serious safety issues with Biofrontera Group's drug or medical device products, could have a significant negative impact on Biofrontera Group.

The FDA, the European Medicines Agency ("EMA") and other relevant regulatory agencies have the authority to require or request the recall of commercialized products in the event of material deficiencies or defects in design or manufacture or in the event that a product poses an unacceptable risk to health. Furthermore, manufacturers and distributors may, under their own initiative, recall a product. A government-mandated or voluntary recall by Biofrontera Group or one or several of its manufacturers or distributors could occur as a result of an unacceptable risk to health, component failures, manufac-

turing errors, design or labeling defects or other deficiencies and issues. Even the suspicion of such a risk factor existing may cause a (precautionary) product recall, which may cause the detrimental consequences described below even if the suspected risk factor does not exist.

Recalls of any of Biofrontera Group's products would divert managerial and financial resources and have an adverse effect on its reputation, financial condition and operating results.

Further, under the FDA's medical device reporting, or MDR, regulations, Biofrontera Group will be required to report to the FDA any event which reasonably suggests that its product may have caused or contributed to a death or serious injury or in which its product malfunctioned and, if the malfunction of the same or similar device marketed by Biofrontera Group were to recur, would likely cause or contribute to death or serious injury. The FDA also requires reporting of serious, life-threatening, unexpected and other adverse drug experiences and the submission of periodic safety reports and other information. Product malfunctions or other adverse event reports may result in a voluntary or involuntary product recall and other adverse actions, which could divert managerial and financial resources, impair Biofrontera Group's ability to manufacture products in a cost-effective and timely manner and have an adverse effect on its reputation, financial condition and operating results. Similar reporting requirements exist in Europe and other jurisdictions where Biofrontera Group's drug products and medical devices are already marketed or applications for marketing authorization have been issued by either Biofrontera Group or its license partners.

Any adverse event involving Biofrontera Group's products could result in future voluntary corrective actions, such as recalls or customer notifications, or regulatory agency action, which could include inspection, mandatory recall or other enforcement action.

3.1.3.4. Biofrontera Group has engaged in only limited sales of its products to date. The planning of Biofrontera Group provides for significant extensions of its marketing, both domestically and abroad. If Biofrontera Group does not achieve this extension, it may not reach profitability. In particular, the financial means of Biofrontera Group may not be sufficient to achieve a significant market share in the US market.

While Biofrontera Group is a global, commercial stage, specialty pharmaceutical company, with late-stage development programs targeting further extension of the indication of its products or the geographical expansion of its sales, it has engaged in only limited sales of its products to date, with the majority of sales being generated in the private dermatology offices sector in Germany. Under the current conditions, Biofrontera Group still has to reach the break-even point, which requires an extension of sales and revenues. The risk remains that Biofrontera Group's products may not gain adequate acceptance in the marketplace in order to generate sufficient revenue or profits. Biofrontera Group must establish a larger market for its products and build that market through marketing campaigns to

increase awareness of, and consumer confidence in, its products, as well as expanding its share of the existing markets, in order to achieve profitability. Since Biofrontera Group markets its products in several jurisdictions via third-party distributors, it has only limited influence on the final success of its products.

Furthermore, the US market is a significant target for marketing the products of Biofrontera Group. If Biofrontera Group is not able to achieve a sufficient market share in the US market, Biofrontera Group may never achieve profitability. While Biofrontera Group has been successful in obtaining the approval of the FDA, Biofrontera Group will still require substantial financial, organizational and logistical means to build up a distribution structure and compete with the established products on the US market. The establishment, development and training of the sales force and related compliance plans as well as manufacturing to market products is expensive and time consuming and can potentially delay the commercial launch of products, which would delay a success in the market.

If Biofrontera Group is unable to expand its current customer base and obtain market acceptance of its products, it will not be able to achieve, sustain or increase profitability.

3.1.4. Risks related to regulatory issues

3.1.4.1. The current European approval for Ameluz® is, in accordance with generally applicable statutory law, currently valid until December 2016. If Biofrontera Group does not comply with legal obligations regarding the extension of the approval, or if currently unknown risks related to drug safety arise, the competent authority may decline the extension of the approval.

European approvals for admitted drugs are generally limited to a period of five years. This also applies to Ameluz®, which means that the approval will expire December 2016. While approvals are generally prolonged in practice, if Biofrontera Group does not comply with the conditions of the approval, or if currently unknown risks or concerns arise, the EMA as competent authority may decline extending the approval of Ameluz®. This would prevent Biofrontera Group from marketing Ameluz® in Europe.

3.1.4.2. Existing approvals may be revoked, if Biofrontera Group does not comply with legal obligations regarding the upkeep of the approval, of if currently unknown risks regarding drug safety arise.

Ameluz® is approved by the EMA within the European Union and by the FDA with in the United States for treatment of actinic keratosis ("**AK**"). This approval, as well as future approvals in the European Union, the United States and other jurisdictions may be revoked if Biofrontera Group does not

comply with certain regulatory conditions. Furthermore, the approval may be revoked if currently unknown risks or concerns regarding drug safety arise.

3.1.4.3. Since the drug product Ameluz® has received regulatory approval in the United States, and since the European regulatory approval is expected to be extended to another indication, Biofrontera Group will be subject to ongoing regulatory requirements and may face future development, manufacturing and regulatory difficulties.

Drug products (such as, in the case of Biofrontera Group, Ameluz®) are subject to ongoing regulatory requirements for labeling, packaging, storage, advertising, promotion, sampling, record-keeping, submission of safety and other post-market approval information, importation and exportation. In addition, approved products, manufacturers and manufacturers' facilities are required to comply with extensive FDA and EMA requirements and the requirements of other similar agencies, including ensuring that quality control and manufacturing procedures conform to current Good Manufacturing Practice ("cGMP") requirements.

Accordingly, in particular after having received regulatory approval and begun marketing in the US, and expecting to receive extended European regulatory approval, Biofrontera Group is be required to expend time, money and effort in all areas of regulatory compliance, including manufacturing, production and quality control. Biofrontera Group is also be required to report certain adverse reactions and production problems, if any, to the FDA and EMA and other similar agencies and to comply with certain requirements concerning advertising and promotion for Biofrontera Group's potential products.

If a regulatory agency discovers previously unknown problems with a product, such as adverse events of unanticipated severity or frequency, or problems with the facility where the product is manufactured, or disagrees with the promotion, marketing or labeling of a product, it may impose restrictions on that product or on Biofrontera Group, including requiring withdrawal of the product from the market. If Biofrontera Group's potential products fail to comply with applicable regulatory requirements, a regulatory agency may, among other actions:

- issue warning letters or untitled letters;
- require product recalls;
- mandate modifications to promotional materials or require Biofrontera Group to provide corrective information to healthcare practitioners;
- require Biofrontera Group or its potential future collaborators to enter into a consent decree or permanent injunction;
- impose other administrative or judicial civil or criminal actions, including monetary or other penalties, or pursue criminal prosecution;

- withdraw regulatory approval;
- refuse to approve pending applications or supplements to approved applications filed by Biofrontera Group or by its potential future collaborators;
- impose restrictions on operations, including costly new manufacturing requirements; or
- seize or detain products.

3.1.4.4. Biofrontera Group's medical device product, the lamp BF-RhodoLED®, is subject to extensive governmental regulation, and failure to comply with applicable requirements could cause Biofrontera Group's business to suffer.

The medical device industry is regulated extensively by governmental authorities, principally the FDA in the US, and corresponding state and European and other foreign governmental agencies. The regulations are very complex and are subject to rapid change and varying interpretations. Regulatory restrictions or changes could limit Biofrontera Group's ability to carry on or expand our operations or result in higher than anticipated costs or lower than anticipated sales. The FDA and other United States or European or other foreign governmental agencies regulate numerous elements of Biofrontera Group's business, including:

- product design and development;
- pre-clinical and clinical testing and trials;
- product safety;
- establishment registration and product listing;
- labeling and storage;
- pre-market clearance or approval;
- advertising and promotion;
- marketing, manufacturing, sales and distribution;
- adverse event reporting;
- servicing and post-market surveillance; and
- recalls and field safety corrective actions.

Marketing device products within the EU and the European Free Trade Association, the product must first satisfy the requirements for CE Mark clearance, a conformity mark that signifies a product has met all criteria of the relevant EU directives, especially in the areas of safety and performance. While Biofrontera Group has obtained CE Mark clearance for BF-RhodoLED® in November 2012, it may be revoked under certain conditions.

In the United States, BF-RhodoLED® has received regulatory approval together with Ameluz®, and is subject to comparable regulations and risks.

The FDA can revoke clearance or approval of a device for many reasons, including:

- Biofrontera Group's inability to demonstrate that its products are safe and effective for their intended uses;
- the data from Biofrontera Group's clinical trials may not be sufficient to support clearance or approval; and
- the manufacturing process or facilities Biofrontera Group uses may not meet applicable requirements.

In addition, the FDA and other regulatory authorities may change their respective clearance and approval policies, adopt additional regulations or revise existing regulations, or take other actions which may prevent, delay or revoke approval or clearance of Biofrontera Group's products under development or impact its ability to modify its currently cleared or approved products on a timely basis.

Any delay in, or failure to receive or maintain, clearance or approval for Biofrontera Group's products under development could prevent it from generating revenue from these products or achieving profitability. Additionally, the FDA and comparable foreign regulatory authorities have broad enforcement powers. Regulatory enforcement or inquiries, or other increased scrutiny of Biofrontera Group, could dissuade some customers from using Biofrontera Group's products and adversely affect its reputation and the perceived safety and efficacy of its products.

Failure to comply with applicable regulations could jeopardize Biofrontera Group's ability to sell its products and result in enforcement actions such as fines, civil penalties, injunctions, warning letters, recalls of products, delays in the introduction of products into the market, refusal of regulators to grant future clearances or approvals, and the suspension or withdrawal of existing approvals.

Furthermore, Biofrontera Group may evaluate international expansion opportunities in the future for its medical device products. As Biofrontera Group expands its operations outside of the United States and Europe, it is, and will become, subject to various additional regulatory and legal requirements under the applicable laws and regulations of the international markets it enters. These additional regulatory requirements may involve significant costs and expenditures and, if Biofrontera Group is not able to comply with any such requirements, its international expansion and business could be significantly harmed.

3.1.4.5. Modifications to Biofrontera Group's medical device products, such as BF-RhodoLED® in Europe, may require reclassifications, new CE marking processes or may require Biofrontera Group to cease marketing or recall the modified products until new CE marking is obtained.

A modification to Biofrontera Group's medical devices such as BF-RhodoLED®, which is approved for sale in Europe, could lead to a reclassification of the medical device and could result in further requirements (including additional clinical trials) to maintain the product's CE marking. If Biofrontera Group fails to comply with such further requirements, it may be required to cease marketing or to recall the modified product until it obtains clearance or approval, and may be subject to significant regulatory fines or penalties.

3.1.4.6. Biofrontera Group intends to market its products in further jurisdictions outside of Europe and the US. For these jurisdictions, approvals are generally required. If such approvals are not granted, Biofrontera Group will not be in a position to market its products, and lose projected revenues.

Regulatory authorities outside of the United States and the EU also have requirements for approval of products for commercial sale with which Biofrontera Group must comply prior to marketing in those areas. Regulatory requirements can vary widely from country to country and could delay or prevent the introduction of Biofrontera Group's products in these countries. Clinical trials conducted in one country may not be accepted by regulatory authorities in other countries, and obtaining regulatory approval in one country does not mean that regulatory approval will be obtained in any other country. Approval processes vary among countries and can involve additional product testing and validation and additional administrative review periods. Seeking foreign regulatory approval could require additional non-clinical studies or clinical trials, which could be costly and time consuming. The foreign regulatory approval process may include all of the risks associated with obtaining EMA and FDA approval, and potentially may include additional risks. If the respective regulatory approval is not granted, Biofrontera Group will not be in a position to market its products in the respective jurisdiction. This would prevent Biofrontera Group from earning revenues in the respective countries, which may require Biofrontera Group to reevaluate its strategy.

3.1.5. Risks Related to Intellectual Property

3.1.5.1. If Biofrontera Group's efforts to protect the proprietary nature of the intellectual property related to technologies are not adequate, Biofrontera Group may not be able to compete effectively in the market.

Biofrontera Group relies upon a combination of patents, trade secret protection and confidentiality agreements to protect the intellectual property related to technologies and products. Any disclosure to or misappropriation by third parties of confidential proprietary information could enable competitors to quickly duplicate or surpass technological achievements, thus eroding the competitive position in the market.

In addition, the patent applications that Biofrontera Group owns or that it may license may fail to result in issued patents. Even if the patents do successfully issue, third parties may challenge the validity, enforceability or scope thereof, which may result in such patents being narrowed, invalidated or held unenforceable. Furthermore, even if they are unchallenged, patents and patent applications may not adequately protect intellectual property or prevent others from designing around claims. If the breadth or strength of protection provided by the issued patents and patent applications Biofrontera Group holds with respect to its products is threatened, it could dissuade companies from collaborating with Biofrontera Group to develop, and threaten the ability to commercialize, Biofrontera Group's products.

Since patent applications in most countries are confidential for a period of time after filing, Biofrontera Group cannot be certain that it was the first to file any patent application related to product candidates.

In addition to the protection afforded by patents, Biofrontera Group seeks to rely on trade secret protection and confidentiality agreements to protect proprietary know-how that is not patentable, processes for which patents are difficult to enforce and any other elements of product discovery and development processes that involve proprietary know-how, information or technology that is not covered by patents. In particular, Ameluz® as an effective agent is not patent protected since the active substance is a naturally occurring molecule, only the nanoemulsion used to let Ameluz® penetrate the skin as well as the combination of Ameluz® and the nanoemulsion is.

Although Biofrontera Group requires its employees to assign their inventions to the extent permitted by law, and require all employees, consultants, advisors and any third parties who have access to proprietary know-how, information or technology to enter into confidentiality agreements, Biofrontera Group cannot be certain that trade secrets and other confidential proprietary information will not be disclosed or that competitors will not otherwise gain access to trade secrets or independently develop substantially equivalent information and techniques.

Furthermore, the laws of some countries do not protect proprietary rights. As a result, Biofrontera Group may encounter significant problems in protecting and defending our intellectual property both domestically and abroad. If Biofrontera Group is unable to prevent unauthorized material disclosure of intellectual property to third parties, it will not be able to establish or maintain a competitive advantage in the market.

3.1.5.2. Third-party claims of intellectual property infringement may prevent or delay product discovery and development efforts.

Biofrontera Group's commercial success depends in part on avoiding infringement of the patents and proprietary rights of third parties. There is a substantial amount of litigation involving patents and other intellectual property rights in the biotechnology and pharmaceutical industries, as well as administrative proceedings for challenging patents. As the biotechnology and pharmaceutical industries expand and more patents are issued, the risk increases that products may give rise to claims of infringement of the patent rights of others.

Third parties may assert that Biofrontera Group is employing their proprietary technology without authorization. There may be third-party patents of which Biofrontera Group is currently unaware with claims to materials, formulations, methods of manufacture or methods for treatment related to the use or manufacture of Biofrontera Group's products. Because patent applications can take many years to issue, there may be currently pending patent applications which may later result in issued patents that Biofrontera Group's product candidates may infringe. In addition, third parties may obtain patents in the future and claim that use of Biofrontera Group's technologies infringes upon these patents. If any third-party patents were held by a court of competent jurisdiction to cover the manufacturing process of Biofrontera Group's products or product candidates, any substances formed during the manufacturing process or any final product itself, the holders of any such patents may be able to block Biofrontera Group's ability to commercialize the product unless it obtains a license under the applicable patents, or until such patents expire or they are finally determined to be held invalid or unenforceable. Similarly, if any third-party patent were held by a court of competent jurisdiction to cover aspects of Biofrontera Group's formulations, processes for manufacture or methods of use, including combination therapy or patient selection methods, the holders of any such patent may be able to block Biofrontera Group's ability to develop and commercialize the product unless it obtained a license or until such patent expires or is finally determined to be held invalid or unenforceable. In either case, such a license may not be available on commercially reasonable terms or at all. If Biofrontera Group is unable to obtain a necessary license to a third-party patent on commercially reasonable terms, or at all, its ability to commercialize our product candidates may be impaired or delayed.

Parties making claims against Biofrontera Group may seek and obtain injunctive or other equitable relief, which could effectively block Biofrontera Group's ability to further develop and commercialize

products and product candidates. Defense of these claims, regardless of their merit, would involve substantial litigation expense and would be a substantial diversion of employee resources from business. In the event of a successful claim of infringement against Biofrontera Group, it may have to pay substantial damages, obtain one or more licenses from third parties, pay royalties or redesign the infringing products, which may be impossible or require substantial time and monetary expenditure.

3.1.5.3. Biofrontera Group may be involved in lawsuits to protect or enforce patents, which could be expensive, time-consuming and unsuccessful.

Competitors may infringe patents. To counter infringement or unauthorized use, Biofrontera Group may be required to file infringement claims, which can be expensive and time-consuming. In addition, in an infringement proceeding, a court may decide that one or more of Biofrontera Group's patents is not valid or is unenforceable, or may refuse to stop the other party from using the technology at issue on the grounds that the patents do not cover the technology in question. An adverse result in any litigation or defense proceedings could put one or more patent at risk of being invalidated, held unenforceable, or interpreted narrowly and could put patent applications at risk of not issuing. Defense of these claims, regardless of their merit, would involve substantial litigation expense and would be a substantial diversion of employee resources from business. In the event of a successful claim of infringement against Biofrontera Group, it may have to pay substantial damages, obtain one or more licenses from third parties, pay royalties or redesign infringing products, which may be impossible or require substantial time and monetary expenditure.

Interference proceedings provoked by third parties or a patent office may be necessary to determine the priority of inventions with respect to patents or patent applications. An unfavorable outcome could require Biofrontera Group to cease using the related technology or to attempt to license rights to it from the prevailing party. Litigation or interference proceedings may fail and, even if successful, may result in substantial costs and distract our management and other employees. Biofrontera Group may not be able to prevent misappropriation of trade secrets or confidential information.

Furthermore, because of the substantial amount of discovery required in connection with intellectual property litigation, there is a risk that some confidential information could be compromised by disclosure during this type of litigation. In addition, there could be public announcements of the results of hearings, motions or other interim proceedings or developments.

3.1.5.4. Obtaining and maintaining patent protection depends on compliance with various procedures, document submission requests, fee payments and other requirements imposed by governmental patent agencies, and patent protection could be reduced or eliminated for noncompliance with these requirements.

Periodic maintenance fees on any issued patent are due to be paid to patent agencies in several stages over the lifetime of the patent. The patent agencies require compliance with a number of procedural, documentary, fee payment and other similar provisions during the patent application process. While an inadvertent lapse can in many cases be cured by payment of a late fee or by other means in accordance with the applicable rules, there are situations in which noncompliance can result in abandonment or lapse of the patent or patent application, resulting in partial or complete loss of patent rights in the relevant jurisdiction. Noncompliance events that could result in abandonment or lapse of a patent or patent application include, but are not limited to, failure to respond to official actions within prescribed time limits, non-payment of fees and failure to properly legalize and submit formal documents. In such an event, competitors might be able to enter the market.

3.1.5.5. Biofrontera Group may be subject to claims that employees, consultants or independent contractors have wrongfully used or disclosed confidential information of third parties.

Biofrontera Group has received confidential and proprietary information from third parties. In addition, Biofrontera Group employs individuals who were previously employed at other biotechnology or pharmaceutical companies. Biofrontera Group may be subject to claims that it or its employees, consultants or independent contractors have inadvertently or otherwise used or disclosed confidential information of these third parties or the employees' former employers. Litigation may be necessary to defend against these claims. Even if Biofrontera Group is successful in defending against these claims, litigation could result in substantial cost and be a distraction to management and employees.

3.1.5.6. Biofrontera Group may not be able to protect intellectual property rights throughout the world.

Filing, prosecuting and defending patents on product candidates throughout the world would be prohibitively expensive. Competitors may use technologies in jurisdictions where Biofrontera Group has not obtained patent protection to develop their own products and further, may export otherwise infringing products to territories where Biofrontera Group has patent protection, but where enforcement is not sufficiently strong. These products may compete with Biofrontera Group's products in jurisdictions where it does not have any issued patents and our patent claims or other intellectual property rights may not be effective or sufficient to prevent them from so competing.

Many companies have encountered significant problems in protecting and defending intellectual property rights in foreign jurisdictions. The legal systems of certain countries, particularly certain developing countries, do not favor the enforcement of patents and other intellectual property protection, particularly those relating to biopharmaceuticals, which could make it difficult to stop the infringement of patents or marketing of competing products in violation of proprietary rights generally.

3.1.6. Risks related to litigiation

A shareholder has filed a suit against the Issuer, contesting the appointment of three members of the Issuer's supervisory board in the 2016 annual general meeting. If this lawsuit is successful, decisions taken by the supervisory board may be deemed ineffective retroactively.

In August 2016, the Issuer was served a lawsuit by a shareholder contesting the appointment of three members of the supervisory board in the annual general meeting of the Issuer on 31 May 2016. The members of the supervisory board are Mr. Jürgen Baumann, Mr. John Borer and Mr. Kevin Weber. The claimant alleges that one shareholder was prevented from attending part of the general meeting against the shareholder's will. A first hearing will be held by the higher court (Landgericht) Cologne in November 2016. If the lawsuit is successful, the respective members of the supervisory board will retroactively be removed from their positions. This means that non-competent persons have taken part in decisions of the supervisory board. Furthermore, since the supervisory board only has six members, and requires at least three members to take a decision, if the court holds that the respective members have not been effectively appointed, decisions may be invalid.

3.1.7. Risks related to particulars of the Issuer's business

3.1.7.1. Biofrontera Group does not have own production capacities, and is entirely dependent on third parties for manufacturing its products. Biofrontera Group has only limited control over the third party manufacturers. Such third party manufacturers might fail to deliver the substances on which Biofrontera Group's products are based, or the products themselves, in time, in the required quantity or quality, or at all. If Biofrontera Group fails to have Ameluz® or BF-RhodoLED® or other marketed products and product candidates manufactured in sufficient quantities and at acceptable quality and cost levels, or to fully comply with current cGMP or other applicable manufacturing regulations, Biofrontera Group may face a bar to, or delays in, the commercialization of its products, breach obligations to its licensing partners or be unable to meet market demand, and lose potential revenues, or be unable to achieve intended approvals.

The manufacture of Biofrontera Group's products requires significant expertise and capital investment. Currently, all commercial supply for all of Biofrontera Group's marketed products are manufac-

tured at third party contract manufacturers. This applies to the substances and materials which are used to produce Biofrontera Group's products (such as ALA and the nanoemulsion) as well as to the manufacturing of the final products (including Ameluz®, BF-RhodoLED® and the Belixos® products).

Not only the quality of the products, but also certain manufacturing standards and processes in the production of agents, pharmaceuticals and medical products are defined in the product admission, so that a deviation requires a change or an amendment to the admission, which has to be applied for.

Therefore, changing a contract manufacturer is a lengthy and costly process. Biofrontera Group would need to spend substantial amounts to replace its manufacturing infrastructure if any of its contractual partners failed to deliver products in the quality and quantities Biofrontera Group demands or would fail to meet any regulatory or cGMP requirements. If Biofrontera Group is required to find a new manufacturer or supplier, the process would require prior regulatory authority approval, and would be very time consuming, which may lead to a disruption of supply of necessary products if a supplier becomes unavailable on short notice.

Biofrontera Group has licensed the commercial rights in specified foreign territories to market and sell its products. Under those licenses, Biofrontera Group has obligations to manufacture commercial product for its commercial partners. If Biofrontera Group is unable to fill the orders placed with Biofrontera Group by its commercial partners in a timely manner, which may be due to circumstances outside the influence of Biofrontera Group with a contract manufacturer, Biofrontera Group may potentially lose revenue and be in breach of its licensing obligations under agreements with them.

Biofrontera Group takes precautions to help safeguarding the facilities of its manufacturing partners, including acquiring insurance, and performing on site audits. However, vandalism, terrorism or a natural or other disaster, such as a fire or flood, could damage or destroy manufacturing equipment or the local inventory of raw material or finished goods attributable to Biofrontera Group, cause substantial delays in Biofrontera Group's operations, result in the loss of key information, and cause Biofrontera Group to incur additional expenses. Biofrontera Group's insurance may not cover its losses in any particular case.

Biofrontera Group must comply with European, US and other international regulations, including FDA regulations governing cGMP enforced by the FDA through its facilities inspection program and by similar regulatory authorities in other jurisdictions where Biofrontera Group does business. These requirements include, among other things, quality control, quality assurance and the maintenance of records and documentation. For Biofrontera Group's medical device products, it is required to comply with the FDA's Quality System Regulation ("QSR"), which covers the methods and documentation of the design, testing, production, control, quality assurance, labeling, packaging, sterilization, storage and shipping of its medical device products. Biofrontera Group's contract facilities have not yet been inspected by the FDA for cGMP compliance. If Biofrontera Group does not successfully achieve cGMP compliance for these facilities in a timely manner after obtaining approval in the US, commer-

cialization of its products could be prohibited or significantly delayed. Even after cGMP compliance has been achieved, the EMA, the FDA or similar foreign regulatory authorities at any time may implement new standards, or change their interpretation and enforcement of existing standards for manufacture, packaging, testing of or other activities related to Biofrontera Group's products. For Biofrontera Group's marketed medical device product (i.e. BF-RhodoLED®), the FDA audits compliance with the QSR through periodic announced and unannounced inspections of manufacturing and other facilities. The FDA may conduct inspections or audits at any time. Similar audit rights exist in Europe and other foreign jurisdictions. Any failure to comply with applicable cGMP, QSR and other regulations may result in fines and civil penalties, suspension of production, product seizure or recall, imposition of a consent decree, or withdrawal of product approval, and would limit the availability of Biofrontera Group's products. Any manufacturing defect or error discovered after products have been produced and distributed also could result in significant consequences, including adverse health consequences, injury or death to patients, costly recall procedures, re-stocking costs, damage to Biofrontera Group's reputation and potential for product liability claims. Similar inspection rights exist in Europe and other foreign jurisdictions where Biofrontera's drug products and medical devices are already marketed or applications for marketing authorization have been issued by either Biofrontera or its license partners. In addition to inspections performed by the EMA (European Medicines Authority), inspections conducted by EU national authorities like BfArM (German Medicines Authorities) or MHRA (English Medicines Authorities) as well as by Swissmedic (Swiss Medicines Authorities) or the Israeli Ministry of Health are possible.

3.1.7.2. Biofrontera Group relies on third parties to conduct clinical trials. If these third parties do not successfully carry out their contractual duties or meet expected deadlines, Biofrontera Group may not be able to obtain regulatory approval for or commercialize products and its business could be substantially harmed.

Biofrontera Group has engaged third-party clinical research organizations ("CROs") in connection with Phase-III clinical trials for product candidates and the extension of indications for existing products and will continue to engage such CROs in the future. Biofrontera Group relies heavily on these parties for execution of clinical trials, and will control only certain aspects of their activities. Nevertheless, Biofrontera Group is responsible for ensuring that all studies are conducted in accordance with applicable protocol, legal and regulatory requirements, and scientific standards, and reliance on CROs does not relieve Biofrontera Group of its regulatory responsibilities. Biofrontera Group and CROs will be required to comply with current Good Clinical Practices ("cGCP") requirements, which are a collection of regulations enforced by regulatory authorities for product candidates in clinical development in order to protect the health, safety and welfare of patients and assume the integrity of clinical data. cGCP are also intended to protect the health, safety and welfare of study subjects through require-

ments such as informed consent. Regulatory authorities enforce these cGCPs through periodic inspections of trial sponsors, principal investigators and trial sites. If Biofrontera Group or any of these CROs fail to comply with applicable cGCP regulations, the clinical data generated in clinical trials may be deemed unreliable and the FDA or EMA or comparable foreign regulatory authorities may require Biofrontera Group to perform additional clinical trials before approving marketing applications. Biofrontera Group cannot assure that, upon inspection, such regulatory authorities will determine that any clinical trials comply with the cGCP regulations. In addition, for drugs, clinical trials must be conducted with products produced under current Good Manufacturing Practice, or cGMP, regulations and will require a large number of test subjects. For devices, clinical trials must use products manufactured in compliance with design controls under the QSR. A failure to comply with these regulations or to recruit a sufficient number of patients may require Biofrontera Group to repeat clinical trials, which would delay the regulatory approval process. Moreover, Biofrontera Group may be implicated if any of CROs violate fraud and abuse or false claims laws and regulations, or healthcare privacy and security laws.

The CROs will not be employed directly by Biofrontera Group and, except for remedies available to under the agreements with such CROs, Biofrontera Group cannot control whether they devote sufficient time and resources to ongoing preclinical, clinical and nonclinical programs. These CROs may also have relationships with other commercial entities, including competitors, for whom they may also be conducting clinical studies or other product development activities, which could affect their performance on Biofrontera Group's behalf. If CROs do not successfully carry out their contractual duties or obligations or meet expected deadlines, if they need to be replaced or if the quality or accuracy of the clinical data they obtain is compromised due to the failure to adhere to clinical protocols or regulatory requirements or for other reasons, clinical trials may be extended, delayed or terminated and Biofrontera Group may not be able to complete development of, obtain regulatory approval for or successfully commercialize product candidates.

Switching or adding CROs involves substantial cost and requires extensive management time and focus. In addition, there is a natural transition period when a new CRO commences work. As a result, delays may occur, which can materially impact Biofrontera Group's ability to meet desired clinical development timelines. Although Biofrontera Group plans to carefully manage relationships with CROs, there can be no assurance that Biofrontera Group will not encounter challenges or delays in the future.

3.1.7.3. Biofrontera Group currently licenses the commercialization rights for some of its products, which exposes it to additional risks of conducting business in international markets.

International markets are an important component of existing commercialization strategy for Biofrontera Group's existing marketed products as well as part of the growth strategy for Ameluz®. Biofrontera Group has entered into commercial supply agreements for Ameluz® and BF-RhodoLED® pursuant to which Biofrontera Group exclusively supplies and the partners exclusively purchase the products in their respective territories. The agreements require Biofrontera Group to timely supply products that meet the agreed quality standards and require the partners to purchase products, in some cases in specified minimum quantities. If Biofrontera Group fails to maintain these agreements and agreements with other partners or to enter into new distribution arrangements with selling parties, or if these parties are not successful, the revenue-generating growth potential will be adversely affected. Moreover, international business relationships subject Biofrontera Group to additional risks.

3.1.7.4. The business of Biofrontera Group depends substantially on the success of its lead product Ameluz®. If Biofrontera Group is unable to successfully commercialize Ameluz®, or experience significant delays in doing so, the business of Biofrontera Group will be materially harmed.

Biofrontera Group has invested a significant portion of its efforts and financial resources in the development of Ameluz®, which has received marketing approval for actinic keratosis in Europe and in the United States. There remains a significant risk that Biofrontera Group will fail to receive marketing approval for the expansion of the indication to basal cell carcinoma in Europe and/or in the United States. The success will depend on several factors, including:

- successful completion of clinical trials;
- receipt of regulatory approvals from applicable regulatory authorities;
- maintaining regulatory compliance for Biofrontera Group's contract manufacturing facility;
- manufacturing sufficient quantities in acceptable quality;
- achieving meaningful commercial sales of our products, if and when approved;
- obtaining reimbursement from third-party payors for Ameluz®, if and when approved in the United States;
- sourcing sufficient quantities of raw materials used to manufacture the products;
- successfully competing with other products;

- continued acceptable safety and effectiveness profiles for the products following regulatory approval, if and when received;
- obtaining and maintaining patent and trade secret protection and regulatory exclusivity; and
- protecting Biofrontera Group's intellectual property rights.

If Biofrontera Group does not achieve one or more of these factors in a timely manner, or at all, Biofrontera Group could experience significant delays or an inability to successfully commercialize its products, which would materially harm Biofrontera Group's business, and Biofrontera Group may not be able to earn sufficient revenues and cash flows to continue its operations.

Biofrontera Group's ability to generate future revenues depends heavily on its success in:

- developing and securing EU and US approval for the extension of the indication of Ameluz® to the treatment of basal cell carcinoma, as well as other regulatory approvals for its products;
- manufacturing commercial quantities of its products at acceptable costs;
- successfully commercializing its products, assuming Biofrontera Group receives regulatory approval;
- achieving broad market acceptance of Biofrontera Group products in the medical community and with third-party payors and patients (see below).

3.1.7.5. Biofrontera Group faces significant competition from other pharmaceutical and medical device companies and its operating results will suffer if it fails to compete effectively.

The pharmaceutical and medical device industry is characterized by intense competition and rapid innovation. Although Biofrontera Group believes that it hold a leading position in its understanding of photodynamic therapy ("**PDT**") products, Biofrontera Group's competitors may be able to develop other products that are able to achieve similar or better results. Biofrontera Group's potential competitors include mostly established pharmaceutical companies. Most of Biofrontera Group's competitors have substantially greater financial, technical and other resources, such as larger research and development staff and experienced marketing and manufacturing organizations and well-established sales forces. Mergers and acquisitions in the pharmaceutical and biotechnology industries may result in even more resources being concentrated in Biofrontera Group's competitors. Competition may increase further as a result of advances in the commercial applicability of technologies and greater availability of capital for investment in these industries. Biofrontera Group's competitors may succeed in developing, acquiring or licensing on an exclusive basis products that are more effective or less costly than Biofrontera Group's product candidates. Biofrontera Group believes the key competitive factors

that will affect the development and commercial success of its products are efficacy, safety and tolerability profile, reliability, price and reimbursement.

Biofrontera Group anticipates that Ameluz® in combination with BF-RhodoLED® will compete in the United States with currently marketed Levulan Kerastick® in combination with the lamp BLU-U®, manufactured and distributed in the United States by Dusa Pharmaceuticals, Inc, a Sun Pharma company. In Europe Ameluz® is sold independently from a light source. Its major competitor is Metvix®, a drug owned and distributed by Galderma.

3.2. Risks relating to the securities

3.2.1. An investment in shares always bears the risk of a total loss of the invested capital.

Any investment in shares as corporate equity capital bears the risk that, in case of an insolvency of the target company, the shareholder loses the entirety of the capital invested in the shares; i.e. the investor may, in the case of an insolvency of the Issuer, lose the entire capital invested in the New Shares. In the case of an insolvency, the claims of debt capital creditors are settled, and claims of equity capital creditors will be paid only after a full settlement. In the case of an insolvency of the Issuer, shareholders may receive none or a minor quota of the monies invested for the acquisition of the New Shares. An investment in the Issuer should only be considered by experienced investors, who consciously accept high risks up to the total loss of their capital.

3.2.2. If the capital increase set out in this prospectus is not executed, buyers of subscription rights may lose the investment made into the subscription rights. In particular, the commercial register might refuse entering the capital increase into the commercial register due to the litigation against the appointment of supervisory board members.

The offer under the capital increase described in this prospectus is subject to the condition that the execution of the capital increase is entered into the commercial register by no later than 31 December 2016. The agreements entered by accepting the subscription offer and other subscription agreements will not be executed and become void if the capital increase is not entered into the commercial register. Holders of subscription rights who acquired subscription rights against consideration will suffer a loss in the amount of the investment made for the acquisition of the subscription rights. As set out above, a shareholder has contested the appointment of three supervisory board members. If this lawsuit is successful, the approval of the supervisory board regarding this capital increase would be invalid. While entering the capital increase into the commercial register prevents retroactive invalidity of the capital increase, there is a risk that the commercial court of Cologne might refuse entering the capital increase into the commercial register, in order to avoid an irreversible situation.

3.2.3. An investment in the New Shares is not an appropriate investment for every investor.

Each investor must review whether an investment in the New Shares is an appropriate investment considering their personal circumstances, since each investment in shares is linked with substantial risks, up to and including total loss of the invested capital. In particular, any investor should have the required knowledge and experience to understand chances and risks of the investment in the New Shares and make an informed decision consider the investor's personal affairs, especially considering the economic situation of the Issuer. Furthermore, each investor should have sufficient financial reserves to compensate for the risks associated with an investment in the New Shares. Considering the situation of the Issuer, an investment in the New Shares is only appropriate for investors who consciously accept high risks up to a total loss of the invested capital.

3.2.4. The stock price and the trade volume of the New Shares may be subject to high volatility.

The market for shares of the Issuer, including the New Shares, is limited, so that small volume trades may substantially affect the stock price. Furthermore, there is no guarantee that a disposal of the shares is possible at any time; in the worst case, a shareholder willing to sell New Shares may not be able to find a trading purchaser, so that a disposal of New Shares is not possible at all, only partially, at certain times or with loss realization. The stock price might be develop detrimentally, independently of the business of the Issuer and Biofrontera Group, as driven by a disadvantageous environment.

3.2.5. A large-scale disposal of shares would have detrimental effects on the stock price of the New Shares.

Should a shareholder of the Issuer offer a large number of the Issuer's shares for sale, or should a large number of the Issuer's shareholders attempt to dispose of their shareholding simultaneously, this would cause an oversupply of the Issuer's shares on the market, which may prevent shareholders from disposing of their New Shares, and/or negatively affect the stock price of the New Shares.

3.2.6. Shareholder with large shareholding may exercise or achieve a controlling influence on the general shareholder meeting of the Issuer.

Several shareholders with large individual shareholding are invested in the Issuer. The free float is comparatively low. There is a risk that shareholders with large individual shareholding may execute their influence on the Issuer, which may have detrimental effects on the other shareholders.

3.2.7. A future exercise of option rights and potential further capital rounds may cause a dilution of the investors' shareholding.

The Issuer has a substantial amount of outstanding option rights from the option bonds issued in 2009 and 2011. If the option rights are exercised, the shareholders may face a substantial dilution of their participation in the Issuer. A dilution may also result from future capital measures, in particular considering the uncertainty regarding when the Issuer and Biofrontera Group will be in a position to finance their business from ongoing revenues.

3.2.8. Currency exchange risks exists for investors with foreign currencies.

The New Shares certify a (notional) amount in Euro currency. Dividend payments will also be made in Euro. If the Euro is a foreign currency for an investor, currency risks may exist.

3.2.9. Short sales of shares of the Issuer may cause losses to investors.

Should an investor enter into short sales before the New Shares are booked into the securities account, the investor as seller bears the risk not to be able to fulfill the obligations under the short sale, since the Issuer may revoke or suspend the offer until the New Shares come into existence by execution of the capital measure. If the capital measure is not executed, the seller may face substantial costs for acquiring the share necessary to fulfill the obligations under the short sale.

3.2.10. The New Shares may not be tradable temporarily or permanently. In particular, a down-listing or delisting of the New Shares might affect the liquidity and the stock market price of the New Shares.

The Issuer intends to apply for the admission of the New Shares for trading in the regulated markets of the Frankfurt Stock Exchange and the Düsseldorf Stock Exchange, in order to ensure that the New Shares would be tradable upon delivery. Should the admission be delayed or fail, the New Shares would not be able to be sold on a stock exchange. While an over-the-counter trade outside of stock exchanges may be possible, such trades generally have substantially less liquidity, so that a sale may not be possible at all, at the intended time, or only under realization of losses.

The Issuer's shares are currently traded on the regulated markets of the Frankfurt Stock Exchange and Düsseldorf Stock Exchange. Under the current German legal situation, a down listing of shares from a regulated market to an OTC market or entirely delisting shares is possible without the approval of the general shareholder meeting, and without compensation to the shareholders. In the case of a down listing or delisting, the liquidity of the New Shares would be adversely affected, prices of the New Shares would decline and sales may not be possible at all, at the intended time, or only under realization of losses.

4. General Information

4.1. Persons responsible

The Issuer, Biofrontera Aktiengesellschaft with its seat in Leverkusen, Hemmelrather Weg 201, 51377 Leverkusen, registered with the commercial of the local court of Cologne under register number HRB 49717, and Lang & Schwarz Broker GmbH with seat in Düsseldorf, Breite Str. 34, 40213 Düsseldorf (also „**Lang & Schwarz Broker GmbH**"), assume responsibility for the information given in this prospectus pursuant to sec. 5 para. 4 WpPG. The Issuer and Lang & Schwarz Broker GmbH hereby declare that, having taken all reasonable care to ensure that such is the case, the information contained in this prospectus is, to the best of the Issuer's and Lang & Schwarz Broker GmbH's knowledge, in accordance with the facts and contains no omission likely to affect its import.

The Issuer and Lang & Schwarz Broker GmbH further declare that the information contained in this prospectus is, to their best knowledge, correct and no material facts are omitted.

4.2. Financial Information

Audited historical financial information covering the latest 2 financial years, i.e. the fiscal years ending 31 December 2015 and 31 December 2014, have been prepared according to Regulation (EC) No 1606/2002, and such financial statements may be obtained at the Issuer (Biofrontera AG, Hemmelrather Weg 201, 51377 Leverkusen), on the Issuer's website (www.biofrontera.com) and the German federal gazette (www.bundesanzeiger.de).

The Issuer has published quarterly and half-yearly financial information since the date of its last audited financial statements (for the first quarter of the fiscal year 2016 ending 31 March 2016 and the first half of the fiscal year ending 30 June 2016), which may be obtained at the Issuer (Biofrontera AG, Hemmelrather Weg 201, 51377 Leverkusen), on the Issuer's website (www.biofrontera.com) and the German federal gazette (www.bundesanzeiger.de). The quarterly and half-yearly information have not been audited.

4.3. Auditing

4.3.1. Identity of auditors

For the period covering the historical financial information (i.e. the fiscal years 2015 and 2014), Warth & Klein Grant Thornton AG Wirtschaftsprüfungsgesellschaft, Johannstr. 39, 40476 Düsseldorf,

Germany („***WKGT***“) was appointed as auditor of the Issuer. WKGT is a member of the German Chamber of Public Auditors (*Wirtschaftsprüferkammer*) in Berlin.

No auditors have resigned, been removed or not been re-appointed during the period covered by the historical financial information.

4.3.2. Results of auditing

The annual reports for the fiscal years ending 31 December 2014 and 31 December 2015 included in this prospectus have been audited. No audit reports on the historical financial information has been refused by the statutory auditors, nor do they contain qualifications or disclaimers.

However, the auditors' opinion regarding the report for the fiscal year 2014 contained the following note: "*Without qualifying this opinion we refer to the explanations in the combined management report. The Management Board clarifies under section "Opportunities and risks relating to future business performance", "Liquidity risk" that further capital measures are necessary until the Break Even and admission of Ameluz in the US is reached. Because of the Management boards successful experiences with corporate capital actions, the Management board acts on the assumption that the necessary liquidity for further business development is guaranteed for the forecasting horizon and beyond. In the case and against all expectations that these valid estimations could not be realized, this could lead to a fact endangering the going concern assumption*."

The auditors' opinion regarding the report for the fiscal year 2015 contained the following note: "*Without qualifying this opinion we refer to the explanations in the combined management report. In particular, the Management Board clarifies under section "Opportunities and risks relating to future business performance", "Liquidity risk" that further capital measures are necessary until the break even is reached. Particularly to obtain approval in the USA, the planned investments into marketing in the US and to meet obligations from the issued option bond further capital measures during the fiscal year 2016 will be necessary. On the basis of its previous, invariably successful experience with capital measures, the Management Board assumes that the liquidity required for business activities can be further ensured. If these valid estimates are, contrary to expectations, not realized, this could constitute a threat to the company's continued existence."*

No further information in this document has been audited by the auditors.

4.4. Sources for information in this prospectus

The financial information referred to in this prospectus was obtained from the audited consolidated financial reports of the Issuer, as well as from the unaudited half-year consolidated financial reports of the Issuer, and the unaudited internal controlling of the Issuer.

- Technavio report on Global Non-melanoma Skin Cancer Market 2014-2018, by Infiniti Research Limited, 8 Wimpole Street, W1G 9SP London, United Kingdom (not publicly available).
- Research information from Insight Health GmbH & Co. KG, Auf der Lind 10, 65529 Waldem, Germany (not publicly available).

The third-party information in this prospectus has been accurately reproduced and, as far as the Issuer is aware and is able to ascertain from information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.

4.5. Documentation on display

During the period of validity of this prospectus, the following documents (or copies thereof), may be inspected at the business address of the Issuer, Hemmelrather Weg 201, 51377 Leverkusen:

- the articles of association of the Issuer;
- the audited consolidated financial statements as per 31 December 2015;
- the audited consolidated financial statements as per 31 December 2014;
- the unaudited consolidated quarterly report as per 31 March 2016;
- the unaudited consolidated quarterly report as per 31 March 2015;
- the unaudited consolidated half-year report as per 30 June 2016;
- the unaudited consolidated half-year report as per 30 June 2015.

5. Information regarding the offer and the securities

5.1. Subject of the offer and admission to trading

5.1.1. Offer of New Shares

Subject to the offer ("**Offer**") are a total of 5,012,950 no-par value ordinary shares of the Issuer which are registered in the name of the holder each representing a notional interest in the registered capital of the Issuer of EUR 1.00, for a total of EUR 5,012,950, from the capital increase to be resolved on 31 October 2016 by the management board, with the approval of the supervisory board dated the same day, against capital contributions in cash, with dividend rights from 1 January 2016 and ISIN DE0006046113 ("**New Shares**"). The delivery of the New Shares under the ISIN DE0006046113 requires an admission of the New Shares for trading to the regulated markets on which the existing shares are currently admitted. The currency of the New Shares is the Euro. All New Shares are offered for subscription and additional subscription; shares not subscribed to will be offered for sale.

5.1.1.1. Legal basis of the New Shares

The New Shares are created under German law, from authorized capital created by resolution passed on the Issuer's general shareholder meeting of 28 August 2015, exercised by resolution by the management board dated 31 October 2016 and approval by the supervisory board on the same date.

5.1.1.2. Rights attached to the New Shares

Regarding the rights attached to the New Shares, please confer the description set out under sec. 6.4.3.

5.1.1.3. Certification of the New Shares

The New Shares will be represented by one or more global share certificates (the "**Global Share Certificates**"), which will be deposited with Clearstream Banking Aktiengesellschaft, with registered seat in Frankfurt / Main, Germany, and business address Mergenthalerallee 61, 65760 Eschborn, Germany ("**Clearstream Banking AG**").

5.1.1.4. Restrictions on transferability

The New Shares are freely transferable.

5.1.1.5. Takeover bids on shares, exclusion of shareholders

5.1.1.5.1. Statutory rules regarding takeover bids and exclusion of shareholders

Any entity acquiring the control over a target must make a compulsory takeover offer. Control means 30 % of the voting rights of a target. In this case, the bidder must publish the fact that it has acquired control within seven calendar days. This publication replaces the publication regarding the decision to make an offer. Within four weeks after the publication, the bidder must publish an offer document. The general provisions of the German Securities Acquisition and Takeover Act (WpÜG), including the obligation to offer an adequate consideration, apply to the further procedure. In special cases, BaFin may relieve an entity which has acquired control from the obligation to make an offer.

Under sec. 327 pp. AktG, the general shareholder meeting of a stock corporation may, at the request of a shareholder holding 95 % or more of the registered capital of the company (main shareholder), to transfer the shares of the remaining shareholders (minority shareholders) to the main shareholder in consideration of an adequate cash compensation (squeeze out). The cash consideration due to the minority shareholders is dependent on the circumstances of the company at the time of the respective resolution of the general shareholder meeting, and calculated based on the fair enterprise value of the company. The lower limit of the cash compensation is the volume-weighted stock exchange price of the company's shares in the last three months prior to the announcement of the squeeze out.

The shareholding requirements for a squeeze out are lowered if the squeeze out takes place in connection with the merger of a subsidiary into the parent company. According to sec. 62 para. 5 of the German Transformation Act (Umwandlungsgesetz), the general shareholder meeting of a transferring stock corporation may, within three months after the signing of the merger agreement, adopt a squeeze out resolution in accordance with sec. 327a of the German Stock Corporation Act if the acquiring company is a German stock corporation, partnership limited by shares (Kommanditgesellschaft auf Aktien) or European public company (Societas Europea) that holds at least 90% of the registered share capital. After registration of the squeeze out with the commercial register, the merger can be implemented without a further resolution by the general shareholder meeting of the subsidiary.

Furthermore, the German Securities Acquisition and Takeover Act (Wertpapiererwerbs– und Übernahmegesetz) permits the squeeze out under the law on takeovers. Under these provisions, a bidder holding at least 95% of the voting registered share capital in a target company after a public takeover offer or mandatory offer can generally file a motion with the district court of Frankfurt am Main for the transfer of the other voting shares in exchange for adequate compensation by means of a court order within three months after expiration of the acceptance period. A resolution of the company's general shareholder meeting is not necessary. The type of compensation must correspond to the consideration in the takeover offer or the mandatory offer; cash compensation must always be offered as an alternative. The consideration offered in connection with the takeover or mandatory offer is deemed to be reasonable if the bidder has acquired shares equal to at least 90% of the registered share capital affected by the offer. In addition, shareholders have a sell–out right. During squeeze–out proceedings under the law on takeovers initiated upon the motion of the bidder, the provisions on a squeeze–out under stock corporation law do not apply, and they are only applicable after a final conclusion of the squeeze–out proceedings under takeover law.

Pursuant to the provisions in sec. 319 et seq. of the German Stock Corporation Act regarding the integration (Eingliederung), the general shareholder meeting of a stock corporation can resolve upon the integration into another company if the future principal company holds at least 95% of the shares in the company to be integrated. The existing shareholders in the integrated company have a right to adequate compensation which must as a general rule be granted in the form of own shares in the principal company. The amount of the compensation must be determined using the "merger value ratio" (Verschmelzungswertrelation) between the two companies, i.e., the exchange ratio which would be considered reasonable in the event of merging the two companies.

5.1.1.5.2. Takeover bids on the shares of the Issuer

No mandatory takeover bids exist, nor are squeeze out or sell out rules as set out above currently applicable to the Issuer. No public takeover bids by third parties in respect of the Issuer's equity occurred during the last financial year and the current financial year.

5.2. Reasons for the Offer, use of proceeds

Under the assumption that all New Shares are placed at the subscription price of EUR 3.00, the issuer expects net proceeds from this offer in an amount of approximately EUR 14.5 Million.

Of this amount, approximately EUR 5 Million will be used to cover a part of the working capital shortfall of the operational expenses in the next 12 months.

The remainder will be used to build up a sales, marketing and operational infrastructure in the USA, including expenses for further clinical trials in the US as well as working capital requirements for the production of a larger number of a US-specific version of the PDT lamp BF-RhodoLED® which will then be distributed to dermatologists in the US.

5.3. Conditions and prerequisites of the Offer

5.3.1. Conditions of the Offer

The following is the translation of the German language offer expected to be published on 2 November 2016 in the federal gazette (Bundesanzeiger). Insofar as the timing schedule deviates from the timing schedule set out in this prospectus, such deviations will be disclosed in the offer as well as in a supplement to this prospectus.

"Biofrontera Aktiengesellschaft

Leverkusen

ISIN: DE0006046113

Notification

Regarding a subscription offer to the subscription of up to 5,012,950 new shares of Biofrontera Aktiengesellschaft from the capital increase resolved upon on 31 October 2016 from authorized capital

The following subscription offer of Biofrontera Aktiengesellschaft ("Company") is exclusively addressed to the shareholders of the Company, and, respectively, holders of subscription rights, to which the following subscription offer is communicated via Lang & Schwarz Broker GmbH, Breite Straße 34, 40213 Düsseldorf, Deutschland („Lang & Schwarz Broker GmbH"). Lang & Schwarz Broker GmbH will offer New Shares not subscribed to by shareholders or holders of subscription rights to selected investors in a private placement.

Pursuant to section 7 paragraph 3 of the articles of association, the management board is authorized to increase the registered capital of the company until 27 August 2020 with the approval of the supervisory board by up to EUR 5,012,950 by way of issuing, on one or several occasions, up to 5,012,950

no-par registered shares against contribution in cash and/or kind ("Authorized Capital I"). The Authorized Capital I was entered into the commercial register and thereby came into existence on 18 September 2015.

Based on said authorization, the management board of the Company has today resolved to increase the registered capital of the Company from currently EUR 30,347,813 by up to EUR 5,012,950 from Authorized Capital to up to EUR 35,360,763 by issuing up to 5,012,950 new no-par registered shares representing a notional amount of registered capital of EUR 1.00 each („New Shares").

The execution of the capital increase has not been registered with the commercial register yet. The exact definition of the amount of the capital increase as well as the respective amendment of the articles of association will be effected after the end of the subscription period.

The statutory subscription right of the shareholders is granted by admitting Lang & Schwarz Broker GmbH to subscribe and take over up to 5,012,950 New Shares at an issue price of EUR 1.00 per New Share, together with the obligation to offer the New Shares to the shareholders in a quota of 6:1 against payment of the subscription price of EUR 3.00 per New Share ("Subscription Price") for subscription ("Subscription Offer").

The shareholders are requested to execute their subscription right to the New Shares, in order to avoid exclusion, within the period

from 3 November 2016 to 16 November 2016 („Subscription Period")

at Bankhaus Gebr. Martin Aktiengesellschaft, Kirchstraße 35, 73033 Göppingen ("Bankhaus Gebr. Martin Aktiengesellschaft"), acting as settlement agent for Lang & Schwarz Broker GmbH, during the usual business hours.

*In order to execute their subscription rights, we request our shareholders or the holders of subscription rights, respectively, to instruct the bank managing their securities account accordingly. For 6 old shares of the Company, 1 New Share may be subscribed to at the Subscription Price. For any fractions resulting from the subscription quota of 6:1 for the respective number of old shares held in each case, no New Shares may be subscribed to, only a subscription of one (1) entire New Share or a multiple thereof is possible. The amount of shares held at the end of 2 November 2016 shall be relevant for calculating the number of subscription rights allocated to each shareholder. At this time, the subscription rights (*DE000A2BPKY9 *) are separated from the shares to the extent of the existing subscription rights and booked to the shareholders' securities accounts by their respective banks.*

The subscription rights cannot be traded, neither on the stock market, nor will a private trade be organized by the Company. Subscription rights not executed are forfeit and will be booked out as invalid at the end of the subscription period.

From 3 November 2016 on, the old shares will be traded as "ex subscription rights".

Shareholders executing subscription rights shall pay the Subscription Price upon execution of the subscription right, but no later than the end of the Subscription Period on 16 November 2016. The subscription rights shall be proof that the shareholder is entitled to subscribe to New Shares.

The receipt of the subscription request and the Subscription Price at the agent referred to above is relevant for keeping the deadline. Shareholders / holders of subscription rights are charged the usual bank fee for the subscription.

Placement of New Shares not subscribed to under the statutory subscription right

*In the case that not all New Shares are subscribed to in the execution of the statutory subscription right, the New Shares which have not been subscribed to will be offered at the Subscription Price (i) in the context of an Additional Subscription, as defined hereinafter, to the Company's shareholders, and respectively (ii) in the context of a non-public offer for sale to selected qualified institutional investors ("**Private Placement**").*

*Each shareholder executing subscription rights may therefore, beyond the subscription rights arising out of the shares held by the shareholders in accordance with the subscription quota, make further binding subscription requests ("**Additional Subscription**"). Shareholders desiring to subscribe to further New Shares beyond the allocated subscription quota must transfer their binding subscription request within the subscription period via the bank managing their securities account to Bankhaus Gebr. Martin Aktiengesellschaft as settlement agent.*

The total number of New Shares, which may be subscribed to by shareholders in the context of the Additional Subscription, will be determined depending on the offers for New Shares received from investors in the context of the Private Placement. In the context of the Additional Subscription, if the New Shares are over-subscribed, they shall be allocated in the discretion of the Company according to the statutory provisions.

The banks managing the securities accounts are requested to communicate the subscription rights collectively in one single form letter no later than and including 16 November 2016 at Bankhaus Gebr. Martin Aktiengesellschaft, Kirchstraße 35, 73033 Göppingen, Telefax +49 (0)7161 969317, and to transfer the Subscription Price per New Share also no later than the end of the Subscription Period on the following account of Lang & Schwarz Broker GmbH at Bankhaus Gebr. Martin Aktiengesellschaft:

Bank: Bankhaus Gebr. Martin Aktiengesellschaft

Account no. 9673

IBAN: DE88 610 300 00 000 000 9673

BIC: MARBDE6G

Reference: „W/Biofrontera“

We ask that the banks managing the securities accounts are provided an instruction using the form provided via the banks managing the securities accounts. The banks managing the securities accounts are requested to separately list the number of shares requested in the context of an Additional Subscription request in their subscription notice and to notify the total number of securities accounts, for the benefit of which the subscription and additional subscription is executed. Should an additional subscription request not or only in part be allocated, the shareholder will be reimbursed the amount paid for the Additional Subscription, minus banking fees, if any. The usual banking fee is charged for the additional subscription.

Important notes

Non-execution of capital increase

The subscription offer and the additional subscription are under the condition that the capital increase is registered with the commercial register by no later than 31 December 2016. Any agreements resulting by accepting the subscription offer and in the context of the additional subscription will not be executed if the condition is not met and become void.

Securitization / delivery

The New Shares will be securitized in a global deed and deposited with Clearstream Banking AG, Frankfurt am Main. No right to individual securitization exists. Any New Shares acquired will be booked to the securities accounts of the acquirer. In case of short sales before booking the New Shares into the securities accounts, only the seller bears the risk of being unable to fulfil the obligations incurred under the short sale by timely delivering New Shares.

Stock Trade of New Shares

The Company intends to effect the admission of the New Shares to the regulated market until 2 December 2016.

Stabilizing measures

No stabilizing measure will be made.

Risks

Any investment in shares bears substantial risks and should only be made under careful considerations of these risks. Considering the state of the Company, the New Shares are only appropriate for investors who consciously accept high risks. A total or partial loss of funds invested by shareholders / holders of subscription rights is not impossible.

Potential investors are advised to read the prospectus published by the Company regarding the offer, and the current reports, both available Company's homepage (http://www.biofrontera.com/) before executing their subscription rights, requesting additional subscription or purchasing shares.

Limits on sale

The publication, transfer, dissemination or reproduction of the subscription offer or the conditions of the offer in a summary or other description may be limited abroad. Excluding a notification in the federal gazette and the transfer of the subscription offer as permitted by the Company, the subscription offer may not be published, transferred, disseminated or reproduced abroad by third parties, neither directly nor indirectly, insofar as this is prohibited by applicable foreign regulations or depends on official procedures or receipt of an approval. This applies also to a summary or any other description of the conditions contained in this subscription offer. The Company does not guarantee that the publication, transfer, dissemination or reproduction of the subscription offer complies with the legal provisions applicable in each case. Accepting this offer outside Germany may be subject to limitations. Persons intending to accept the offer outside Germany are requested to research the legal restrictions applicable outside Germany.

The New Shares and subscription rights are not and will not be registered in accordance with the provisions of the U.S. Securities Act 1933 as amended from time to time („Securities Act") nor with the securities authorities of the states of the USA. They may not be offered or sold in the USA nor directly nor indirectly delivered there, except based on an exemption from the requirements of the Securities Act and the securities regulations of the individual US states and other applicable US regulations. In particular, this subscription offer is not a public offer nor a request for an offer to purchase the New Shares in the USA and may therefore not be disseminated there.

Leverkusen, 2 November 2016

Biofrontera Aktiengesellschaft

The Management Board"

5.3.2. Price

The New Shares are first offered to the Issuer's shareholders, by way of admitting Lang & Schwarz Broker GmbH, Düsseldorf, for subscribing and taking over the 5,012,950 New Shares at a issue price of EUR 1.00 per New Share, with the obligation to offer the New Shares to the shareholders in a relation of 1 New Share per 6 existing shares for subscription against payment of the subscription price of EUR 3.00 ("**Subscription Price**").

Neither the Issuer nor Lang & Schwarz Broker GmbH will require a payment of fees from the subscribers or purchasers.

5.3.3. Subscription period and procedure

The shareholders may execute their subscription right to the New Shares, in order to avoid exclusion, within the period from 3 November 2016 to 16 November 2016 („Subscription Period“) at Bankhaus Gebr. Martin Aktiengesellschaft, Kirchstraße 35, 73033 Göppingen (“Bankhaus Gebr. Martin Aktiengesellschaft“), acting as settlement agent for Lang & Schwarz Broker GmbH, during normal business hours.

In order to execute their subscription rights, the shareholders or the holders of subscription rights, respectively, are requested to instruct the bank managing their securities account accordingly. For 6 old shares of the Company, 1 New Share may be subscribed to at the Subscription Price. For any fractions resulting from the subscription quota of 6:1 for the respective number of old shares held in each case, no New Shares may be subscribed to, only a subscription of one (1) entire New Share or a multiple thereof is possible. The amount of shares held at the end of 2 November 2016 shall be relevant for calculating the number of subscription rights allocated to each shareholder. At this time, the subscription rights (ISIN DE000A2BPKY9) are separated from the shares to the extent of the existing subscription rights and booked to the shareholders’ securities accounts by their respective banks.

The subscription rights cannot be traded, neither on the stock market, nor will a private trade be organized by the Company. Subscription rights not executed are forfeit and will be booked out as invalid at the end of the subscription period.

From 3 November 2016 on, the old shares will be traded as “ex subscription rights”.

Shareholders executing subscription rights shall pay the Subscription Price upon execution of the subscription right, but no later than the end of the Subscription Period on 16 November 2016. The subscription rights shall be proof that the shareholder is entitled to subscribe to New Shares.

The receipt of the subscription request and the Subscription Price at the agent referred to above is relevant for keeping the deadline. Shareholders / holders of subscription rights are charged the usual bank fee for the subscription.

In the case that not all New Shares are subscribed to in the execution of the statutory subscription right, the New Shares which have not been subscribed to will be offered at the Subscription Price (i) in the context of an Additional Subscription, as defined hereinafter, to the Company’s shareholders, and respectively (ii) in the context of a non-public offer for sale to selected qualified institutional investors (“**Private Placement**”).

Each shareholder executing subscription rights may therefore, beyond the subscription rights arising out of the shares held by the shareholders in accordance with the subscription quota, make further binding subscription requests (“**Additional Subscription**”). Shareholders desiring to subscribe to further New Shares beyond the allocated subscription quota must transfer their binding subscription re-

quest within the subscription period via the bank managing their securities account to Bankhaus Gebr. Martin Aktiengesellschaft as settlement agent. The usual bank fee is charged for the additional subscription. The total number of New Shares, which may be subscribed to by shareholders in the context of the Additional Subscription, will be determined depending on the offers for New Shares received from investors in the context of the Private Placement.

5.3.4. Private Placement

Subject to the Private Placement may be any New Shares that were not subscribed in the execution of Subscription Rights. The final number of New Shares to be placed in the Private Placement will be determined by the Company, taking into consideration the offers received for New Shares by qualified institutional investors.

No other shares except for the New Shares will be offered in the Private Placement. The rights attached to the New Shares offered in the Private Placement will be equal to the rights attached to the New Shares offered in the subscription offer. In particular, the New Shares will not be offered at less than the Subscription Price.

5.3.5. Revocation / suspension of the Offer

5.3.5.1. Revocation / suspension by the Issuer

The subscription offer and the additional subscription are subject to the condition that the execution of the capital increase is entered into the commercial register no later than 31 December 2016. The subscriptions created by accepting the subscription offer, entering into additional subscriptions and in the private placement will not become effective in case of this dissolving condition. Furthermore, the Offer may be revoked or suspended by the Issuer until the date on which the execution of the capital increase is entered into the commercial register, thereby creating the New Shares, i.e. until 25 November 2016. After entering the execution of capital increase into the commercial register, the Offer cannot be revoked or suspended.

5.3.5.2. Revocation by the subscriber

A subscriber may revoke an executed subscription right or a declaration of additional subscription until the end of the subscription period. If payments were made to Lang & Schwarz Broker GmbH before revoking the subscription declaration or the declaration of additional subscription, these payments will be reimbursed in full. However, the depositary bank of the investor revoking a declaration might charge fees to the investor.

5.3.6. Minimum / maximum amount of application

A minimum number of one (1) New Share must be subscribed to or purchased. No further minimum or maximum limits to the amounts of New Shares or aggregate amount for subscription or purchase exists.

5.4. Allotment, delivery, exclusion of pre-purchase rights

5.4.1. Allotment

The subscribers or purchasers will not be explicitly notified of the number of New Shares allotted to them; the notice will be limited to booking the respective number of New Shares into their securities account. No trade before allotment will be established.

In case of an oversubscription, the New Shares will be allotted in the discretion of the Issuer, pursuant to the statutory provisions, considering the general obligation to treat shareholders equally.

5.4.2. No tranches

No tranches of New Shares will be established; no preferential treatment of investors or investor groups is intended.

5.4.3. Delivery

The New Shares can only be delivered after entering the capital increase into the commercial register.

The registration will probably be effected until 25 November 2016. There is no guarantee that the execution of the capital increase will be effected until this date. The New Shares will be incorporated in a global deed after the capital increase is entered into the commercial register and deposited with Clearstream Banking AG. There is no right to securitization of the New Shares. The New Shares will be booked into the securities accounts of shareholders who have executed subscription rights or acquired the New Shares in Additional Subscription or during the Private Placement.

The delivery of the New Shares is expected to be effected on 8 December 2016.

5.4.4. Pre-purchase rights, subscription rights trade, non-executed subscription rights

With the exception of the general subscription right of all shareholders, no pre-purchase rights regarding the New Shares exist. There will be no application to list the subscription rights for trading on an exchange; therefore, no sale or purchase of subscription rights on an exchange will be possible. While the trade of subscription rights is generally possible under German law, the Issuer will not facilitate

the sale or purchase of subscription rights. Subscription rights not executed will become void without compensation.

5.5. Intentions of major shareholders

The Issuer is not aware of the extent to which major shareholders intent to participate in the capital increase, or whether any person intends to subscribe for more than 5 % of the Offer. The members of the Issuers management board currently have no fixed decision to participate in the capital increase.

5.6. Time Schedule

5.6.1. Provisionary time schedule

Approval of the prospectus by the German financial services supervision authority (Bundesanstalt für Finanzdienstleistungsaufsicht, BaFin)	31 October 2016
Publication of the prospectus on the Issuer's website	31 October 2016
Publication of the subscription offer	2 November 2016
Booking shareholders' subscription rights pursuant to the shares held as of 2 November 2016, close of business	3 November 2016
Begin of the Subscription Period	3 November 2016
End of the Subscription Period	16 November 2016
End of the Private Placement period	20 November 2016
Ad-hoc release of the number of New Shares subscribed	20 November 2016
Entering of the capital increase in the commercial register	25 November 2016
Delivery of the global certificate to Clearstream Banking AG	28 November 2016
Filing of application for admission for trading of the New Shares in the regulated markets of Frankfurt Stock Exchange and Düsseldorf Stock Exchange	28 November 2016

Resolution regarding admission for trading of the New Shares in the regulated markets of Frankfurt Stock Exchange and Düsseldorf Stock Exchange	2 December 2016
Entering of the New Shares into existing trading	8 December 2016
Delivery of New Shares	8 December 2016

5.6.2. Expected issue date

The expected issue date of the New Shares, i.e. the date on which the New Shares are expected to be booked into the accounts of the subscribers, is 8 December 2016.

5.7. Placing and underwriting

The Offer is coordinated by Lang & Schwarz Broker GmbH. The function of Lang & Schwarz Broker GmbH is limited to taking over New Shares pursuant to the provision of sec. 186 German Stock Corporation Code, with the obligation to offer the New Shares to the shareholders for subscription and to place them in the context of the Private Placement. The final placing agreement between the Issuer and Lang & Schwarz Broker GmbH will be entered during the subscription period, expectedly on 8 November 2016. The underwriting function of Lang & Schwarz Broker GmbH will be limited to these coordination efforts; no "hard underwriting" will take place, in the meaning that Lang & Schwarz Broker GmbH will acquire New Shares for distribution on their own risk. In particular, Lang & Schwarz Broker GmbH is under no obligation to take over New Shares not subscribed to by shareholders.

The Offer is solely conducted in the interest of the Issuer. Lang & Schwarz Broker GmbH will receive a fixed remuneration, but no performance-based bonus fees.

Bankhaus Gebrüder Martin Aktiengesellschaft, Kirchstr. 35, 73033 Göppingen, Germany, will function as payment agent. Clearstream Banking AG, Frankfurt, Mergenthalerallee 61, 65760 Eschborn, will function as depositary agent.

5.8. Designated Sponsor

Lang & Schwarz Broker GmbH acts as designated sponsor for the Issuer. The function of the designated sponsor are set out in a designated sponsor agreement. The function of the designated sponsor is to provide trading liquidity, insofar as possible, in order to increase the trading options of the market participants. To this end, the designated sponsor files limited sale and purchase orders for shares of the

Issuer in the electronic trading system XETRA of the Frankfurt stock exchange. The designated sponsor has to consider the provisions of the stock exchange; they must keep a minimum quotation period, a minimum volume and a minimum price range. They are expected to participate in the daily auctions and in particular in case of volatility interruptions to react and provide an appropriate quotation price.

5.9. Admission to trading

Shares of the same class as the New Shares are already admitted to trading in the regulated markets of Frankfurt Stock Exchange and Düsseldorf Stock Exchange.

The Issuer intends to have the New Shares admitted to the regulated market of the Frankfurt Stock Exchange and the regulated market of the Düsseldorf Stock Exchange. The application is intended to be filed on 28 November 2016; the Issuer expects the admission of the New Shares on 2 December 2016 and an inclusion of the New Shares in the existing quotation of the Issuer's shares on 8 December 2016. An admission of the New Shares for trading to other regulated markets is not intended. An admission of the New Shares to the regulated markets referred to above is not guaranteed.

5.10. Stabilization measures

No stabilization measures will be taken.

5.11. Selling Shareholders, lock-up agreements

The New Shares will not be sold by existing shareholders; New Shares will solely be generated by the Issuer. For the avoidance of doubt, Lang & Schwarz Broker GmbH receives a fixed remuneration and is not acting as distributor but solely as issuing bank organizing the shareholders' indirect subscription right in the meaning of sec. 186 para. 5 of the German Stock Corporation Act (Aktiengesetz, AktG), so that Lang & Schwarz Broker GmbH should not be considered a seller of the New Shares.

No lock-up agreements regarding the New Shares exist.

5.12. Net Proceeds, expenses of the Offer

Under the assumption that all New Shares are placed at a subscription price of EUR 3.00, the issuer expects net proceeds from this offer in an amount of EUR approximately EUR 14.5 Million. Total financing costs of this issue are expected to be EUR 0.5 Million.

5.13. Dilution

5.13.1. Immediate dilution resulting from the Offer

Before the consummation of the capital increase the net carrying amount of the Biofrontera Group amounted to approximately EUR 1,076,272.96 or to approximately EUR 0.04 per share (calculated on the basis of the number of 30.347.813 issued shares of the Issuer as of the date of this prospectus). The net carrying amount of the Biofrontera Group is calculated on the basis of the unaudited consolidated interim financial statements ended 30 June 2016 by deducting the amount of the long-term liabilities (EUR 3,059,864.92) and the current liabilities (EUR 11,409,601.74) as of 30 June 2016 (total: EUR 14.469.466,66) from the amount of total assets as of 30 June 2016 (EUR 15,545,739.62).

Under the assumption that all New Shares are placed at the subscription price of EUR 3.00, the issuer expects net proceeds from this offer in an amount of EUR 14.5 Million.

Assuming the capital increase against cash contributions is consummated in full and the net proceeds amount to approximately EUR 14.5 Million, the net carrying amount of the Biofrontera Group as of 30 June 2016 would have amounted to approximately EUR 15,576 thousand or to approximately EUR 0.44 per share (calculated on the basis of the number of 35,360,763 issued shares of the Issuer after the consummation of the share capital increase against cash contributions).

Based on a subscription price of EUR 3.00, this would result in an increase of the net carrying amount of Biofrontera Group as of 30 June 2016 by approximately EUR 0.40 per share to EUR 0.44 per share for existing shareholders. There would be an immediate dilution of EUR 2.56 per share or approximately 85.3 % for the purchasers of the New Shares since the subscription price of EUR 3.00 per share would be above the calculated net carrying amount per share of approximately EUR 0.44. For existing shareholders, the net carrying amount per existing share would correspondingly increase by EUR 0.40 per share, from EUR 0.04 to EUR 0.44. This would be equal to an increase of approx. 1.000 per cent.

5.13.2. Dilution for shareholders not participating in the Offer

Insofar as shareholders do not exercise their subscription rights, and the New Shares from the capital increase which is described in this prospectus (5,012,950 shares) are subscribed in full, the participation of such shareholders will be reduced by approx. 14.2%. The dilution will be lower if not all New Shares are subscribed to.

5.14. Interests of persons involved in the Offer, conflicts of interest

Lang & Schwarz Broker GmbH receives a fixed remuneration for their services rendered in the context of the Offer. In the opinion of the Issuer, no conflicts exist due to the fixed structure of the remuneration.

Members of the management and supervisory boards hold shares of the Issuer as well as option rights to the acquisition of shares of the Issuer. They have an own interest regarding the development of the stock market price of the Issuer's shares. In the opinion of the Issuer, no conflicts of interests exist due to the parallel nature of the respective interests in a positive development of the stock market price.

The Issuer is not aware of any further interests of natural or legal persons which might be relevant for the Offer.

6. Information about the Issuer

6.1. General information

The legal and commercial name of the Issuer is "Biofrontera Aktiengesellschaft". The Issuer is registered with the commercial of the local court of Cologne under register number HRB 49717. The Issuer was incorporated in August 1997, with an indefinite length of life. The seat of the Issuer is Leverkusen, Germany. It operates under German law and is incorporated in Germany. The registered office of the Issuer is Hemmelrather Weg 201, 51377 Leverkusen, Germany, with telephone number +49 214 87632 66.

6.2. History of the Issuer

The Issuer was established in Lörrach as "BioFrontera Laboratories GmbH" in August 1997 with the aim of providing services to the pharmaceutical industry. In September 1997, the Issuer was relocated to Leverkusen and renamed "BioFrontera Pharmaceuticals GmbH" and commenced its current operations. On 24 August 2000 the Issuer was converted into a stock corporation (AG). On 27 November 2003 the Issuer was renamed to its current name "Biofrontera Aktiengesellschaft".

On 30 October 2006 the Issuer's entire share capital was listed on the Düsseldorf stock exchange. The Shares were subsequently listed on the General Standard of the Frankfurt Stock Exchange, and in the Prime Standard segment as well as the AIM segment of the London Stock Exchange. The AIM listing has since been cancelled. Since the initial public offering, the Issuer has carried out several capital fund raises.

Up until 2010, the Issuer predominantly focused on research activities. On 2 September 2010, the Issuer submitted a centralized European marketing authorization application for BF-200 ALA, its first self-developed drug now known as Ameluz®. In December 2011, Ameluz® was approved for the treatment of mild and moderate actinic keratosis. 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®. Biofrontera Group has distributed Ameluz® and BF-RhodoLED® since 2012.

In addition, a range of cosmetic products were introduced; the first product in this range, Belixos®, was launched in the autumn of 2009. A hair tonic, Belixos® LIQUID, was introduced in the spring of 2014 and a Belixos® gel skin care for rosacea and acne was launched at the beginning of December 2014. Belixos® Protect was the latest addition to the Belixos® series in July 2015.

In May 2016 Ameluz® in combination with BF-RhodoLED® received approval by the FDA to be marketed in the US for lesion- as well as field-directed treatment of mild to moderate actinic keratoses.

6.3. Group structure

The Biofrontera Group consists of the Issuer, Biofrontera Aktiengesellschaft, as the parent company, and five wholly owned subsidiaries, Biofrontera Bioscience GmbH, Biofrontera Pharma GmbH, Biofrontera Development GmbH, Biofrontera Neuroscience GmbH each with a statutory seat in Leverkusen, Germany, and Biofrontera Inc., with a statutory seat in Wilmington, Delaware, USA.

The subsidiaries are in each case likely to have a significant effect on the assessment of the Issuer's own assets and liabilities, financial position or profits and losses.

6.3.1. Biofrontera Aktiengesellschaft

Biofrontera Aktiengesellschaft functions as operative and financial holding company of Biofrontera Group.

6.3.2. Biofrontera Bioscience GmbH

Biofrontera Bioscience GmbH is responsible for research and product development in Biofrontera Group. Furthermore, Biofrontera Bioscience GmbH holds the intellectual property rights of Biofrontera Groups products, with the exception of the product candidates BF-1 and BF-Derm1.

6.3.3. Biofrontera Pharma GmbH

Biofrontera Pharma GmbH is responsible for sales and distribution in Biofrontera Group, and represents Biofrontera Group vis-à-vis dermatologists and physicians. A cooperation agreement with Biofrontera Bioscience GmbH governs the use of intellectual property rights.

6.3.4. Biofrontera Development GmbH

Biofrontera Development GmbH holds since late 2012 the rights to the product candidate BF-Derm1. The intention of outsourcing the product candidate was to facilitate and external financing or to monetize the rights to the product candidate by disposing of the company or shares of the company.

6.3.5. Biofrontera Neuroscience GmbH

Biofrontera Neuroscience GmbH holds since late 2012 the rights to the product candidate BF-1. The intention of outsourcing the product candidate was to facilitate and external financing or to monetize the rights to the product candidate by disposing of the company or shares of the company.

6.3.6. Biofrontera Inc.

Biofrontera Inc. with its registered seat in Wilmington, Delaware, USA, was incorporated in 2015 with the goal of managing the US operations of Biofrontera.

6.4. Articles of association

6.4.1. Objectives and purpose of the Issuer

Pursuant to § 3 of its articles of association, the objectives and purpose of the Issuer are the research, development and distribution of pharmaceuticals, as well as acting as a holding entity, i.e. the acquisition and administration of companies or participations in companies. The Issuer may undertake all actions which have the purpose of serving the purpose of the Issuer, whether directly or indirectly.

6.4.2. Provisions relating to management and supervisory bodies

6.4.2.1. Management board

The Management Board consists of one or more members. The Supervisory Board appoints Management Board members and determines their number. The term of office can be up to five years. Members of the Management Board can be removed by the Supervisory Board for cause. It may appoint a Chairman of the Management Board and a Deputy Chairman of the Management Board. If the Management Board consists of one member, he or she represents the Company alone. If the Management Board consists of several members, one member of the Management Board may legally represent the Company, if the Supervisory Board grants him/her the authority to solely represent the Company. Save in this case, two Management Board members or one Management Board member together with an authorised signatory may represent the Company.

The Supervisory Board sets the rules of procedure for the Management Board, including certain transactions of the Company which cannot be executed without the approval of the Supervisory Board. The remuneration of the members of the Management Board must be proportionate to their duties.

6.4.2.2. Supervisory board

The Supervisory Board consists of six members. Supervisory Board members are elected for a term ending with the close of the fourth general shareholder meeting following the beginning of their term of office, provided that no shorter term of office is determined upon such election. The financial year in which the term of office begins is not counted. Re-election is permitted. Successors elected in place of members who retire or leave prior to the expiration of the term are elected for the remainder of the term of office of the retired member. When a Supervisory Board member is elected, a substitute member may simultaneously be appointed. This person then becomes a Supervisory Board member if the elected member resigns before the expiry of the term of office without a successor having been appointed.

The office of a substitute member of the Supervisory Board expires as soon as a successor to the Supervisory Board member who has stepped down is appointed, which must occur not later than the expiry of the term of office of the former Supervisory Board member.

The Supervisory Board members may resign by providing written notification to the Chairman of the Supervisory Board or the Management Board with one month's notice. The option to resign from office with immediate effect if there is good cause to do so remains unaffected. The dismissal of a Supervisory Board member elected by Shareholders requires a simple majority of the votes cast by shareholders' meeting.

The Supervisory Board elects a Chairman and a Deputy Chairman from among its members by simple majority. In the event of a tied vote, the decision is made by drawing lots. If the Chairman or his/her deputy withdraws before the expiration of the term of office, the Supervisory Board elects a successor at its next meeting to replace the withdrawing member. The Supervisory Board holds two meetings per half calendar year. It holds additional meetings if required by law or if deemed appropriate for business reasons.

The Chairman, or in his absence the Deputy Chairman, convenes Supervisory Board meetings in writing with a notice period of 14 days. In urgent cases, the invitation period may be appropriately shortened and convened verbally or by telephone. The items on the agenda must be issued when convening the meeting. The Supervisory Board constitutes a quorum when three members participate in the voting in person or by written voting instructions. A member who abstains from the vote is also deemed to be participating in the resolution vote. Absent Supervisory Board members may therefore participate in the casting of votes by providing other Supervisory Board members with written voting instructions. Supervisory Board resolutions require a majority of votes cast, unless otherwise provided

by law. In the event of a Supervisory Board vote being tied, should a new vote on the same subject of the resolution also result in a tie, the Chairman of the Supervisory Board shall have a casting vote (two votes in total). Supervisory Board resolutions are generally passed by personally attended meetings. They may also be passed without convening a meeting, and the vote may also occur verbally, in writing, by telephone, by facsimile, electronically or by video conference, if the Chairman so directs and if no more than three members of the Supervisory Board raise any immediate objections to this procedure.

The Supervisory Board must keep minutes concerning resolutions, which have to be signed by the Chairman of the Supervisory Board. The minutes of the meeting must be forwarded to all Supervisory Board members without delay.

The Supervisory Board is authorised to decide on amendments to the Articles that do not change their material content, but only affect their wording.

Each Supervisory Board member receives reimbursement for expenses and a fixed annual remuneration of EUR 15,000.00. If the Group's income per share increases in the financial year for which the fixed remuneration is paid (remuneration year), and in the financial year preceding the remuneration year compared to the previous year by 25 per cent. or more, respectively, each Supervisory Board member will receive a performance-based annual salary for the remuneration year (performance-based remuneration).

If the Group's income per share increases by 50 per cent. or more, the performance-based annual remuneration will amount to EUR 20,000.00. The Chairman of the Supervisory Board receives twice, and his/her deputy one-and-a-half times, the corresponding remuneration. The Company reimburses Supervisory Board members for expenses incurred in the performance of their duties including any sales tax (value added tax) payable on their remuneration and on reimbursement of their expenses.

6.4.3. Rights attached to shares

6.4.3.1. Voting rights

Each Share carries one vote. Resolutions are adopted by a simple majority of the votes cast unless a larger majority or other requirements are determined by law or the Articles. A majority of 75 % of the capital represented in a general shareholder meeting is required in order to pass the resolutions concerning the following:

- capital decreases;
- creation of authorised or conditional capital;
- exclusion of subscription rights;
- de-mergers and spin-offs;
- transfer of the entire assets of the Issuer;

- conclusions, amendments and terminations of management agreements (e.g. agreements regarding control and transfer of profits and losses);
- change of the legal form of the Issuer; and
- dissolution of the Issuer.

The right to vote may be exercised by proxy. Exercising the right to vote by proxy requires the issuing of a power of attorney. The power of attorney may be granted in writing or by facsimile. The Articles do not restrict any other forms regulated by law for the granting of a proxy, its revocation and proof of authorization to the Issuer.

6.4.3.2. Dividend rights, profit entitlements and liquidation proceeds

The dividend available for distribution in any financial year is approved at the Issuer‘s general shareholder meeting. The dividend rights attached to the New Shares begin on 1 January 2016. The amount attributable to each share is based on the division of the total amount approved for distribution at the Company’s general shareholder meeting by the number of dividend-bearing shares at the time the dividend is approved. No special procedure exists for non-domestic shareholders to claim their dividends. Any claim to the payment of a dividend lapses three years after the year in which the relevant dividend is approved. Should a claim arising from payment of dividends lapse, the Issuer is entitled but not obliged to pay out the dividends to the shareholder whose claim has lapsed.

The Issuer may, except in the case of insolvency, be dissolved by a resolution of shareholders, which to be passed requires a majority of the votes cast and in addition a majority of at least three-quarters of the share capital represented. In this case, the remaining assets after the fulfillment of the Issuer’s liability obligations would be distributed, according to the provisions of the German Stock Corporation Act, among the shareholders in proportion to their stake in the share capital, i.e. according to the number of shares held. Preference shares for the Issuer do not exist. If a surplus exists after any insolvency proceedings are completed, the surplus is distributed amongst the persons who could claim such surplus if the Issuer was subject to an orderly winding-up, i.e. the former shareholders of the Issuer.

6.4.3.3. Change of the rights attached to the shares

The articles do not provide for special rules governing changing the rights attaching to shares. Therefore, the general rules set out in statutory law apply. Accordingly, the rights attaching to shares set out in the articles may be changed with a simple majority of votes and capital represented, with the exception of the decisions requiring a majority of 75 % of the capital represented as set out above. Furthermore, if rights are only held by specific classes of share, the shareholders of such class have to take a separate decision. Individual rights attaching to shares can only be removed with the consent of each respective shareholder.

6.4.4. General shareholder meetings

The annual general shareholder meeting must be held within the first eight months after the end of the Company's financial year at its headquarters, in a German city with at least 100,000 inhabitants or at a German stock exchange.

The Management Board convenes the annual general shareholder meeting. The Supervisory Board may also do so in cases prescribed by law. The annual general shareholder meeting must be convened on no less than 30 days' notice prior to the final date for shareholder registration of attendance at the meeting.

Attendance at the annual general shareholder meeting and the exercising of voting rights is restricted to Shareholders who, on the day of an annual general shareholder meeting, are entered in the Issuer's share register and who have registered to attend in text form no later than the seventh day prior to the meeting. The following persons may participate in the general shareholder meeting instead of the shareholders:

- Statutory representatives of shareholders (e.g. a company's directors, parents of a minor);
- Persons authorized by a shareholder to exercise the rights from shares owned by such shareholder in the shareholder's name;
- if one shareholder authorized several persons, the company may exclude supernumerary representatives;
- a representative whom shareholders can authorize to vote may also be provided by the company;
- Persons authorized by a shareholder to exercise the rights from shares owned by such shareholder in their own name (Legitimationsaktionär).

Shareholders may only exercise their rights from the shares, including voting rights, by electronic communication if the company's articles explicitly provide for or authorize the management board to allow such electronic communication. The Company's articles of association do not provide for electronic communication.

6.4.5. Prevention of changes of control

No specific provisions to delay, defer or prevent a change in control of the Issuer exist.

6.4.6. Changes in capital

The Issuer‘s registered share capital may be increased by a resolution of shareholders, which to be passed requires a simple majority of votes.

In addition, shareholders can create authorised capital (meaning, shares available for issue). Creating authorised capital requires a decision of a majority of three quarters of the share capital represented at

the time of the resolution. Thereafter, the management board is authorised to issue those authorised shares at a certain price within a period of not more than five years. The nominal value may not exceed half of the share capital available at the time of the resolution.

Furthermore, shareholders may create conditional capital for the purpose of; (i) granting conversion or subscription rights to holders of convertible bonds; (ii) preparing for the merger of several companies; (iii) granting subscription rights to employees and members of the Issuer's management or an affiliated company by way of an authorization resolution, where a decision by a majority of at least three quarters of the represented share capital is required.

The nominal value of the conditional capital for the purpose of issuing shares to managers and employees may not exceed 10 per cent of the share capital available at the time of the resolution.

6.4.7. Disclosure of shareholding

The Issuer's articles of association do not provide for rules regarding the disclosure of shareholding. However, the Issuer is subject to the mandatory provisions and notification requirements of the German Securities Trading Act (Wertpapierhandelsgesetz, WpHG).

The Securities Trading Act states that any person who reaches, exceeds or falls below 3%, 5%, 10%, 15%, 20%, 25%, 30%, 50% or 75% of the voting rights of an issuer, for which the Federal Republic of Germany is the country of origin and whose shares are admitted to trading on an organized market, either through acquisition, sale or by any other means, must immediately, in any event within four days of trading, inform both the respective issuer and the Federal Financial Supervisory Authority (BaFin) on reaching, exceeding or falling below the thresholds referenced and of the resultant percentage of their voting rights stating their address and the relevant date the threshold was reached, exceeded, or otherwise in writing or by facsimile in German or English. Upon receipt of a notification of voting rights, the Issuer must immediately, at the latest within three trading days following receipt of the notification, publicly disclose this and transfer this information to the commercial register following the disclosure. Exceptions from the obligation to report/register exist for (i) trading activities of securities trading companies up to 5% of the voting shares, (ii) shares that are held solely for the purpose of settling and clearing or for safekeeping for a short period, and (iii) the purchase and sale as part of so called market making. Investors who reach or exceed a threshold of 10% or higher have to disclose their future intentions with the Issuer and their sources of funds for the relevant acquisitions of shares. In addition members of the management bodies (and related parties) must disclose all dealings in shares for related financial products to the Issuer and the BaFin within five business days of the relevant 'deal'.

6.5. Corporate Governance

Pursuant to sec. 161 German Stock Corporation Act (AktG), the management board and the supervisory board of the Issuer are obligated to declare each year that the recommendations of the "Government Commission on the German Corporate Governance Code", published by the Federal Ministry of Justice in the official section of the electronic Federal Gazette, have been or are being complied with, or which recommendations were not and are not being adhered to and why this is the case.

As of the date of this prospectus, the Issuer complies with the recommendations of the German Corporate Governance Code in the version of 5 May 2015, with the following exceptions, and for the reasons set out below in each case:

6.5.1. Deductibles in respect of the D&O insurance (figure 3.8 para. 3)

There is a D&O insurance policy for the company that provides no deductible for supervisory board members. In the company's view, such a deductible is not needed in order to ensure the motivation and sense of responsibility of the supervisory board members. A deductible would, however, probably undermine the company's aspirations to attract eminent persons from Germany and abroad to serve on its supervisory board. The supervisory board has therefore been expressly exempted from the new provisions regarding the deductible in the German Act regarding the Appropriateness of Management Board Remuneration (VorstAG) (§ 116 AktG).

6.5.2. General limit of supervisory board membership term to be determined

In the context of its diversity targets, the supervisory board shall determine a general limit for the membership term of the supervisory board. The determination of a general limit for the membership term does from today's perspective of the Issuer not seem appropriate. A period which determines a general limit for the term of office, cannot be determined in an abstract way in the opinion of the supervisory board. Instead, it will be considered in each case if the elapsed term of the supervisory board membership could preclude an orderly and independent rendering of services as supervisory board member.

6.5.3. Structure of remuneration for the Supervisory Board (figure 5.4.6)

The Issuer does not take membership in committees into consideration when remunerating the supervisory board members. Given the close coordination in the six-member supervisory board, a differentiation of the supervisory board remuneration according to committee membership is not presently required, especially as the members generally have around the same workloads resulting from membership of the various committees.

6.5.4. Reporting (figure 7.1.2)

Financial reports, half-yearly reports and interim reports are published within the statutory periods.

6.6. Administrative, Management, and supervisory bodies and senior management

6.6.1. Members of the management board

The management board of the Issuer is currently comprised of Prof. Hermann Lübbert, Ph.D., as CEO, Thomas Schaffer, CFO, and Christoph Dünwald, CCO. The business address of the members of the management board is Biofrontera AG, Hemmelrather Weg 201, 51377 Leverkusen, Germany.

Prof. Hermann Lübbert, Ph.D., is Chairman of the Management Board of the Issuer and a Managing Director of all German subsidiaries of the Issuer and he is a member of the Board of Directors of Biofrontera Inc. He studied biology in his home town of Cologne and received his doctorate there in 1984. Following eight years in academic research at the University of Cologne and the California Institute of Technology (USA), he gained experience in managing a global research organization during 10 years at Sandoz and Novartis Pharma AG. Prof. Lübbert founded Biofrontera in 1997 and has been managing the Company ever since. He qualified as a university lecturer at the Swiss Federal Institute of Technology (ETH) Zurich and in addition to his engagement as Executive Director, holds a professorship for animal physiology at the Ruhr-University Bochum.

Thomas Schaffer is a member of the Management Board of the Issuer and a Managing Director of all German subsidiaries of the Issuer. He began his professional career with various positions in the finance and controlling division at Siemens Semiconductor. He held the position of Vice President and CFO in the Security & Chipcard IC business area of Siemens and the subsequently formed Infineon Technologies AG. Following this, he spent four years as Managing Director and CFO of Infineon Ventures GmbH and continued his career as Vice President and CFO of the Specialty DRAM Division of Qimonda AG, where he also took over management of Qimonda Solar GmbH, Dresden. With positions as CFO at Heptagon Oy, Finland/Switzerland, and Ubidyne Inc., Delaware, USA, he expanded his extensive international experience. Since June 2013, Mr. Schaffer has held the position of CFO at Biofrontera Aktiengesellschaft and is a Managing Director of all subsidiaries of Biofrontera Aktiengesellschaft except for Biofrontera Inc.

Christoph Dünwald is a member of the Management Board of the Issuer. He brings 24 years of comprehensive sales and marketing expertise in the healthcare sector which he gained working for pharmaceutical businesses in Europe, Asia Pacific and the US. He began his professional career at Bayer, where he worked for 15 years in positions of increasing responsibility in Marketing in both Spain and the US, as well as in Strategic Management positions in Germany and Asia Pacific. He then oversaw

Bayer's Healthcare Diagnostics Division in Belgium and Luxembourg as a General Manager. Following two years as International Sales and Marketing Director for Corporacion Dermoestetica in Spain and the UK he moved on to the US pharmaceutical company Allergan. At Allergan he initially worked as Senior Commercial Director in London until he was assigned the responsibility for Allergan's Medical Business Unit in Spain and Portugal.

6.6.2. Members of the supervisory Board

The Issuer's supervisory board is currently composed of six members. The business address of the members of the management board is Biofrontera AG, Hemmelrather Weg 201, 51377 Leverkusen, Germany.

Ulrich Granzer, Ph.D. (chairman of the supervisory board): Dr. Granzer is Managing Director of Granzer Regulatory Consulting & Services and was formerly director of regulatory affairs at GlaxoSmithKline plc., BASF Pharma AG and Bayer AG. Dr. Granzer is a pharmacist and has been a member of the Supervisory Board of Biofrontera since 2003.

Jürgen Baumann (deputy chairman of the supervisory board): As an economics graduate, Mr. Baumann was formerly a member of the Management Board of Schwarz Pharma AG responsible for European operations with eight national subsidiaries and four production sites. Mr. Baumann has been a member of the Supervisory Board of Biofrontera since 2007. Up until October 2012, Mr. Jürgen Baumann was a member of the Supervisory Board of Riemser AG, Greifswald.

John Borer III, J.D., is the Senior Managing Director and Head of Investment Banking at the Benchmark Company, LLC. He was formerly the CEO and Head of Investment Banking at Rodman & Renshaw, and has held senior positions at Pacific Business Credit and Barclays American Business Credit. He holds a Doctor of Law degree (J.D.) from Loyola Law School in Los Angeles.

Hansjörg Plaggemars is a Member of the Management Board of Deutsche Balaton AG. He was formerly the Managing Director and Chief Financial Officer at CoCreate Software GmbH, KAMPA AG, Unister Holdings and Müller Holdings. Hansjörg Plaggemars is also a board member of Bolanta AG, Carus AG, Eurohaus Frankfurt AG, and Fidelitas Deutsche Industrie Holding AG, among others. He holds a degree in Business Administration from the University of Bamberg.

Mark Reeth, J.D., is an independent consultant specializing in trends in the pharmaceutical industry. He has more than 25 years of experience in a variety of senior management, legal and compliance positions with U.S. based healthcare companies ranging from HMOs, pharmaceutical and medical device companies, such as NYLCare, Merck-Medco Managed Care, Bracco Diagnostics, Medicis Pharmaceuticals and Salix Pharmaceuticals. He holds a Doctor of Law degree (J.D.) and Master of Economics from Duke University.

Kevin Weber is the Chief Executive Officer of Paraffin International Inc. He has extensive experience in marketing and global operations and strategy, and has held senior roles at Depomed, Hyperion Therapeutics, and Medicis Pharmaceuticals. Kevin Weber is also a board member of the American Academy of Pain Management Foundation and the American Chronic Pain Association. He holds a B.A. in Management and Marketing from Western Michigan University.

6.6.3.Board Practices

6.6.3.1. Expiration of appointments

The appointments and service agreements, respectively, with the members of the management board and supervisory board expire as follows:

- The appointment and service agreement with the CEO Prof Hermann Lübbert will expire on 31 October 2020.
- The appointment and service agreement with the CFO Thomas Schaffer will expire on 30 November 2020.
- The appointment and service agreement with CCO Christoph Dünwald began on 16 November 2015 and will expire on 15 November 2017.
- The appointment of the members of the supervisory board will expire with the end of the general shareholder meeting resolving on the discharge of the members of the supervisory board for the fiscal year 2020.

6.6.3.2. Committees

The Issuer has several committees in place. These committees are sub-groups of the supervisory board.

6.6.3.2.1. Audit Committee

The Audit Committee focuses in particular on issues relating to accounting and risk management, the auditor's mandatory independence and the issuing of the audit mandate to the auditor, as well as the overseeing of the audit of the company's annual financial statement. In companies as defined in sec. 264d of the German Commercial Code (HGB), which includes the Issuer, the Supervisory Board's nomination for the election of the auditor must be based on the Audit Committee's recommendation. Furthermore, in companies as defined in sec. 264d of the German Commercial Code, at least one independent member of the Supervisory Board must have expertise in the fields of accounting or auditing and be a member of the Audit Committee. The Audit Committee comprises the following individuals: Jürgen Baumann, John Borer and Hansjörg Plaggemars. Mr. Plaggemars is the current chairperson.

6.6.3.2.2. Remuneration Committee

The Issuer currently has no remuneration committee in place. Unlike in the past, the plenum of the supervisory board is now assigned responsibility for remuneration decisions, as a result of changes in the German Act regarding the Appropriateness of Management Board Remuneration (VorstAG). Certain preparatory work for decisions regarding remuneration is allocated to the personnel committee.

6.6.3.2.3. Personnel Committee

The Personnel Committee prepares decisions for the Supervisory Board regarding the appointment and dismissal of management board members. The Personnel Committee comprises the following individuals: Jürgen Baumann, John Borer, Ulrich Granzer. Mr Baumann is the current chairperson.

6.6.3.2.4. Research & Development and Market Access Committee

The Research & Development and Market Access Committee deals with key issues related to product development and commercialization. After discussions within the Research and Development and Market Access Committee, it makes appropriate recommendations to the management board and the supervisory board. The Research & Development Committee comprises the following individuals: Ulrich Granzer, Mark Reeth, Kevin Weber. Mr. Reeth is the current chairperson.

6.6.3.2.5. Nomination Committee

In addition to the chairperson, the Nomination Committee includes two further Supervisory Board members, who are elected to the committee. The Nomination Committee currently comprises: Ulrich Granzer (Chairperson), Hansjoerg Plaggemars, Mark Reeth.

The Nomination Committee proposes suitable candidates for the future staffing of the Supervisory Board for its nominations at the annual general shareholder meeting. In so doing, the Nomination Committee considers the balance and variation of knowledge, skills and experience of all the Supervisory Board members, and creates candidate profiles. In addition, the Nomination Committee makes recommendations to or informs the Supervisory Board of results from regular evaluations of the knowledge, skills and experience of individual board members and the Supervisory Board in its entirety. In the course of performing its duties, the Nomination Committee can draw on company resources deemed appropriate and also on external consultants within the necessary framework.

6.6.4. Disclosures

No family relationships exist between any of those persons referred to under 6.6.1 and 6.6.2 above.

No member of the management board or the supervisory board was convicted in relation to fraudulent offences in the previous five years.

No member of the management board of the supervisory board were associated with bankruptcies, receiverships or liquidations when acting as member of the management board, the supervisory board, or as senior manager in the last five years.

No official public incrimination and/or sanctions were made against members of the management board or members of the supervisory board by statutory or regulatory authorities (including designated professional bodies); no member of the management board or of the supervisory board has ever been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of an issuer or from acting in the management or conduct of the affairs of any issuer.

Regarding the members of the management board and the supervisory board, no conflict between their duties to the Issuer and their private interests and other duties exist.

No agreements are entered into with members of the management or supervisory board that provide for benefits upon termination of employment.

6.6.5. Remuneration

6.6.5.1. Management Board

The total remuneration paid to members of the management board in the 2015 financial year, and the total accumulated stock options issued to the management board, were as follows on 31 December 2015:

Professor Hermann Lübbert	Salary / Bonus	EUR 405,000
	Stock options	151,850 (fair value when granted: EUR 167,236) of which 0 options were granted in 2015
Thomas Schaffer	Salary / Bonus	EUR 231,000
	Stock options	35,000 (fair value when granted: EUR 32,650), of which 0 options were granted in 2015
Christoph Dünwald	Salary / Bonus	EUR 29,000

Company cars are also available to the directors for business and private use.

The existing employment contracts stipulate that - depending on the achievement of targets to be mutually agreed - an annual bonus is payable. In the event of targets being exceeded, the maximum amount of the annual bonus payable is capped. In the event of up to 70% of the agreed target value

being reached, the bonus payments are reduced linearly. If less than 70% of the target value is reached, no bonus is payable. The calculation factors are set at the end of each financial year for the following financial year in a mutually agreed target agreement.

Severance pay in the case of premature termination of Management Board duties without good reason is capped at twice the specified annual salary, and amounts to no more than the total remuneration due to the exiting member of the board for the remaining period of his or her contract (severance cap).

In order to further increase the long-term incentive effect of variable remuneration, and thus to gear it even more effectively to sustainable business development, the Management Board members have pledged to match the stock options granted as part of the 2010 stock option plan by holding ordinary shares of the Issuer as private investors, thereby undertaking a personal commitment for a period of three years, starting one month after the date of issue of the options (restricted shares). Different levels of commitment are specified for the different Management Board members. If such restricted ordinary shares are sold prematurely, which is an occurrence which is to be reported to the Chairperson of the Supervisory Board without delay, the Issuer can request a free-of-charge return transfer of an equivalent number of stock options within a month of receiving such notification, with the most recently granted options being those that must be returned first (last in, first out). A return transfer will not be required if the Management Board member can demonstrate that the sale of the restricted shares was necessary in order to meet urgent financial obligations. In 2010, the Chief Executive Officer was granted 35,000 options, and the other board member was granted 20,000 options. In 2011, the Chief Executive Officer was granted 30,000 options, and the other board member was granted 20,000 options on this basis. In 2012, a further 40,000 options were granted to the Chief Executive Officer, and an additional 25,000 options were granted to the other board member. In the 2013 financial year, the Chief Executive Officer was granted 30,000 options, and the other board member was granted 15,000 options. In the 2014 financial year, a further 16,850 options were granted to the Chief Executive Officer, and an additional 20,000 options were granted to the other board member. No further options were granted to the management board members in 2015. In the 2016 financial year, 80,000 options were granted to the Chief Executive Officer, and an additional 20,000 options were granted to the other board member, 50,000 options were granted to the CFO and 50,000 options were granted to the CCO.

6.6.5.2. Supervisory board

Each member of the Supervisory Board receives a fixed annual fee of EUR 15,000. If the consolidated result per share in the financial year for which the fixed fee is paid (salary year), and in the salary year of the previous financial year, improves by 25% or more compared with each respective previous financial year, each member of the Supervisory Board will be awarded an annual performance-related fee of EUR 10,000 over and above the fixed fee component for the salary year (performance-related pay). If the consolidated result per share improves by 50% or more, the performance-related pay will

increase to EUR 20,000. The basis for calculating whether or not the required improvement is achieved in the relevant successive financial years (period under consideration) is the consolidated result per share in the financial year 2006 and in subsequent years; for example, if the required improvement in terms of consolidated result per share is achieved in 2007 compared with 2006, and subsequently in 2008 compared with 2007, the performance-related pay for the financial year 2008 will have been earned.

The chairperson receives twice, and his/her deputy receives one-and-a-half times of the fee.

The Issuer can take out an indemnity insurance policy, to the benefit of the members of the Supervisory Board, which covers statutory liability arising from the activities of the supervisory board.

The Issuer does not pay fees for attendance at supervisory board meetings.

The members of the supervisory board will be entitled to reimbursement of their reasonable, documented expenses (including, but not limited to, travel, board and lodging and telecommunication expenses).

Insofar as supervisory board members receive remuneration for services rendered beyond their function as a supervisory board member, these remunerations are not considered fees, since they do not cover the activities as supervisory board member. In the period covered by the historical financial information, this concerns the (former) supervisory board members Mrs. Ulrike Kluge und Mr. Dr. Ulrich Granzer. Mrs. Kluge received compensation via klugeconcepts GmbH and Mr. Granzer via Granzer Regulatory Consulting & Services.

6.6.6. Shareholding of Board members

6.6.6.1. Supervisory Board

The following table provides information with respect to ownership of our ordinary bearer shares, options and convertible bonds for each of our members of the Supervisory Board as of the date of this prospectus:

Name	Shares	% of total Shares	Exercise Price	Expiration Date	Option rights
Jürgen Baumann	30,000	0.10 %			
Total	30,000	0.10 %			

6.6.6.2. Management Board

The following table provides information with respect to ownership of our ordinary bearer shares and options for each of our members of the Management Board as of the date of this prospectus:

Name	Shares	% of total Shares	Option rights	Exercise Price	Expiration Date
Prof. Hermann Lübbert, Ph.D.	720,512	2.37 %			
			35,000 options	1.91	11/23/2016
			30,000 options	2.48	10/06/2017
			40,000 options	3.30	03/30/2018
			30,000 options	3.373	09/01/2019
			16,850 options	3.43	04/01/2020
			80,000 options	2.49	04/17/2023
Thomas Schaffer	30,570	0.10 %			
			15,000 options	3.373	09/01/2019
			20,000 options	3.43	04/01/2020
			50,000 options	2.49	04/17/2013
Christoph Dünwald	71,000	0.23%			
			50,000 options	2.49	04/17/2023
Total	822,082	2.71 %	366,850 options		

As of 1 July 2016, the members of the Management Board held an aggregate of 822,082 shares of Biofrontera Aktiengesellschaft, while the members of the Supervisory Board held an aggregate of 30,000 shares. The aggregate amount of shares owned by current Management Board and Supervisory Board members amounts to approximately 2.8 % of the Issuer's outstanding share capital.

6.6.7.Employee stock option programme 2010

At the annual general shareholder meeting on 2 July 2010, the Management Board and Supervisory Board proposed a share option program for employees to the annual general shareholder meeting, which approved the initiative. Based on this authorization, share options could be granted until 1 July 2015. In accordance with this, the Management Board, or the Supervisory Board if the beneficiaries

are Management Board members, were entitled to issue up to 839,500 share options, the exercising of which was linked to specific targets.

The program had a total nominal value of EUR 839,500 and a term of six years from the issue date, i.e. until 24 November 2016. To this end, conditional capital of EUR 839,500 was enacted as a result of the issuing of up to 839,500 registered shares without par value (no-par value shares) and with a stake in the share capital of EUR 1.00 per share pursuant to § 192 paragraph 1 No. 3 German Stock Corporation Act (AktG). The conditional capital was registered on 30 July 2010 in the Commercial Register of Cologne District Court as HRB 49717. Eligibility for the 2010 Share Option Programme 2010 was granted to members of the Management Board and employees of the Issuer as well as to members of management bodies and employees of affiliates of the Issuer.

On 24 November 2010, 106,400 options (first tranche) were issued with an exercise price per share of EUR 1.91. On 30 September and on 7 October 2011 (second tranche) a further 96,400 options were issued with an exercise price of EUR 2.48 each. On 23 March 2012 and 11 May 2012 (third tranche), 65,000 options were issued with an exercise price of EUR 3.30 each, and 51,500 options were issued with an exercise price of EUR 4.09 each. On 2 September 2013, 179,500 options were issued (fourth tranche) with an exercise price of EUR 3.373 each. On 2 April 2014 159,350 options were issued at an exercise price of EUR 3.43 each. All in all, 123,750 option rights were forfeited by employees leaving the company. Therefore, the number of options issued and outstanding as of 31 December 2014 was 542,400. Since no further options have been granted after 1 January 2015, and no further options can be granted under this program, the general shareholder meeting of 28 August 2015 has resolved to reduce the related conditional capital to EUR 542,400.

In accordance with the associated conditions, each subscription right that is granted entitles the beneficiary to acquire one new registered share without par value (no-par value share) in the company. The exercise price is equal to the arithmetical average (unweighted) of the closing prices ascertained on the Frankfurt Stock Exchange via floor and Xetra trading for the Issuer’s shares on the ten trading days prior to the issuing of the share. However, the minimum exercise price amounts to the proportionate share of the company’s share capital allocated to each individual no-par value share, pursuant to § 9, paragraph 1 of the German Stock Corporation Act.

The options granted may only be exercised after expiry of a retention period. The retention period is four years from the respective date of issue. A prerequisite for the whole or partial exercising of the options is that the following performance target is achieved:

Exercising the options from a tranche is possible if at the beginning of the respective exercise period, the price (hereinafter referred to as the "reference price") of a share in Biofrontera Aktiengesellschaft exceeds the exercise price by at least 20%, and a minimum reference price of at least EUR 5.00 is achieved (hereinafter referred to as "minimum reference price"). The reference price is equal to the arithmetical average (unweighted) of the closing prices ascertained on the Frankfurt Stock Exchange

via floor and Xetra trading for the Company's shares between the 15th and the 5th trading day (inclusive in each case) prior to the respective exercise window. The minimum reference price is adjusted in the following cases in order to bring the stated performance target into line with changed circumstances:

In the event of a capital increase from company funds being carried out by issuing shares, the minimum reference price is reduced by the same proportion as new shares issued compared to existing shares. If the capital increase is carried out from company funds without the issuing of new shares (§ 207 paragraph 2 clause 2 German Stock Corporation Act (AktG)), the minimum reference price remains unchanged.

In the event of a capital reduction taking place, no adjustment is made to the minimum reference price, provided that the total number of shares is not affected by the reduction of capital, or if the capital reduction is associated with a return of capital or an acquisition of own shares in return for payment. In the event of a capital reduction achieved by consolidation of shares without repayment of capital or in the event of an increase in the number of shares without a change in capital (share split), the minimum reference price is increased in proportion to the reduction of capital or to the share split.

There are no other cases in which adjustments are made to the minimum reference price.

The exercising of options is limited to the following time periods (hereinafter "exercise windows"), i.e. only declarations of exercising of rights submitted to the company within an exercise window will be considered:

- on the 6th and the next 14 banking days after the date of the Annual General Meeting (exclusive),
- on the 6th and on the next 14 banking days after the date of issue of a half-yearly or quarterly report or an interim announcement by Biofrontera Aktiengesellschaft (exclusive),
- in the period between the 15th and the 5th banking day before expiration of the options for each respective expiry date (exclusive).

After expiry of the relevant retention period, the options can be exercised up until the expiry of six years from the date of issue (exclusive).

The right to exercise the options expires no later than six years after the first issue date (exclusive). The right to exercise the options expires no later than six years after the first day of issue, i.e. on 24 November 2016. Any options not exercised by that date are forfeited without compensation. We assume an average holding period of 5 years in assessing the employee options.

Any claim by the beneficiary to receive a cash settlement in the event of non-exercise of the options is invalid, notwithstanding the existence of the above exercise prerequisites. An option right may only be exercised if the holder has a current service or employment contract with the company or another

company affiliated with the company or if the holder is a member of the Management Board or the management team of another company affiliated with the company.

In the event of the exercising of a subscription right, the company is generally and in specific cases permitted to choose between granting the registered share in exchange for payment of the exercise price or fulfilling its debt by paying a cash settlement to the holder of the subscription right. The cash settlement per subscription right is equal to the difference between the exercise price per share and the share price on the exercise date, minus due taxes and fees.

6.6.8. Employee stock option programme 2015

The general meeting of the Issuer of 28 August 2015 has authorized the management board, with the approval of the supervisory board, to implement a further stock option program ("Stock Option Program 2015"), and has dedicated a conditional capital in a nominal amount of EUR 1,814,984 to create option rights. Based on this authorization, share options could be granted until 27 August 2020. In accordance with this, the Management Board, or the Supervisory Board if the beneficiaries are Management Board members, are entitled to issue up to 1.814.984 share options, the exercising of which is linked to specific targets.

The program has a total nominal value of EUR 1.814.984 and a term of six years from the issue date, i.e. until 7 April 2022. To this end, conditional capital of EUR 1.814.984 was enacted as a result of the issuing of up to 1.814.984 registered shares without par value (no-par value shares) and with a stake in the share capital of EUR 1.00 per share pursuant to § 192 paragraph 1 No. 3 German Stock Corporation Act (AktG). The conditional capital was registered on 18 September 2015 in the Commercial Register of Cologne District Court under HRB 49717. Eligibility for the Share Option Programme 2015 may be granted to members of the Management Board and employees of the Issuer as well as to members of management bodies and employees of affiliates of the Issuer.

On April 18, 2016 a first tranche of 425,000 options at an exercise price of EUR 2.49 were issued under this program.

In accordance with the associated conditions, each subscription right that is granted entitles the beneficiary to acquire one new registered share without par value (no-par value share) in the company. The exercise price is equal to the arithmetical average (unweighted) of the closing prices ascertained on the Frankfurt Stock Exchange Xetra trading for the Issuer's shares on the ten trading days prior to the issuing of the share. However, the minimum exercise price amounts to the proportionate share of the company's share capital allocated to each individual no-par value share, pursuant to section 9, paragraph 1 of the German Stock Corporation Act.

The options granted may only be exercised after expiry of a retention period. The retention period is four years from the respective date of issue. A prerequisite for the whole or partial exercising of the options is that the following performance target is achieved:

Exercising the options from a tranche is possible if at the beginning of the respective exercise period, the price ("**Reference Price**") of a share in Biofrontera Aktiengesellschaft exceeds the exercise price by at least 20%. The Reference Price is equal to the arithmetical average (unweighted) of the closing prices ascertained on the Frankfurt Stock Exchange Xetra trading for the Company's shares between the 15th and the 5th trading day (inclusive in each case) prior to the respective exercise window. Additionally, the reference price compared to the exercise price has developed as well or better as the „MSCI World Health Care Index TR“ or a comparable successor index in the time period from the last trading day before the issue date until the fifth trading day before the respective exercise period.

The minimum reference price is adjusted in the following cases in order to bring the stated performance target into line with changed circumstances:

In the event of a capital increase from company funds being carried out by issuing shares, the minimum reference price is reduced by the same proportion as new shares issued compared to existing shares. If the capital increase is carried out from company funds without the issuing of new shares (§ 207 paragraph 2 clause 2 German Stock Corporation Act (AktG)), the minimum reference price remains unchanged.

In the event of a capital reduction taking place, no adjustment is made to the minimum reference price, provided that the total number of shares is not affected by the reduction of capital, or if the capital reduction is associated with a return of capital or an acquisition of own shares in return for payment. In the event of a capital reduction achieved by consolidation of shares without repayment of capital or in the event of an increase in the number of shares without a change in capital (share split), the minimum reference price is increased in proportion to the reduction of capital or to the share split.

There are no other cases in which adjustments are made to the minimum reference price.

The exercising of options is limited to the following time periods, i.e. only declarations of exercising of rights submitted to the company within an exercise window will be considered:

- within the ten banking days after the date of issue of an annual or half-yearly report,
- within the ten banking days after the date of the Annual General Meeting,
- within the ten banking days after the date of issue of a quarterly report or an interim report.

After expiry of the relevant retention period, the options can be exercised up until the expiry of six years from the date of issue.

The right to exercise the options expires no later than six years after the first day of issue, i.e. on 7 April 2022. Any options not exercised by that date are forfeited without compensation.

Any claim by the beneficiary to receive a cash settlement in the event of non-exercise of the options is invalid, notwithstanding the existence of the above exercise prerequisites. An option right may only be exercised if the holder has a current service or employment contract with the company or another company affiliated with the company or if the holder is a member of the Management Board or the management team of another company affiliated with the company.

6.6.9. Accrual for pension obligations

The Issuer does not provide pension benefits to members of its management board or supervisory board, and therefore has not set aside or accrued monies to provide pension, retirement or similar benefits.

6.7. Employees

As of the date of this prospectus, 70 employees have been working for Biofrontera Group.

On 31 December 2015, 58 employees worked for Biofrontera Group (31 December 2014: 46). Of these, 17 were employed at Biofrontera Aktiengesellschaft (31 December 2014: 16), 6 at Biofrontera Bioscience GmbH (31 December 2014: 6) and 34 at Biofrontera Pharma GmbH (31 December 2014: 24). No staff are employed at Biofrontera Development GmbH or Biofrontera Neuroscience GmbH. One employee worked for Biofrontera Inc.

Biofrontera Group does not employ a significant number of temporary employees.

6.8. Major shareholders

Insofar as known to the issuer, the following persons who, directly or indirectly, have an interest in the issuer's capital or voting rights which is notifiable under German law:

Direct Interest:

- Deutsche Balaton AG, Heidelberg, Germany: 8.28%
- Maruho Deutschland GmbH, Düsseldorf, Germany: 14.72 %
- FEHO Vermögensverwaltungsgesellschaft mbH, Frankfurt, Germany: 3.14 %
- Heidelberg Innovation Management GmbH & Co. KG: 3.22%

Indirect Interest:

- Maruho Co., Ltd., Osaka, Japan: 14.72 %
- Universal Investment Gesellschaft mbH, Frankfurt, Germany: 3.14 %
- Wilhelm K. T. Zours: 11.21 %
- Prof. Dr. Abshagen: 3.84 %

Christoph Kronabel: 3.63 %The Issuer's major shareholders do not have different voting rights.To the extent know to the Issuer, the Issuer is not directly or indirectly owned or controlled. No specific measure are in place to prevent abuse of a potential control of the Issuer.

No arrangement are known to the Issuer that may at a subsequent date result in a change in control of the Issuer.

6.9. Share capital

As of the date of this prospectus, the structure of the Issuer's share capital is as follows:

6.9.1. Registered capital

The registered share capital amounts to EUR 30,347,813, divided into 30,347,813 no par-value ordinary registered shares with a notional value of EUR 1.00 per share. The shares are fully paid in. No shares are issued that are not fully paid in.

As of 31 December 2015 (i.e. as of the date of the last audited financial accounts of the Issuer), the registered share capital of the Issuer amounted to EUR 25,490,430, divided into 25,490,430 no par-value ordinary registered shares with a notional value of EUR 1.00 per share. As of 31 March 2016 (i.e. as of the date of the last unaudited financial accounts of the Issuer), the registered share capital of the Issuer amounted to EUR 27,847,814, divided into 27,847,814 no par-value ordinary registered shares with a notional value of EUR 1.00 per share.

No shares were paid for with assets other than cash within the period covered by the historical financial information.

No shares exist that are not representing capital.

6.9.2. History of registered capital

6.9.2.1. Until 31 December 2013

Until 31 December 2013, the registered capital of the Issuer had developed as follows:

Date	Share capital in EUR
Upon Incorporation (as Biofrontera Pharmaceuticals GmbH), October 1997	DEM 50,000.00 (EUR 25,564.60)
December 1998	DEM 75,000.00 (EUR 38,346.90)
July 2000	DEM 120,500.00 (EUR 61,610.69)

Date	Share capital in EUR
November 2000 (legal form change into AG and change of capital denomination in EUR)	EUR 72,300.00
June 2001	EUR 72,502.00
August 2001	EUR 1,015,028.00
January 2003	1,159,324.00
August 2003	1,862,869.00
August 2005	2,381,987.00
October 2005	2,480,132.00
June 2006	2,540,132.00
October 2006	3,205,403.00
August 2008	3,316,514.00
January 2009	3,647,514.00
April 2009	3,736,528.00
May 2009	5,736,628.00
September 2009	5,834,961.00
September 2009	7,595,486.00
January 2010	8,395,486.00
June 2010	8,975,486.00
September 2010	9,975,486.00
March 2011	10,855,486.00
August 2011	11,240,486.00
February 2012	11,740,486.00
March 2012	16,143,168.00
April 2013	17,753,168

6.9.2.2. Since 1 January 2014

Since 1 January 2014, i.e. during the period covered by the historical financial information, the registered capital of the Issuer developed as follows:

- By execution of authorized capital, effective 6 February 2014, the registered capital was increased to EUR 22,191,460;
- By execution of options from option bonds, effective 13 March 2014, the registered capital was increased to EUR 22,196,570;
- By execution of authorized capital, effective 1 June 2015, the registered capital was increased to EUR 23,573,842;

- By execution of authorized capital, effective 3 December 2015, the registered capital was increased to EUR 25,490,430;
- By execution of authorized capital, effective 26 February 2016, the registered capital was increased to EUR 27,847,814;
- By execution of authorized capital, effective 26 April 2016, the registered capital was increased to EUR 30.347.813.

6.9.3. Authorized capital

The management board of the Issuer is authorized to increase the share capital by up to EUR 5,012,950 by issuing new ordinary registered shares, with the approval of the supervisory board, until 27 August 2020 against contribution in cash or in kind once or several times by issuing new ordinary shares. The management board is entitled, with the approval of the supervisory board, to determine the content of the share's rights as well as the terms of the share issue. The new shares are to be offered to the shareholders. The management board is entitled, with the approval of the supervisory board, to exclude subscription rights of shareholders in the following cases:

- In cases of fractional amounts;
- In cases of capital increases in exchange for non-cash contributions, particularly the granting of shares in order to acquire companies, stakes or holdings in companies, or in order to acquire receivables as well as protective rights (e.g. patents) and rights to protective rights of this kind (e.g. licenses);
- In cases of cash contributions up to an amount not exceeding 10% of the share capital when this authorization comes into effect and when this authorization is utilized, and when the issue price of the shares is not significantly lower than the exchange price of the Company shares already being traded on the stock market when the issue price is definitively set. Shares that have been sold or issued, or are to be issued, during the term of this authorization on the basis of other authorizations, by direct or corresponding application of § 186 Para. 3 Sentence 4 AktG (German Stock Corporation Act) under exclusion of purchase rights, are taken into account in the above-mentioned 10% limit (this also applies to the issue of shares on the basis of purchase or conversion rights or obligations arising from bonds and/or profit participation rights, if these were issued by corresponding application of § 186 Para. 3 Sentence 4 AktG (German Stock Corporation Act) under exclusion of purchase rights).

6.9.4. Shares held by the Issuer

No shares are held by or on behalf of the Issuer or subsidiaries of the Issuer.

6.9.5. Warrant bonds

The Issuer has issued two option bonds Terms of these bonds are summarized below:

6.9.5.1. Warrant Bond I

The Issuer announced on 26 June 2009 the placement of a warrant bond with a term lasting until 31 December 2017. As part of this corporate financing measure, an option bond was placed in 2009 ("Warrant Bond I"). The warrant bond I has a total nominal value of EUR 10,000,000.00 and is divided up into 100,000 warrant bonds with a nominal value of EUR 100.00 each. Redemption on maturity is 106% of the nominal value of the bond. The warrant bonds bear interest on the following scale:

- from 1 September 2009 to 30 December 2010: annual rate of 4%;
- from 31 December 2010 to 30 December 2011: annual rate 6%;
- from 31 December 2011 to 31 December 2017: annual rate 8%.

Interest payments on warrant bonds end on the day before they are due for repayment. Interest is payable on the last business day of the calendar year, but for the first time on 31 December 2010, i.e. interest payable for 2009 was not due until then. Normal notice of termination on the part of the bondholders is not possible. The Issuer has the right, upon provision of written notice to the bondholders, to repay Warrant Bond I at any time at 106% of the nominal amount (plus accrued interest). In accordance with the bond and option conditions, each bond holder has, for each individual bond held, five detachable warrants which each grant an irrevocable right to acquire one registered share without par value in the Issuer, with associated voting rights and with a stake in the share capital of EUR 1.00 each, at an option price of EUR 5.00. The warrant expires on 30 December 2017. Each share resulting from the exercising of an option carries dividend rights from the beginning of the financial year in which it was created through the exercise of the option and payment of the contribution. Conditional capital of the company of up to EUR 500,000.00 is allocated in order to secure these options, as resolved at the Extraordinary General Meeting held on 17 March 2009.

Of these warrant bonds, partial bonds were issued with a nominal value of EUR 4,930,300 in total.

The liability from this warrant bond was valued at the time of issue and was attributed a cash value of EUR 3,238,744, and the book value of the long-term financial debts amounted to EUR 2,836 thousand on 31 December 2015. The short-term portion of the financial liability, i.e. debts payable within one year, amounts to EUR 394 thousand as per December 31, 2015. The nominal interest rates for 2014 was paid in the beginning of January 2015 and for 2015 on 31 December 2015, and were reported under the short-term financial liabilities, along with the interest payment for the nominal interest rates that were due on 31 December 2015.

Under the Warrant Bond I, a total of 246,515 options are issued and may be exercised.

6.9.5.2. Warrant Bond II

On June 07, 2011 the Issuer, based on the authorisation granted by the Annual General Meeting, decided to issue a warrant bond 2011/2016 (hereinafter referred to as "Warrant Bond II").

The warrant bond II has a total nominal value of EUR 25,000,000 and is divided up into 250,000 warrant bonds with a nominal value of EUR 100.00 each. Each individual warrant bond is associated with ten detachable warrants issued by the Issuer; each warrant entitles the holder to acquire a registered share without par value in the Issuer, with associated voting rights and with a stake in the share capital of EUR 1.00 each, at an option price of EUR 3.00. If all the option rights were to be issued and exercised, this would result in a calculated total exercise price of EUR 7,500,000. The issue price for each warrant bond is EUR 100.

The term of the warrant bonds begins on July 20, 2011 and ends on December 31, 2016. The Issuer will repay the bonds on January 01, 2017 at 100% of the nominal amount. The Issuer has the right to repay the Warrant Bond II at any time at 100% of the nominal amount (plus accrued interest). Bondholders may terminate Warrant Bond II for good reason in certain cases; normal termination on the part of the bondholders is not possible. In order to provide financing for the option rights, conditional capital of up to EUR 2,500,000 was approved at the Issuer's General Meeting on May 10, 2011 and entered in the commercial register on May 18, 2011. The Warrant Bond II bears annual interest of 5%. Interest payments on all bonds expire on December 31, 2016. Interest is paid annually on 1st January for the previous year, commencing on January 01, 2012 with a payment of EUR 195 thousand for the period July 20, 2011 until December, 31 2011.

A nominal total of EUR 8,715 thousand of individual warrant bonds of Warrant Bond II was issued as a result of the two transactions that exchanged the convertible bonds for Warrant Bond II in July and December 2011 and the direct acquisition from the initial issue. The resulting interest payments payable for the period from January 01, 2015 to December 31, 2015 were paid on the interest due date of 4 January 2016; these payments amounted to EUR 436 thousand. On 31 December 2015, the interest debt payable for the period from 1 January 2015 to 31 December 2015, amounting to EUR 436 thousand, was reported as short-term liabilities.

Under the Warrant Bond II, a total of 866,390 options are issued and may be exercised.

6.9.5.3. Further conditional capital

The general shareholder meeting of the Issuer of 28 August 2015 has resolved on the creation of two conditional capital increases.

6.9.5.3.1. Conditional Capital I

Under section 7 paragraph 2 of the articles of association, the capital of the Issuer is conditionally increased by up to EUR 6,434,646 by issuing up to 6,434,646 new shares. The conditional capital increase shall serve the grant of option rights and obligations from future warrant bonds, which may be issued until 27 August 2020. Subscription rights of shareholders may be excluded.

6.9.5.3.2. Conditional Capital V

Under section 7 paragraph 8 of the articles of association, the capital of the Issuer is conditionally increased by up to EUR 1,814,984 by issuing up to 1,814,984 new shares. The conditional capital increase shall serve exclusively the grant of option rights issued pursuant the authorization of the general shareholder meeting of 28 August 2015, for the implementation of a future stock options program. Subscription rights of shareholders may be excluded.

6.9.6. Total limits to the exclusion of subscription rights

The total number of shares issued from Authorized Capital I (as described under 6.9.3) and/or the Conditional Capital I (as described under 6.9.5.3.1) without subscription rights of existing shareholders must not exceed 4,714,768 shares. The exclusion of subscription rights due to fractional amounts remains unaffected.

6.9.7. Acquisition rights

All shareholders are entitled to acquire newly issued shares pro rata to their shareholding under statutory German law, insofar as the statutory subscription right is not excluded. No further individual acquisition rights exist.

6.9.8. Options to shares

No option rights to shares other than the rights granted under the employee stock option programmes 2010 and 2015 and the Warrant Bonds I and II exist.

6.10. Litigation

In August 2016, the Issuer was served a lawsuit by a shareholder contesting the appointment of three members of the supervisory board in the annual general meeting of the Issuer on 31 May 2016. The members of the supervisory board are Mr. Jürgen Baumann, Mr. John Borer and Mr. Kevin Weber. The claimant alleges that one shareholder was prevented from attending part of the general meeting against the shareholder's will. A first hearing will be held by the higher court (Landgericht) Cologne in November 2016. If the lawsuit is successful, the respective members of the supervisory board will

retroactively be removed from their positions. This means that non-competent persons have taken part in decisions of the supervisory board. Furthermore, since the supervisory board only has six members, and requires at least three members to take a decision, if the court holds that the respective members have not been effectively appointed, decisions may be invalid.

The management board of the Issuer consider the risk associated with the lawsuit as low.

6.11. Related party transactions

After the end of the last financial period for which audited financial information have been published, i.e. 31 December 2015, the Issuer has not entered into material transactions with related parties.

However, the Issuer availed itself of additional advisory services from one member of the Supervisory Board, Dr. Ulrich Granzer. These services went beyond the scope of normal Supervisory Board activities, and are therefore not considered fees for the activities as supervisory board member, but arms-length remuneration for services rendered comparable to a third party. 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 2015 financial year, advisory services amounting to EUR 62 thousand (2014: EUR 98 thousand) were provided by Granzer Regulatory Consulting & Services. Accounts payable to Granzer Regulatory Consulting & Services amounted to EUR 0 on 31 December 2015 (31 December 2014: EUR 6 thousand). The underlying consultancy contract was approved in consideration of the statutory provisions.

7. Financial Information

7.1. Selected financial information

The following tables contain selected financial information of the Issuer for the fiscal years ended 31 December 2015 and 2014, which are based on

- the audited consolidated financial statements prepared in accordance with IFRS as of 31 December 2015 and 2014, respectively.

	Fiscal year ending 31 December 2015	**Fiscal year ending 31 December 2014**	**Quarter ending 31 March 2016**	**Quarter ending 31 March 2015**	**Half year ending 30 June 2016**	**Half year ending 30 June 2015**
Source of financial information / (all numbers in thousand Euros)	audited consolidated financial statements as per 31 December 2015	audited consolidated financial statements as per 31 December 2014	Unaudited consolidated financial statements as per 31 March 2016	Unaudited consolidated financial statements as per 31 March 2015	Unaudited consolidated financial statements as per 30 June 2016	Unaudited consolidated financial statements as per 30 June 2015
Sales revenue	4,138	3,096	1,017	1,030	1,709	1,568
Cost of sales	-1,236	-1,117	-361	-310	-764	-534
Gross Profit	2,902	1,979	656	720	945	1,034
Research and development costs	-6,204	-4,534	-1,005	-1,240	-1,852	-4,498
General administrative costs	-2,759	-3,244	-789	-633	-1,372	-1,348
Sales costs (1)	-4,170	-3,847	-1,196	-945	-2,832	-2,038
Net loss before taxes	-11,203	-10,721	-448	-2,362	-3,472	-7,323
Loss after taxes	-11,203	-10,721	-448	-2,362	-3,472	-7,323
Long term liabilities (end of period)	11,230	10,774	3,242	11,241	3,060	11,321
Current liabilities (end of period)	3,077	3,257	11,057	2,490	11,410	2,529
Equity (end of period)	-4,809	-21	-794	-2,356	1,076	-4,299
Cash & cash equivalents (end of period)	3,959	8,509	8,050	5,883	10,173	4,127
Employees (end of period) (2)	58	46	59	49	59	54

(1) Note: While "cost of sales" refers to general costs of revenue, "sales costs" refers to distribution costs. The unaudited consolidated financial statement as per 30 June 2016 uses the term "marketing costs".

(2) Unaudited; source: management report for the respective period.

7.2. Capital Resources

7.2.1. Cash flows

The cash flows of the Issuer for the fiscal years 2015 and 2014 are as follows:

Annual cash flow:

	Period from 1 January 2015 – 31 December 2015	**Period from 1 January 2014 – 31 December 2014**
Source of financial information (all numbers in Euro)	audited consolidated financial statements as per 31 December 2015	audited consolidated financial statements as per 31 December 2014
Cash flows from operations		
Net loss for the year	-11,203,410.20	-10,720,978.98
Adjustments to reconcile the net loss for the year with cash flow into operational activity:		
Financial result	1,159,325.74	1,099,319.06
Depreciation	811,681.84	811,005.00
(Gains)/losses from disposal of assets	115.00	2,632.00
Non-cash expenses and income	-22,203.75	302,084.17
Changes in operating assets and liabilities:		
Trade receivables	-585,574.61	269,426.25
Other assets and income tax assets	-11,314.11	-269,667.37
Inventories	-140,126.97	191,674.09
Trade payables	75,987.99	254,339.49
Provisions	149,945.42	132,619.86
Other liabilities	48,255.77	-385.69
Net cash flow into operations:	-9,717,317.88	-7,927,932.12
Cash flows from (into) investment activities:		
Purchase of intangible and tangible assets	-180,303.54	-164,082.80
Interest received	183,978.17	142,588.26
Revenue from the sale of intangible and tangible assets	13,353.71	100,368.88
Net cash flow from (into) investment activities	17,028.34	78,874.34
Cash flows from financing activities:		
Proceeds from the issue of shares	6,313,472.92	15,333,626.29
Proceeds from the sale of own warrant bonds	0.00	0.00
Payouts from the repurchase of own warrant bonds	0.00	-1,500,750.00
Interest paid	-1,224,598.00	-454,489.62
Increase / (decrease) in long-term financial debt	455,647.62	-742,357.20
Increase / (decrease) in short-term financial debt	-394,424.00	788,848.00
Net cash flow from financing activities	5,150,098.54	13,424,877.47
Net increase (decrease) in cash and cash equivalents	-4,550,191.00	5,575,819.69
Cash and cash equivalents at beginning of period	8,509,398.16	2,933,578.47
Cash and cash equivalents at end of period	3,959,207.16	8,509,398.16
Composition of financial resources at end		

	Period from 1 January 2015 – 31 December 2015	**Period from 1 January 2014 – 31 December 2014**
Source of financial information (all numbers in Euro)	audited consolidated financial statements as per 31 December 2015	audited consolidated financial statements as per 31 December 2014
of period:		
Cash and bank balances and cheques	3,959,207.16	8,509,398.16

Interim period cash flow:

	Period from 1 January 2016 – 31 March 2016	**Period from 1 January 2015 – 31 March 2015**	**Period from 1 January 2016 – 30 June 2016**	**Period from 1 January 2015 – 30 June 2015**
Source of financial information (all numbers in Euro)	Unaudited consolidated financial statements as per 31 March 2016	Unaudited consolidated financial statements as per 31 March 2015	Unaudited consolidated financial statements as per 30 June 2016	Unaudited consolidated financial statements as per 30 June 2015
Cash flows from operations				
Net loss for the year	-447,743.50	-2,362,480.10	-3,472,266.81	-7,322,880.44
Adjustments to reconcile the net loss for the year with cash flow into operational activity:				
Financial result	292,795.99	273,026.04	592,771.09	559,988.21
Depreciation	197,211.95	199,493.00	404,278.21	404,814.52
(Gains)/losses from disposal of assets	4,836.33	115.00	4,836.33	115.00
Non-cash expenses and income	21,685.79	27,256.85	46,370.75	23,814.20
Changes in operating assets and liabilities:				
Trade receivables	244,089.68	-231,377.57	382,122.06	21,215.11
Other assets and income tax assets	-334,596.29	-4,895.12	-338,600.42	-118,539.74
Inventories	63,699.22	31,299.70	-142,290.04	-215,307.00
Trade payables	-80,963.58	58,103.74	-45,292.13	-155,011.31
Provisions	207,135.60	161,938.04	83,086.09	249,467.31
Other liabilities	15,454.37	29,116.74	-25,723.57	16,555.56
Net cash flow into operations:	183,605.56	-1,818,403.68	-2,510,708.44	-6,535,768.58
Cash flows from (into) investment activities:				
Purchase of intangible and tangible assets	-100,897.81	-37,473.12	-154,606.02	-79,808.74
Interest received	558.61	55,358.65	1,708.30	63,574.77
Revenue from the sale of intangible and tangible assets	8,308.43	4,742.01	9,671.37	9,320.71
Net cash flow from (into) investment activities	-92,030.77	22,627.54	-143,226.35	-6,913.26
Cash flows from financing activities:				
Proceeds from the issue of shares	4,434,585.60	0.00	9,303,174.28	2,990,076.90
Interest paid	-435,786.81	-830,174.00	-435,802.80	-830,174.00
Increase / (decrease) in long-term financial debt	-8,280,512.03	186,871.27	-8,170,081.08	-20,663.14
Increase / (decrease) in short-term financial debt	8,280,512.03	-186,880.43	8,170,081.08	20,663.14
Net cash flow from financing activities	3,998,798.79	-830,183.16	8,867,371.48	2,159,902.90
Net increase (decrease) in cash and cash equivalents	4,090,373.58	-2,625,959.30	6,213,436.69	-4,382,778.94
Cash and cash equivalents at beginning of period	3,959,207.16	8,509,398.16	3,959,207.16	8,509,398.16
Cash and cash equivalents at end of period	8,049,580.74	5,883,438.86	10,172,643.85	4,126,619.22
Composition of financial resources at end of period:				
Cash and bank balances and cheques	8,049,580.74	5,883,438.86	10,172,643.85	4,126,619.22

7.2.1.1. First half of fiscal year 2016

Due to improved revenues, cash flow from operating activities improved from EUR -6,536 thousand as at June 30, 2015 to EUR -2,511 thousand as at June 30, 2016.

Cash flow from interest revenue fell by EUR 62 thousand to EUR 2 thousand. Investments in fixed assets increased slightly by EUR 75 thousand. These factors led to a decrease in cash flow from investment activities of EUR 136 thousand, from EUR -7 thousand to EUR -143 thousand.

Cash flow from financing activities improved by EUR 6,707 thousand compared with the same period of the previous year, from EUR 2,160 thousand to EUR 8,867 thousand. This change is attributable primarily to proceeds from the issuance of shares in the amount of EUR 4.4 million in February 2016 and EUR 4.9 million in April 2016 compared with the smaller capital increase in the same period of the previous year.

7.2.1.2. Fiscal year 2015

In 2015, due to high net losses, cash flow from operations fell from EUR -7,928 thousand in 2014 to EUR -9,717 thousand.

In both 2015 and 2014, capital increases were implemented in order to provide further financing for the company. Equity proceeds were significantly higher in 2014 than in 2015. Therefore, cash flow from financing activities decreased from EUR 13,425 thousand to EUR – 5,150 thousand. The sharp increase in short-term financial debt is due to the closing maturity of the 2009/2017 bond.

7.2.1.3. Fiscal year 2014

In 2014, primarily because of the high net loss, cash flow from operating activities fell from EUR -7,225 thousand in the previous year to EUR -7,928 thousand. As there was an increase in interest payments received, from EUR 19 thousand to EUR 143 thousand, the company achieved a positive cash flow from investment activity amounting to EUR 79 thousand (previous year: EUR -323 thousand).

7.2.2. Restrictions on the use of capital resources

There were and are no restrictions on the use of capital resources in place; in particular, the Issuer has not made covenants regarding an equity quota.

7.3. Capitalization and indebtedness

The following table shows the Issuer's capital as of 31 August 2016. The figures are taken from the internal controlling of the Issuer.

Capitalization according to IFRS	As of 31 August 2016, in thousand EUR
Total current debt	11,682
Guaranteed	-
Secured	-
Unguaranteed / unsecured	11,682
Total non-current debt (excluding current portion of	3,060

long-term debt)	
Guaranteed	-
Secured	-
Unguaranteed / unsecured	3,060
Shareholder's Equity	
a. Share capital	30,348
b. Legal reserve	84,024
c. Other Reserve (1)	-115,381
Sum of Shareholder's Equity	-1,009
Total	13,733

(1) loss carry-forward and accumulated losses

The following table shows the Issuer's indebtedness as of 31 August 2016. The figures are taken from the internal controlling of the Issuer.

Indebtedness according to IFRS	As of 31 August 2016, in thousand EUR
A. Cash	7,235
B. Cash equivalent	-
C. Trading Securities	-
D. Liquidity (A.+B.+C)	7,235
E. Current Financial Receivable	1,964
F. Current Bank debt	-
G. Current portion of non-current debt	9,296
H. Other current financial debt	1,181
I Current Financial Debt (F+G+H)	10,467
J. Net Current Financial Indebtedness (I-E-D)	1,268
K. Non-current Bank loans	-
L. Bonds Issued	11,444
M. Other non-current loans	-
N. Non current Financial Indebtedness (K+L+M)	11,444
O. Net Financial Indebtedness (J+N)	12,712

There is no indirect or contingent indebtedness.

7.4. Working capital statement

The Issuer is of the opinion that the working capital of Biofrontera Group is currently not sufficient to meet the obligations due in the next twelve months.

The current working capital will, in the Issuer's current estimation, be sufficient to cover due obligations until approx. December 2016. For the coming twelve months, the Issuer will require under the current estimate, approx. EUR 15 Million more in order to cover the payment obligations due in the next twelve months. This includes, in particular, the repayment of the option bond due on 1 January 2017, the ongoing operative business of Biofrontera Group, including the marketing activities in Europe, maintaining and extending the European approval, as well as costs for the establishment of a sales and marketing presence in the US, including the working capital required to manufacture a number of US-versions of the BF-RhodoLED® lamp.

The Issuer plans to rectify a part of this shortfall with the capital increase described in this prospectus. However, it should be noted that only an amount of approximately EUR 5 million is currently intended to be used to cover the working capital requirements; the remaining part of the proceeds will be invested in the US distribution structures. The Issuer will strive to cover the remaining part of the shortfall with equity or debt capital measures. In particular, the Issuer's management is currently in negotiations with several investors regarding the subscription of convertible bonds in a total amount of approximately EUR 10 million. At the date of this prospectus, the Issuer's management is optimistic that such bonds can be placed with new investors and existing shareholders.

However, no binding purchase / subscription orders have yet been made. Furthermore, the Issuer may attempt to raise equity capital. However, this would require a 75% majority in the general meeting. The management of the Issuer currently considers it unlikely that a sufficient majority of the general meeting will agree to capital measures.

A success of such further capital measures is therefore not guaranteed.

Cost-cutting measures might be possible, but not to the extent necessary to ensure the ability to cover all payment obligations that become due in the next twelve months on their own. Furthermore, such cost-cutting measures would cause material constraints to Biofrontera Group's business and future prospects. On their own, cost-cutting measures will not be sufficient to provide for sufficient working capital to meet the obligations due in the next twelve months. Therefore, the Issuer only considers to implement such cost-cutting measures as a supplemental means if proceeds from the capital measure described in this prospectus are insufficient as such, but will suffice together with cost-cutting measures.

Regarding the obligations due under the option bond on 1 January 2017, the Issuer might convene a creditors' meeting, which could extend the maturity date. However, this would be in the sole discretion of the creditors.

A failure of financing measures would result in the inability of the Issuer to meet its obligations and therefore an insolvency in the short term.

Potential investors should therefore be aware that the Issuer is dependent on raising additional capital to avoid an insolvency during the next twelve months, and that the success of raising such capital is outside of the Issuer's influence.

8. Profit Forecast

8.1. Forecast of consolidated net result for Biofrontera AG for the financial year 2016

The forecast provided in this section includes the consolidated net result, which is mainly driven by revenue development, research and development costs, financial result and other income. A forecast is not a representation of facts and should not be interpreted as such by investors. It is an estimate by the management board and the Issuer relating to the development of the Issuer's net income. Potential investors should rely on these forecast only to a limited extent.

Forecasts are based on below mentioned assumptions made by the management board of the Issuer relating to factors that have an influence on these forecasts. Those assumptions however are also related to factors that cannot at all or only to a limited extent be influenced by the Issuer. Although the Issuer concludes that these assumptions are reasonable at the time these are published by the management board of the Issuer, in retrospective they may still prove to have been incorrect or unjustified. Therefore actual net income may deviate substantially from these forecasts.

In May 2016 the following forecast report has been published in the Issuer's consolidated audited financial statement for the fiscal year ending 2015:

"(…) the company (i.e. the Issuer) will achieve a net result of EUR -11 to -12 million in 2016. The achievement of this result however depends heavily on progress in terms of sales revenue."

The underlying assumptions had been reviewed in May 2016 and confirmed in the Issuer's consolidated unaudited financial statement for the quarter ending 31 March 2016:

"The current outlook for the 2016 financial year is unchanged from the forecast contained in the 2015 Annual Report."

The underlying assumptions had been reviewed in August 2016 and confirmed in the Biofrontera Group's consolidated unaudited half-yearly financial statement as at June 30, 2016:"Biofrontera still expects to generate revenue of EUR 6 to 7 million in the 2016 financial year. Compared with the original forecast, however, revenue in Germany will be lower than expected due to destocking on the part of wholesalers as well as competition resulting from the launch of Luxerm® for daylight PDT. This

will be offset by additional income from the development partnership with Maruho and higher revenue outside Germany.

Development and approval costs will increase from EUR 4-5 million to EUR 5-6 million as a result of the additional activities in cooperation with Maruho. Sales costs will amount to around EUR 9-10 million as opposed to the previous forecast of EUR 10-11 million.

The forecasts for the financial result and other income remain unchanged.

Accordingly, Biofrontera still expects to generate net earnings of EUR -11 to -12 million."

The assumptions had further been reviewed in October 2016 and an updated forecast report can be found below described in the notes (8.2): "The company expects to achieve a net result of EUR -11 to -12 million in 2016. The achievement of this result however depends heavily on progress in terms of sales revenue."

8.2. Notes to the forecast report

8.2.1. Principles

The forecast for the current financial year 2016 was prepared in accordance with IDW Accounting principles: preparation of forecasts and estimates in accordance with special requirements of prospectus decree (IDW RH HFS 2.003) of the Institute of Public Auditors in Germany (IDW Rechnungslegungshinweis: Erstellung von Gewinnprognosen und -schätzungen nach den besonderen Anforderungen der Prospektverordnung (IDW RH HFS 2.003) des Instituts der Wirtschaftsprüfer („IDW")).

This forecast was prepared by the Issuer in accordance with International Financial Reporting Standards, as adopted by the European Union („IFRS"), the applied disclosures, recognition and measurement principles are described in detail in the consolidated financial statements of December 31, 2015.

The forecast report is based on the following assumptions made by the management board of the Issuer. These include assumptions as further outlined below.

8.2.2. Factors and assumptions

8.2.2.1. Factors that cannot be influenced

The forecasted consolidated net income of Biofrontera Group is influenced by a number of factors that cannot be influenced by the company. These factors including the Issuer's assumptions relating to the development of these factors are listed below.

8.2.2.1.1. Factor unexpected events

The Issuer assumes that no unexpected events will occur that would lead to substantial obstruction of Biofrontera Group's business, such as force majeur (fire, floods, hurricanes, storms, earthquakes or terrorist attacks), strikes, exceptional macroeconomic events or war.

8.2.2.1.2. Factor legislative actions

The Issuer assumes that no major changes of the existing legal or regulatory regulations will occur.

8.2.2.1.3. Factor economic development of the pharmaceutical industry

The Issuer assumes that no major negative development in the relevant economic environment will occur.

8.2.2.1.4. Factor competition

Biofrontera Group faces competition mainly from one PDT drug in Europe, Metvix®, and another PDT drug in the US, Levulan Kerastick®. Since only smaller revenues are forecasted in the US in 2016, US competition will not have a major influence on Biofrontera Group's revenue development. In Europe however, Metvix® has a broader label which includes basal cell carcinoma (BCC) as an indication and has recently also been able to extend the label to daylight therapy. Although Biofrontera Group's product has significantly better clinical efficacy in comparable indications (actinic keratoses), Biofrontera Group cannot guarantee that Metvix® will not be able to regain market share due to changing prescriptions and uses of drugs by dermatologists, in particular when daylight therapy is used rather than performing PDT under a lamp.

8.2.2.1.5. Factor Ownership

At the time of preparation of the forecast the Issuer assumed that the current shareholder structure will remain stable and any smaller changes will not influence the strategy of the operating business. The largest shareholder holds ca. 15% of the Issuer's share capital. An increase of its investment beyond 25% may lead to a reduction or even complete loss of the Issuer's income and trade tax loss carryforwards.

8.2.2.2. Factors that can be influenced to a limited extent

8.2.2.2.1. Factor price development

The Issuer assumes that no major changes of prices or mandatory rebates for pharmaceutical products in Europe will occur. In all European countries in which Biofrontera Group's products are available prices for prescription drugs are set and maintained by governmental authorities. The Issuer further

assumes that prices actually achieved for its products in the US will not substantially deviate from price assumptions made in the forecast. Since Biofrontera Group's products have not yet been launched on the US market, the reimbursable price set by Medicare or other payers is not yet available and the Issuer needs to rely on estimates.

8.2.2.2.2. Factor drug prescriptions

Dermatologists have various options to treat actinic keratoses and it is entirely their own decision based on their assessment of the medical need which option they choose. Biofrontera Group can advertise clinical and other advantages to dermatologists only to a limited extend. The Issuer assumes that the number of prescriptions of products will continue to grow compared to the number of prescriptions in the previous year.

Biofrontera Group has only launched its products on the US market in October 2016 and has therefore no experience in this market. PDT is an established therapy in the US and the competitor generates significant revenues with its products. The management board assumes that the efforts of Biofrontera Group's sales people in the US will generate first revenues in the US in the 4th quarter.

8.2.2.2.3. Sales revenues

In May 2016 the following forecast report has been published in the Issuer's 2015 annual report: "For the 2016 financial year, Biofrontera expects to achieve sales revenues of approximately EUR 6 to 7 million. In Germany, as in recent years, we envisage an increase in sales revenue of approximately 30% compared with the previous year. It is still very difficult to predict the increase in sales in other European countries, which means that the achievable revenue could be anywhere within a wide margin. In addition, we are also expecting the first sales in USA towards the end of the year, although the extent of the sales achievable initially is difficult to plan in advance and is heavily dependent on the exact timing of the launch, which is planned for autumn, the availability of suitable staff and the speed with which the BF-RhodoLED® lamps can be placed."

Update

For the 2016 financial year, the Issuer expects to achieve sales revenue of approximately EUR 6 to 7 million. The Issuer expect further revenue growth in countries in which Biofrontera Group sells through its own sales force, namely in Germany and Spain. Revenue development in other European countries remains very difficult to forecast as Biofrontera Group will depend on its distribution partners ordering full production lots. Exact timing of such orders is difficult to predict, which means that the achievable revenue could be anywhere within a wide margin. In addition, Biofrontera Group is also expecting the first sales in the USA towards the end of the year, although the extent of the sales initially achievable is difficult to plan in advance and is heavily dependent on the launch in October, the availability of suitable staff and the speed at which the BF-RhodoLED® lamps can be placed.

Explanations:

Biofrontera Group's forecast in the annual report for the year 2015 included revenues of approximately EUR 1 million from development projects with a cooperation partner for the first time (see ad hoc release regarding the cooperation and partnership agreement from July 13, 2016). In Germany the Issuer had expected wholesalers to restock their inventories after Biofrontera Group had experienced reductions of stock in the first half year, and lower than expected revenues from the sale of Ameluz® and BF-RhodoLED® in the period January to October 2016. The approval of the European Medicine Agency for BCC indication is expected in January 2017 and therefore revenues will not be generated before 2017.

8.2.2.2.4. Factor Research and development expenses

In May 2016 the following forecast report has been published in the Issuer's 2015 annual report: "In order to extend the range of indications, and to obtain approval for the USA, Biofrontera will continue to invest heavily in research and development and regulatory affairs in 2016. The development and approval costs will be approx. EUR 4 to 5 million. In 2016, Biofrontera will invest particularly in setting up its sales and marketing organisation in the USA, and therefore the sales costs will rise significantly compared to 2015, amounting to approx. EUR 10 to 11 million in total."

Update (as of 11 October 2016):

In order to extend the range of indications, Biofrontera Group will continue to invest heavily in research and development and regulatory affairs in 2016. The development and approval costs will therefore be approx. EUR 5 to 6 million.

Explanations:

Biofrontera Group's operating expenses mainly include personnel expenses, fees for regulatory filings, as well as costs incurred in association with clinical trials. The Issuer has further assumed regulatory fees based on known fees for certain filings with regulatory bodies and our estimate on the type and quantity of filings Biofrontera Group will make. Costs for clinical trials are forecasted based on planning assumptions regarding the timing and the number of patients of such clinical trials. Corresponding to the above mentioned cooperation agreement the expenses for personnel and external costs for research and development will increase.

8.2.2.2.5. Factor operating expenses

Biofrontera Group's operating expenses other than Research and Development mainly include personnel expenses, fees for legal and audit and other advisors as well as costs incurred for marketing purposes. For the purpose of forecast the Issuer has taken into consideration the personnel as of to date including any planned changes, which in particular include the planned hiring of new personnel in the

US. Assumption has been made that Biofrontera Group will be able to hire all planned personnel and that salary levels will be within the planned range.

8.2.2.2.6. Factor interest expenses

In May 2016 the following forecast report has been published in the Issuer's 2015 annual report: "The financial result reflects the interest payments and compounding of interest using the effective interest method for the two warrant bonds. Therefore, this will not significantly change in 2016 compared with 2015."

This forecast remains unchanged compared to the forecast contained in 2015 Annual Report.

8.2.2.2.7. Factor Other income

In May 2016 the following forecast report has been published in the Issuer's 2015 annual report: "The reimbursement of the PDUFA fee by the FDA will be shown under "Other Income"." The 2016 figures and thus 2016 forecast contain the reimbursement of PDUFA fee with amount of EUR 2.1 million in other income.

This forecast remains unchanged compared to the forecast contained in 2015 Annual Report.

8.2.2.3. Factors that can be influenced

8.2.2.3.1. Factor once only effects

The forecast includes costs and payments made as well as income received to date. The Issuer points out that the refund of the PDUFA fee amounting to EUR 2.1 million is a one time only effect in 2016.

8.2.2.3.2. Other explanations

Since the forecast report includes a period in the future and is based on assumptions relating to future uncertain events and acts (factors) it is connected with significant uncertainty. Therefore it is possible that the actual net income for the 2016 financial year will deviate significantly from the forecasted net income.

Leverkusen, 11 October, 2016

Prof. Dr. Hermann Lübbert	Thomas Schaffer	Christoph Dünwald
Chief Executive Officer	Chief Financial Officer	Chief Commercial Officer

8.2.2.4. Auditors' report

"Auditor´s Report

To Biofrontera AG, Leverkusen

We have audited whether the profit forecast prepared by Biofrontera AG, Leverkusen, for the period from January 1, 2016 to December 31, 2016 has been properly compiled on the basis stated in the explanatory notes to the profit forecast and whether this basis is consistent with the accounting policies of the company. The profit forecast comprises the forecast profit after tax for the period from January 1, 2016 to December 31, 2016 and explanatory notes to the profit forecast.

The preparation of the profit forecast including the factors and assumptions presented in the explanatory notes to the profit forecast is the responsibility of the company´s management.

Our responsibility is to express an opinion based on our audit on whether the profit forecast has been properly compiled on the basis stated in the explanatory notes to the profit forecast and whether this basis is consistent with the accounting policies of the company.

Our engagement does not include an audit of the assumptions identified by the company and underlying the profit forecast or an audit of the historical financial information contained in the explanatory notes.

We conducted our audit in accordance with IDW Prüfungshinweis: Prüfung von Gewinnprognosen und -schätzungen i.S.v. IDW RH HFA 2.003 (IDW PH 9.960.3) (IDW Auditing Practice Statement: The Audit of Profit Forecasts and Estimates in accordance with IDW AcPS AAB 2.003 (IDW AuPS 9.960.3)) issued by the Institut der Wirtschaftsprüfer in Deutschland e.V. (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the audit such that material errors in the compilation of the profit forecast on the basis stated in the explanatory notes to the profit forecast and in the compilation of this basis in accordance with the accounting policies of the company are detected with reasonable assurance.

As the profit forecast relates to a period not yet completed and is prepared on the basis of assumptions about future uncertain events and actions, it naturally entails substantial uncertainties. Because of these uncertainties it is possible that the actual profit of the company for the period from January 1, 2016 to December 31, 2016 may differ materially from the forecast profit.

We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on the findings of our audit, the profit forecast has been properly compiled on the basis stated in the explanatory notes to the profit forecast. This basis is consistent with the accounting policies of the company.

Düsseldorf, 11 October 2016

Warth & Klein Grant Thornton AG

Wirtschaftsprüfungsgesellschaft

Ralf Clemens	Renate Hermsdorf
Wirtschaftsprüfer	Wirtschaftsprüferin
German Public Auditor	German Public Auditor

8.3. Dividend policy

The Issuer has to date not made dividend payments. Considering the substantial loss carry-forward, no dividend payments are expected in the near future.

9. Business overview

9.1. Principal activities

The strategic objective of the Biofrontera Group is to establish the company at global level as a pharmaceutical company specializing in the dermatological sector. In addition to further expansion of the sale of Biofrontera Group's products in Europe, in particular in Germany, the main priorities are to increase the range of indications for Ameluz® and to expand international sales activities, particularly develop the independent marketing operation in the USA.

Biofrontera Group was the first small German company to receive centralized European drug approval for a completely independently developed drug, Ameluz®. Biofrontera Group has been selling Ameluz® via its own field sales team to dermatologists in Germany since the product was launched in February 2012, and in Spain since March 2015. Ameluz® is available in the UK, but is not to be actively promoted until after approval has been extended to basal cell carcinoma. The drug is sold in other countries of the European Union, as well as in Israel and Switzerland, via licensing partners.

Biofrontera Group has thus established itself as a specialist pharmaceutical company. The focus of Biofrontera Group's short-term strategy is to further expand its business in Europe, achieve market entry of Ameluz® in the USA and extend the indications to include basal cell carcinoma, first in the EU and at a later stage in the USA.

Further preparatory work was carried out for the approval of Ameluz® in the USA. In early July 2015, the approval application was submitted to the FDA. Ameluz® and BF-RhodoLED® have to be approved as a combination of a drug and a medical device in the USA, and therefore the approval application is unusually complex. In accordance with the guidelines, the FDA made a decision on the formal "acceptance to file" after a period of 60 days, and this was granted on September 11, 2015. In the subsequent "74-day letter", the company was informed on October 2, 2015 that no significant verification issues had been identified in the preliminary review process. In this letter, the FDA also gave the

date for the detailed interim report including the proposed labeling as March 30, 2016, and gave an estimated date for issuing the final approval (PDUFA date) of May 10, 2016, provided that no significant problems arise. In a further communication on January 20, 2016, the FDA informed the company that the midcycle review had been completed and the FDA had no further questions arising from this regarding the approval application. The proposed labeling was provided to the company by the FDA at the end of March 2016. On May 10, the FDA granted approval for unconditional marketing of Ameluz in combination with the PDT lamp in the USA. Approval relates to the treatment of individual tumorous lesions as well as larger areas. No conditions to be fulfilled after approval were imposed here. Consequently, Biofrontera Group is open to the largest healthcare market in the world, has begun marketing in October 2016.

The extension of the indications for Ameluz® to include the treatment of basal cell carcinoma (BCC) was initiated in 2014. The phase III clinical testing was carried out in direct comparison with the competitor product Metvix®. Patient recruitment was completed in May 2015 and the last patient completed the clinical part of the trial in November 2015. There is then a 5-year follow-up period for all the patients. The results of the trial have been available since January 2016 and prove that Ameluz® is highly clinically effective for the indication of BCC. In comparison with the competitor product Metvix®, it demonstrated higher healing rates, especially with thicker and nodular carcinomas. The results of the phase III clinical study were published in April 2016. Based on the results of the study, Biofrontera Group has filed the application for extension of the approval with the European Medicines Agency ("EMA") in July 2016. Grant of approval by the EMA is expected by January 2017.

Despite its statistically significant inferiority for the treatment of mild and moderate actinic keratosis on the face and scalp and the approval restriction as a second-choice therapy, Metvix® has had a major competitive advantage over Ameluz® up to now due to its approval for the treatment of basal cell carcinoma. Particularly in those European countries, where dermatologists are based mainly in hospitals and there are fewer independent practices, the market opportunities of Ameluz® are significantly reduced by the lack of approval for BCC. The extension of the indications currently being sought is therefore expected to put Biofrontera in a significantly improved market position.

2016 is therefore a crucial year for Biofrontera Group in the course is likely to be set for a successful future on several fronts. In light of this and the related challenges facing Biofrontera Group, the company has also strengthened its staff. The management board was expanded to include a Chief Commercial Officer back in November 2015. Since the second quarter of 2016, Biofrontera Group has also started to advertise for suitable employees in the USA in order to fill key posts with highly qualified staff there as soon as possible, and recruited a dozen competent personnel since.

9.1.1.1. Ameluz®

Ameluz® 78 mg/g Gel ("for people who love the light", development name: BF-200 ALA) received a first centralized European approval for the treatment of mild and moderate actinic keratoses on the face and scalp in December 2011. During the phase III development, its superiority compared to its direct competitor product Metvix® was proven for this indication. 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 PDT. The product information approved by the EMA explicitly mentions the significant superiority of Ameluz® for removing all of a patient's keratoses compared to its direct competitor product.

The Issuer's management board considers the results of the Ameluz® phase III approval trials to be positive. In the first phase III trial in which Ameluz® was combined with an LED lamp, in 87% of patients treated with Ameluz®, all keratoses were completely removed, and in terms of the number of individual keratosis lesions, as many as 96% were completely eradicated (all the values stated are ITT *(intent to treat)* values). In the second phase III approval trial, the effectiveness of Ameluz® was tested in comparison with the approved standard medication. The results of the trial provided evidence that Ameluz® was clearly superior to the competitor product already available in Europe at the time. Based on the average for all lamps used in the treatment, Ameluz® resulted in the complete healing of actinic keratoses in 78% of patients, whereas the competitor product already approved at the time achieved a healing rate of only 64%. With LED lamps, the healing rates increased to 85% for Ameluz® and 68% for the competitor product. The side-effect profile was comparable for both products.

As approval in the USA requires a combination of drug and lamp, Biofrontera has developed its own PDT lamp, BF-RhodoLED®, and has had it CE-certified in the EU, which requires the company to be certified pursuant to the ISO 9001 and ISO 13485 standards. In preparation for approval in the USA, a phase III trial was carried out with a combination of Ameluz® and BF-RhodoLED®. With this combination, keratoses were completely eradicated from 91% of patients, and in terms of the number of individual lesions, 94% were completely removed after treatment (99.1% of mild and 91.7% of moderate lesions). As it has been widely reported in the literature that PDT has pronounced skin-rejuvenating properties, particularly in the case of sun-damaged skin, in this trial, for the first time in a phase III trial of PDT anywhere in the world, the drug was applied over large surface areas (field therapy) and the cosmetic result was established, without taking into account the disappearance or not of the keratotic lesions. All the parameters that were tested improved significantly as a result of the treatment. The proportion of patients without rough, dry and scaly skin increased from 14.8% to 63.0% after treatment with Ameluz®. The group of patients without hyperpigmentation or hypopigmentation increased from 40.7% to 57.4% and from 53.7% to 70.4%, respectively. The proportion of patients with mottled pigmentation who had both hyperpigmentation and hypopigmentation in the treated area decreased from 48.1% to 29.6%. Before treatment, 22.2% of the patients had mild scar-

ring, which dropped to 14.8% of patients after treatment. Atrophic skin was diagnosed in 31.5% of patients before treatment but in only 16.7% of patients after the treatment.

The patients treated in the field therapy trial were observed by the trial doctors over the course of a year after the final treatment. Here, the long-term nature of the pharmaceutical effect of Ameluz® was analyzed in terms of effectiveness, safety and the cosmetic result. 63.3% of the patients who were initially completely asymptomatic were still asymptomatic one year later. The long-term effectiveness achieved using field therapy is thus in the region of that already observed in previous long-term studies on lesion-directed PDT with Ameluz®. The improvement in the skin appearance of patients treated with Ameluz® that was observed immediately after PDT continued to develop during the follow-up period. Before PDT, only 14.8% of patients had no impairments to the surface of the skin. Whereas twelve weeks after the last PDT, 63% of patients were already free of such cosmetic damage, this percentage rose after a year to 72.2%. Similar results were also observed for pigment disorders. Before PDT, hyperpigmentation occurred in 59.3% and hypopigmentation in 46.3% of patients, with 48.1% exhibiting irregular pigmentation. Twelve weeks after Ameluz® PDT, these percentages initially fell to 42.6%, 29.6% and 29.6% and decreased over the course of a year to 24.1%, 11.1% and 18.5%. These results clearly show that the skin rejuvenation effect achieved using photodynamic therapy with Ameluz® is long-lasting and the repair processes triggered by the therapy remain active for at least 12 months.

It is the first time that data on the aesthetic effect of PDT has been collected within the scope of a phase III approval trial. The results underline the significance of PDT with Ameluz® and BF-RhodoLED® and show that the therapy stands out clearly from many other treatment options.

Both the phase I trials required by the FDA were completed in 2015. These clinical trials were initiated with a total of approximately 240 patients or subjects in order to add the safety data required for registration in the USA to the European approval package for Ameluz®. Specifically, one of the trials was a sensitization study, which determines the potential of Ameluz® to trigger allergies, and the other was a maximal use trial, which tests the absorption in the blood of the active ingredient in Ameluz®, aminolevulinic acid, and the light-activated metabolite protoporphyrin IX in cases of treatment with the maximum quantity, i.e. the application of a complete tube onto the defective skin. No safety concerns were identified in either of the studies.

Actinic keratosis is classified as a tumor that requires treatment, and the international treatment guidelines list photodynamic therapy as the gold standard for the removal of actinic keratoses, particularly for patients with large keratotic areas. The latest statistics show that actinic keratosis is becoming a widespread disease, with up to 8 million people affected in Germany alone, and that there is a marked upward trend in cases. In particular, subclinical and mild actinic keratoses 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 therefore taking actinic keratosis increasingly seriously is illustrated

by the fact that actinic keratosis has been recognized as an occupational disease since summer 2013. Since then, occupational insurance associations have been obliged to cover the treatment costs of patients who have worked predominantly outdoors for a long time and who fulfill certain criteria for the duration of these patients' lives. Reimbursement was determined in March 2016. Photodynamic therapy (PDT) is taken into account here, and can be used and invoiced for the treatment of occupational AK.

At present, actinic keratoses are treated using a wide range of methods. Lesions are treated, sometimes for weeks, with topical creams, which are often ineffective, or the diseased skin may be removed by mechanical intervention (curettage) or freezing (cryotherapy), which very often leads to scar formation or permanent pigment disorders.

The market for topical creams continues to show constant growth, and medicinally and legally questionable PDT formulations continue to be used in Germany. Because Ameluz® is the market leader among independent dermatologists in Germany in the PDT proprietary medicinal product market, with a market share of over 70%, a significant increase in revenue can and must result from the above-mentioned sectors.

The overall advantages of Ameluz® in terms of effectiveness, handling, user-friendliness and skin rejuvenation effect, as well as the high healing rates of PDT in the treatment of actinic keratoses, will increasingly bring this treatment option to the attention of dermatologists over the next few years. This will be helped by the expansion of the range of indications to include basal cell carcinoma, which the company is currently working on, as the vast majority of PDT treatments are carried out for this indication, particularly in the UK and Spain.

Biofrontera has carried out a phase III trial for the extension of the European approval to include the indication basal cell carcinoma (BCC). BCCs are the most common invasive tumors that affect humans and account for approximately 80% of all invasive white skin cancers. Around 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, gives rise to excellent cosmetic results. In the pivotal phase III trial, a total of 278 patients were treated. The trial was conducted under the clinical supervision of Prof. Dr. Colin Morton (UK) and Prof. Dr. Markus Szeimies (Germany) and was carried out at 27 clinical trial centers in the UK and Germany. Patient recruitment for the trial, which was carried out in direct comparison with the competitor product Metvix®, was completed in May 2015 and the last patient completed the trial in November 2015. The results of the trial have been available since January 2016. The results confirm the Issuer’s positive expectations. In the clinical trial, the effectiveness and safety of Ameluz® were compared with that of Metvix®, a drug already approved in the EU for the treatment of BCC. Non-aggressive (superficial and nodular) BCCs with a

thickness of up to 2 mm were included in the trial. Ameluz® achieved complete elimination of all BCCs from the patient in 93.4% of cases compared to 91.8% with Metvix®. There were greater differences in the case of thicker BCCs. With Ameluz®, 89.3% of the nodular carcinomas were completely removed, compared to only 78.6% with Metvix®.

Based on the results of this phase III trial, Biofrontera applied to the European Medicines Agency for approval for the treatment of BCC with Ameluz® in July 2016. The inspection of the application by the agency is expected to take around six months. As the existing Ameluz® approval has to be extended for this only, the extended approval is expected in January 2017.

9.1.1.1. BF-RhodoLED®

BF-RhodoLED® is a lamp designed for PDT, and uses LEDs emitting red light at a wavelength of approx. 635 nm. Light at this wavelength, which is ideally suited for PDT illumination with drugs containing ALA or methyl ALA, is red but is still below 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 energy and fan power settings can be adjusted during a PDT treatment session in order to reduce any discomfort caused by 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. For the purpose of sales operations in the USA, the final assembly of the PDT lamp has been transferred to Biofrontera Group's facilities and performed by Biofrontera Group itself since July 2016, meaning that Biofrontera is the responsible manufacturer from the FDA's perspective.

9.1.1.2. Belixos®

Belixos® is a modern active cosmetic product specially developed for sensitive and irritated skin. The biocolloid technology patented by Biofrontera, which optimizes epidermal penetration, makes the products unique: pure plant biocolloids are combined with medicinal plant extracts to form an extraordinary combination of active substances with proven depth penetration, bringing together the best of nature and science.

Belixos® Cream rapidly and reliably soothes itching and is the ideal basic treatment for inflamed, reddened, and flaky skin. It soothes the skin, reduces scratching, and allows the skin to regenerate naturally. Belixos® Cream, which has been available since 2009, has thus proved particularly useful as an effective basic treatment for atopic dermatitis and psoriasis.

Over the past two years, other specialist regenerative cosmetic products for skin problems have been developed. The typical deep yellow color is the unmistakable mark of quality. This is derived from the traditional medicinal plant extract obtained from the roots of Mahonia aquifolium. Belixos® products use only natural active substance extracts with clinically proven effects.

Belixos® Liquid is an innovative scalp tonic with a practical pipette for dosing, which soothes scalps irritated by psoriasis or eczema, for example, and restores their balance. For itchy and flaky scalps, a combination of anti-inflammatory mahonia, moisturizing oats, irritation-relieving panthenol, and a special zinc PCA complex is used.

Belixos® Gel is specially formulated for skin that is inflamed, reddened and prone to skin blemishes, providing an effective support for rosacea and acne. The gel texture is formulated to be extra grease-free, has a complex of active substances consisting of anti-inflammatory mahonia and Sepicontrol A5, is antibacterial, removes hardened skin, and regulates sebum.

Belixos® Protect is a modern daily skincare product specially developed for sun-damaged skin with an exceptional lipid matrix formulation and skin-regenerating properties. Highly concentrated niacinamide smooths the skin and helps repair skin damage. It also contains UVA and UVB broad spectrum protection with SPF15 to protect against further light-induced skin aging and hyperpigmentation.

Belixos® to go is a acute care roll-on launched in July 2016, with a specially developed stainless steel ball, providing targeted relief for itchiness, insect bites and minor skin irritation. It contains anti-inflammatory Mahonia, calming sea mayweed and an anti-irritant-.

Irritate skin requires the highest level of care. Belixos® products are manufactured in accordance with strict quality and environmental requirements. They are free of paraffins, parabens, ethyl alcohol, animal products, dyes and fragrances that may have negative dermatological effects. Belixos® is available at selected pharmacies, dermatological institutes and on Amazon.

9.1.2. Competition

Ameluz® as the principal product of Biofrontera Group competes with rival PDT products, both by pharmaceutical firms and by individual pharmacists, on one hand, and with alternative non-PDT treatments on the other hand.

Insofar as the following refers to market shares, the market for treatment of actinic keratosis, numbers of treatments, and therefore to the competitive position of the Issuer and Biofrontera Group, the information is based on the findings of the research institute Insight Health GmbH & Co. KG. These findings are not available as published source, but must be purchased by interested parties.

In the PDT market, the market share of tube-based Ameluz® is now consistently at over 70%, with the remaining roughly 30% being held by the competitors, Metvix® and Alacare®. As described above, these market shares were provided to Biofrontera Group by the research institute Insight Health GmbH & Co. KG referred to above. As such, the market shares are neither publicly available, nor should they be considered as peer reviewed.

In spite of this, Ameluz® still only has a small share of the actinic keratosis market as a whole, because, according to the Issuer's estimate, only approximately 5% of patients are treated with proprietary medicinal products for photodynamic therapy. 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 in the public health insurance industry, as physicians in Germany usually do not receive any compensation for performing PDT in this industry from statutory health insurance. Insofar as PDT competes with different treatment options, 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. An information video for patients on this subject has been uploaded to social media. Since clinical studies have shown overall advantages of Ameluz® in terms of effectiveness, handling, user friendliness and cosmetic results, as well as a superiority of PDT in the treatment of actinic keratoses, the Issuer expects to encourage dermatologists to focus on this treatment option in the future. This will be helped by the expansion of the range of indications to include basal cell carcinoma, which Biofrontera Group is currently striving to achieve, as the vast majority of PDT treatments are for this indication, particularly in Great Britain and Spain

Furthermore, local pharmacists also produce PDT formulations similar to Ameluz®. According to data collected by Biofrontera Group's sales force, about 76,000 PDTs treating actinic keratosis are currently performed in Germany each year, although only a small proportion are carried out with approved drugs. The others use formulations prepared in pharmacies. These formulations are cheaper than Ameluz® and competing products although they may incur significant liability risks for the medical practitioner according to a resolution passed by the Council of Ministers of the European Union in 2011 and based on an amendment to the 2012 Pharmacy Practice Regulation. The Issuer expects that these formulations will be gradually replaced in the medium-term by proprietary medicinal products by means of intensive information campaigns about the manufacturing and liability risks for both physicians and pharmacists when using formulations.

Furthermore, approximately 482,000 units of other medications with significantly lower healing rates were used in 2012 for the treatment of actinic keratoses in Germany. These medications are often applied by the patient at home, and, while not giving rise to significant workloads at medical practices, may result in low patient compliance. There is a similar situation in most other European countries.

In the United States Ameluz® would compete with one approved PDT drug, Levulan Kerastick® by Dusa Pharmaceuticals Inc., a Sun Pharma company. Biofrontera Group believes that Ameluz® has better clinical data than Levulan and the commercialization efforts will be based on better efficacy, ease of use and lower recurrence rates.

9.1.3.Sales and Markets

9.1.3.1. Ameluz®

With its central European approval, Ameluz® can be sold and distributed in all EU countries as well as in Norway, Iceland and Liechtenstein. However, in many European countries, the price and the reimbursement status have to be defined prior to market launch, which can be a very lengthy process. To date, the company has commenced sales in Germany, the UK, Spain, Austria, the Netherlands, Luxembourg, Belgium, Denmark, Sweden, Norway, Switzerland and Slovenia. The drug is available in these countries at a pharmacy retail price of between just under EUR 200 and approx. EUR 270 per 2g tube.

Ameluz® is marketed in Germany and, since March 2015, also in Spain by Biofrontera's own field sales force, and in other European countries using marketing partners. In the UK, Biofrontera is currently preparing its own sales operation, and the contract with a local marketing company was terminated on July 31, 2015. Biofrontera is also taking over the sales operation in Slovenia, but its marketing there is supported by a local company.

Distribution to public pharmacies generally takes place via pharmaceutical wholesalers, whereas hospital pharmacies are supplied directly. In addition to regular visits by the field sales force to dermatologists, Biofrontera has presented Ameluz® at the major dermatological conferences both in Germany and in other European countries since it was introduced onto the market. The response from dermatologists has been extraordinarily positive. The market share of Ameluz® in the segment of PDT drugs dispensed by German public pharmacies is consistently over 70%. In spite of this, Ameluz® has only a small share of the overall market for preparations used to treat actinic keratosis, because only approximately 5% of patients are treated with proprietary medicinal products for photodynamic therapy (PDT). 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 in the statutory health insurance sector. In this sector in Germany, doctors do not usually receive any compensation from statutory health insurance for performing PDT. A film about PDT is available to view on YouTube.

Approval for basal cell carcinoma is a prerequisite for the widespread use of Ameluz® in hospitals, as most basal cell carcinoma is treated there, whereas this is only very rarely the case for actinic keratosis. This indication plays an essential role for the breakthrough of Ameluz®, particularly elsewhere in Europe, where dermatologists are predominantly based in hospitals. BCCs are the most common invasive tumors that affect humans and account for 50-80% of all invasive white skin cancers. Around 30% of all Caucasians develop at least one BCC in their lifetime, and this is a rapidly growing trend worldwide due to increased exposure to UV light. BCCs are normally removed surgically, often resulting in substantial scarring. Treatment with photodynamic therapy (PDT) is a highly effective alterna-

tive which also leads to excellent cosmetic results. According to a market study published in 2014 by Technavio, the international market for actinic keratosis medications is expected to grow by approx. 8% annually, from approx. USD 546 million to USD 942 million in 2020. However, during the same period, the market for basal cell carcinoma medications is expected to grow at a phenomenal rate, from approx. USD 236 million today to nearly USD 5 billion, because the availability of new drugs (Ameluz® is mentioned in this context) will mean that fewer and fewer patients undergo operations.

In Denmark, Sweden and Norway, Ameluz® is marketed by Desitin Arzneimittel GmbH, in Benelux by Bipharma N.V. and in Austria, by Pelpharma Handels GmbH. Biofrontera carries out its own sales activities in Slovenia and is supported in its marketing activities by PHA Farmed. The cooperation with Spirit Healthcare in the UK was terminated by Biofrontera as of July 31, 2015, and Biofrontera is currently preparing to set up its own sales operation in the UK. Sales in Spain were initially handled by Allergan SA, but since March 2015 Biofrontera has marketed its products itself in Spain via its own branch, Biofrontera Pharma GmbH sucursal en España. Louis Widmer SA has been granted the Ameluz® distribution license for Switzerland and Liechtenstein, and the Ameluz® distribution license for Israel has been allocated to Perrigo Israel Agencies LTD. In these countries, it was necessary to undergo an independent approval process, which was carried out by the above-mentioned sales partners in collaboration with Biofrontera. In Switzerland, both the approval and the reimbursement approval were issued in December 2015. Market launch took place at the beginning of 2016. In Israel, Ameluz® has been included in the National Health Basket and thus accepted for reimbursement. Approval was also granted by the Israeli health authorities in April 2016. Consequently, marketing is expected to start in the next few months.

The contracts with the respective sales partners 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 linked to their own sales price. Biofrontera's share of the sales price varies considerably depending on the market conditions in each country, ranging from 35% to 60% of net revenue.

Biofrontera has already started preparations for its sales operation in the USA. With the help of a consulting firm specializing in market access and a team of medical advisors, Biofrontera has started to analyze the actinic keratosis drug market and the reimbursement systems in the American healthcare system. For this, Biofrontera can draw on the experience of DUSA Pharmaceuticals Inc. with a competitor product already sold and distributed in the USA, Levulan Kerastick®. Sales in the USA will be handled via a wholly-owned subsidiary, Biofrontera Inc., which was established for this purpose back in March 2015 and has already recruited its first staff. After approval was granted by the FDA on May 10, 2016, Ameluz® was launched on the US market in October 2016. As the drug and lamp are approved as a combined product in the USA, the speed of market penetration in the USA will depend in particular on how quickly the BF-RhodoLED® PDT lamp are positioned on the market.

9.1.4.Research and development

9.1.4.1. Focus on indication extension

Biofrontera has performed a Phase III clinical trial to evaluate the sfatey and efficacy of Ameluz® for the treatment of basal cell carcinoma. BCCs are the most common invasive tumors that 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. In the US alone, approx. 2.8 million basal cell carcinoma treatments are carried out annually, and European figures are comparable. Surgical removal is the most frequent treatment in Germany but can lead to clearly visible scarring, whereas treatment with photodynamic therapy, which is an alternative particularly in the treatment of thin BCCs, produces excellent cosmetic results. In the clinical trial, Biofrontera Group compares Ameluz® with the competitor product approved for BCC, Metvix.

The full results of its Phase III clinical trial evaluating Ameluz® for the treatment of basal cell carcinoma (BCC) demonstrate the study met its regulatory endpoints. Results of the EU multi-center study confirm that 93.4% of patients treated with BF-200 ALA were cleared of all BCCs, compared to only 91.8% of patients treated with the comparator treatment, methyl aminolaevulinate (MAL) photodynamic therapy, which is marketed as Metvix® or Metvixia®. In the study, 281 patients with 1 to 3 non-aggressive BCCs, including both superficial and nodular BCC subgroups, up to a thickness of 2 mm were treated. The analysis of the individual BCCs yielded a complete clearance rate of 94.6% after treatment with BF-200 ALA, compared to 92.9% with MAL (all values refer to the per protocol group). A stronger deviation of efficacy between the two drugs became apparent in thicker tumors. While 96.4% of tumors between 0 and 1 mm thickness were completely removed by treatment with BF-200 ALA (95.7% MAL), the value decreased in 1-2 mm tumors to 72.7% with BF-200 ALA and 66.7% with MAL. 89.3% of nodular BCCs, a subgroup of non-aggressive BCCs, were completely cleared with BF-200 ALA in comparison to only 78.6% with MAL.

In addition, treatment with BF-200 ALA resulted in an excellent cosmetic outcome. In 60.0 % of patients treated with BF-200 ALA, skin aesthetic appearance was strongly improved and rated by study physicians as very good to excellent, compared to only 48.6 % of patients treated with MAL. To evaluate these characteristics, various skin parameters had been qualified by the study physicians and graded by the severity of skin damage. The improvement of each parameter was documented and included in the analysis. An unsatisfactory result without cosmetic improvement was observed in 17.1% of BF-200 ALA patients and 18.9 % of patients treated with MAL. Approval for basal cell carcinoma is a pre-requisite for the distribution of Ameluz® to hospitals, as basal cell carcinoma is mainly treated there, whereas this is less the case for actinic keratosis. This indication plays an essential role for the breakthrough of Ameluz®, in particular in European countries. As basal cell carcinoma is also trig-

gered by lifelong UV exposure, this number is rapidly rising. Compared with the surgical procedures that are most commonly used today, photodynamic therapy offers significant advantages, particularly for thin tumors. 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, during the same period, the pharmaceutical market for basal cell carcinoma is expected to grow at a 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 undergo operations.

Biofrontera Group expects to receive extension of the approval to basal cell carcinoma byJanuary 2017.

Biofrontera Group has also started a Phase III clinical trial to evaluate the safety and efficacy of Ameluz® in combination with daylight photodynamic therapy (PDT) in comparison with Metvix® for the treatment of mild to moderate actinic keratosis (AK). The head-to-head, randomized, observer-blinded, multi-center study in the European Union (EU) will include a total of eight sites in Spain and Germany and enroll approximately 50 patients, with 3 to 9 mild to moderate AK lesions (Olsen grade 1 and 2) in each of two comparable treatment areas on the face and/or scalp. For an intra-patient comparison of the treatments, each patient will receive daylight-PDT with Ameluz® on one side and with Metvix® on the other side of the face or scalp. The assignment of sides will be random. The last patient is expected to conclude treatment by year end 2016. The study will identify potential additional effective applications of Ameluz®. Daylight PDT offers a convenient and painless alternative to PDT with a specialized lamp. In daylight PDT the topical medication is activated by exposure to natural or artificial daylight, which among other benefits saves physician office visit time for the patient. A label extension to include daylight PDT would allow Biofrontera to compete directly with self-applied topical drugs and the cryotherapy market.

9.1.4.2. Pipeline

9.1.4.2.1. 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. However, no work to this end has yet been undertaken, for reasons of capacity.

9.1.4.2.2. 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 license 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 optimized, and the active ingredient required for clinical development has been synthesized, in accordance with the current Good Manufacturing Practice ("cGMP") quality standards.

9.1.4.3. Research and development investments

In the 2015 financial year costs for research and development increased by 37%, from EUR 4,534 thousand in the previous year to EUR 6,204 thousand . The investment in research and development to extend the range of indications and obtain approval for Ameluz® in the USA remained almost constant. In addition, a submission fee ("PDUFA fee") of EUR 2,072 thousand was paid for the submission of the approval application to the FDA. This fee is usually waived for small companies for their initial submission. In consultation with the FDA, Biofrontera lodged an application for a waiver of this fee, but this could not be processed on the filing date as the American approval authority, the FDA, did not have a process for handling such applications. This fee was refunded by the FDA in March 2016.

9.2. Trends

In comparison to 2015 and 2014, Biofrontera Group achieved a significant increase in sales of more than 34%. The Ameluz® market share in the PDT medication segment was consistently at approx. 70%, with the remaining approx. 30% held by the competing products Metvix® and Alacare®. However, Ameluz® still only has a small share of the actinic keratosis market as a whole, because only approximately 5% of patients are treated with proprietary medicinal products for photodynamic therapy. Although PDT achieves by far the highest healing rates, the complexity of the treatment and the time required by medical practitioners to administer it have so far prevented significant market penetration in the public health insurance sector, as doctors in Germany usually do not receive any compensation for performing PDT from statutory health insurance in this payment regime.

Regarding the extension of the indication of Ameluz® for the treatment of basal cell carcinoma in the EU, the results of the phase III clinical testing of were published in April 2016. The results demon-

strated the efficacy and safety of Ameluz® compared to its competitor Metvix® in the treatment of basal cell carcinomas. The latter currently enjoys a competitive advantage over Ameluz® with its approval to treat both basal cell carcinoma and actinic keratoses. In particular in those European countries, in which PDT is mainly established as a hospital discipline and less so in physician's offices, the market success of Ameluz® is currently significantly limited. With the desired indication expansion, Biofrontera expects an improved market position. Biofrontera is striving to achieve extension of the indication in January 2017.

A further trend is the application of PDT in a so-called daylight therapy. The drug is applied to the respective skin parts, and the patient is exposed immediately afterwards to approx. two hours of natural sunlight. The comparable drug Metvix® has received an approval in several European countries. Biofrontera Group has started a clinical study in eight clinical centers in Spain and Germany to obtain an own approval. The study is expected to be finished towards the end of 2016 and the approval might be granted in the first half of 2017. In the course of a daylight therapy, the effort required by treating physicians would be significantly reduced, which could increase the appeal of prescribing Ameluz®.

9.3. Dependencies

The Issuer and Biofrontera Group are dependent on several factors which are material for the Issuer's and Biofrontera Group's business and profitability.

As a pharmaceutical research, development and distribution enterprise, Biofrontera Group strongly depends on its intellectual property to protect both the unique technology underlying its products, as well as the brand identity of the products. The respective IP is set out under 9.4.

Furthermore, Biofrontera Group is dependent on the continued performance of certain agreements. These agreements are set out under 9.5.

9.4. Intellectual Property

The most relevant intellectual properties relate to the Biofrontera brand, the Ameluz® technology and brand, and the Belixos® technology and brand:

9.4.1.1. Biofrontera brand

The Biofrontera brand is protected by the following word- and figurative marks:

Trademark	**Biofrontera** (wordmark)
Registration number	DE 30656877
Registration date (priority)	12.09.2006
Protection period	30.09.2016
Classes	1, 5, 35, 38, 42, 44
Registration number of the international registration	IR 935601
Registration international extension	09.03.2007 (maintaining priority)
Protection period of the international registration	09.03.2017
National registrations	Chile (01,05)
Protection period of the national registration	24.06.2018
Granted	Australia, Chile (Class 5,1), Singapore, European Union, Norway, USA, Syria, South Korea, Armenia, Japan
Pending	Austria, China, Chile, Russian Federation, Iran

Trademark	**Biofrontera** (figurative mark)
Registration number	DE 302010066561
Registration date (priority)	21.10.2010
Protection period	30.10.2020
Classes	1, 5, 35, 42, 44, 45
Registration number of the international registration	IR 1075749
Registration international extension	06.04.2011 (maintaining priority)
Protection period of the international registration	06.04.2021
Granted	(Class 1, 5, 35, 42, 44, 45): Germany; (Classes 5): Norway, Australia, Russian Federation, South Korea, Syria, Armenia, Japan, USA, Singapore, Switzerland, China, European Union

Trademark	**Biofrontera** (figurative mark)
Registration number	EM 927921
Registration date (priority)	11.09.1998
Protection period	11.09.2018 (after prolongation)
Classes	05, 35, 42

Trademark	**Biofrontera** (figurative mark)
Registration number	(Trademark Switzerland) P-467208
Registration date (priority)	06.10.1998 (maintaining priority of trademark EM 927921: 11.09.1998)
Protection period	06.10.2018 (after prolongation)
Classes	5, 35, 42

9.4.1.2. Ameluz® IP

Ameluz® and the underlying technology is protected by the following marks and patents:

Trademark	**AMELUZ®** (wordmark)
Registration number	DE 302008040753
Registration date (priority)	24.06.2008
Protection period	30.06.2018
Classes	5
Registration number of the international registration	IR 1031222
Registration international extension	23.12.2009
Protection period of the international registration	23.12.2019
Granted	Argentina, Germany, European Union, Australia, Norway, Singapore, Russian Federation, USA, Syria, South Korea, Israel, Switzerland, Liechtenstein
Pending	China, Canada

Trademark	**BF-RhodoLED®** (wordmark)
Registration number	DE 302011056690
Registration date (Priority)	17.10.2011
Protection period	31.10.2021
Classes	10
Registration number of the international registration	IR 1113422
Registration international extension	16.02.2012 (maintaining priority)
Protection period of the international registration	16.02.2022
Countries for which international extension has been filed	Armenia, Australia, China, European Union, Iran, Japan, Norway, Russian Federation, Singapore, Switzerland, South Korea, Syria, USA.
National registrations	Israel, Canada
Granted	Armenia, Germany, Australia, Singapore, Norway, European Union, South Korea, Canada, Russian Federation, China, USA, Switzerland, Japan, Israel, Liechtenstein
Pending	Syria, Iran

Trademark	**RHODOLED®** (wordmark)
Registration number	DE 302011056689
Registration date (Priority)	17.10.2011
Protection period	31.10.2021
Classes	10
Registration number of the international registration	IR 1111189
Registration international extension	16.02.2012 (maintaining priority)
Protection period of the international registration	16.02.2022
Countries for which international extension has been filed	Armenia, Australia, China, European Union, Japan, Norway, Russian Federation, Singapore, Switzerland, South Korea, Syria, USA
National registrations	Israel, Canada
Granted	Armenia, Germany, Singapore, Australia, Norway, Japan, Syria, Canada, China, South Korea, USA, Russian Federation, European Union, Israel
Pending	Iran

Trademark	**Nanoxosan** (wordmark)
Registration number	DE 302009017727
Registration date (priority)	23.03.2009
Protection period	31.03.2019
Classes	**5**, 1, 3
Registration number of the international registration	IR 1027173
Registration international extension	12.11.2009
Protection period of the international registration	12.11.2019
Granted	Germany
Pending	Austria, Switzerland

Trademark	**BF-200 ALA** (wordmark)
Registration number	DE 302008017906
Registration date (priority)	17.03.2008
Protection period	17.03.2018
Classes	**5**, 1, 3
Registration number of the international registration	IR 1027173
Registration international extension	09.09.2008
Protection period of the international registration	09.09.2018
Granted	Germany
Pending	Austria, Switzerland

Trademark	**Dynala** (wordmark)
Registration number	DE 302008040755
Registration date (priority)	24.06.2008
Protection period	30.06.2018
Classes	**5**
Granted	Germany

Trademark	**Lumixeen** (wordmark)
Registration number	DE 302008040756
Registration date (priority)	24.06.2008
Protection period	30.06.2018
Classes	**5**
Granted	Germany

Patent	**Nanoemulsion** (used in „Ameluz®“)
International PCT application through WIPO (based on an European Patent Office application)	
PCT-application number	PCT/EP2007/011404
PCT-application date	21.12.2007
Priority	22.12.2006
Priority number	06026698.8 (European Patent Office)
Patents granted (end of protection 21.12.2027)	European Patent Office, South Africa, China, Mexico, New Zealand, Singapore, Ukraine, Australia, Russia, Japan, Belarus, India, Canada, Chile
National examination initiated	United Arabian Emirates, Brazil, Hong Kong, Israel, USA, Uruguay, Argentina, Paraguay

Patent	**Nanoemulsion of 5-Aminolevulinic Acid**
International PCT application through WIPO	
PCT-application number	PCT/EP1999/008711
PCT-application date	12.11.1999
Priority	12.11.1998
Priority number	DE19852245
Patents granted (end of protection 12.11.2019)	European Patent Office (Belgium, Austria, Switzerland, Ireland, Luxembourg, Portugal, Germany), USA, Canada, Australia, Israel

9.4.1.1. Belixos® IP

Belixos® and the underlying technology is protected by the following marks and patents:

Trademark	**Belixos®** (Wordmark)
Registration number	DE 302009060491
Registration date (Priority)	14.10.2009
Protection period	31.10.2019
Classes	3
Registration number of the international registration	IR 1033935
Registration international extension	10.02.2010 (maintaining priority)
Protection period of the international registration	10.02.2020
National registrations	Iraq, Yemen, Kuwait, Lebanon, Libya, Qatar, Saudi Arabia, Tunisia, United Arab Emirates.
Granted	Armenia, Germany, European Union, Singapore, Lebanon, Australia, USA, Algeria, Bahrain, Egypt, Morocco, Sultan Oman, Sudan, Norway, Kuwait, Tunisia, United Arab Emirates, Japan, Yemen, Brazil, Iran, Iraq, Russian Federation, Saudi Arabia, South Korea
Pending	China, Syria, Switzerland, Libya, Qatar

Trademark	**Belixos®** (wordmark)
Registration number	DE 302008040757
Registration date (priority)	24.06.2008
Protection period	30.06.2018
Classes	5
Registration number of the international registration	IR 1007314
Registration international extension	27.05.2009
Protection period of the international registration	27.05.2019
National registrations	Israel, Canada
Protection period of the national registrations	01.06.2019, 28.09.2027
Granted	Germany, Australia, Singapore, Norway, USA, European Union, Russian Federation, Argentina, Canada, South Korea
Pending	Switzerland, China, Israel, Japan, Syria, Iran

Trademark	**Natural heritage with herbal biocolloids** (colored) (figurative mark)
Registration number	EM 012224192
Registration date (priority)	15.10.2013
Protection period	15.10.2023
Classes	03
Granted	EU (Classes 3,5,10), Japan, Australia, Singapore, USA, Switzerland
Pending	Brazil

Trademark	**Natural heritage with herbal biocolloids** (black / white) (figurative mark)
Registration number	EM 012224218
Registration date (priority)	15.10.2013
Protection period	15.10.2023
Classes	03
Granted	European Union, Japan, Australia, Singapore, USA, Switzerland
Pending	Brazil

Trademark	**Gefühlt mir** (word mark)
Registration number	EM 012224267
Registration date (priority)	15.10.2013
Protection period	15.10.2023
Classes	03, 05, 10
Granted	European Union, Switzerland

Patent	**Pharmaceutical and/or cosmetic composition for treating the skin**
USA-Patent application	
Application number	61322524
Application date	09.04.2010
Priority	09.04.2010
Status of proceedings	Application is published and under examination.

German utility model	**Pharmaceutical and/or cosmetic composition for treating the skin**
Application number	DE 20 2010 004 750.1
Application date	09.04.2010
Publication date	01.12.2011
Period of protection	Period of protection is prolonged to 6 years from application. Prolongation until up to 10 years is possible.

9.4.1.2. Migraine IP

The migraine related product candidate BF-1 is protected by the following IP:

Patent	**Derivatives of 4-(Thio- or Seleno-xanthene-9-ylidine)- Piperidine or Acridine and its use as a selective 5-HT2B Receptor**
International PCT application through WIPO	
PCT-application number	PCT/EP2002/011817
PCT-application date	23.10.2002
Priority	25.10.2001
Priority number	01125527.0 (European Union)
Patents granted (end of protection 23.10.2022)	European Union (Austria, Switzerland, Germany, Denmark, Spain, France, United Kingdom, Italy, Netherlands, Sweden, Turkey), Australia, USA, South Africa, Russia, China, USA(CIP), India, South Korea, Japan, Canada

Patent	**Antimigraine compounds and their use**
International PCT- application through WIPO	
PCT- application number	PCT/EP2013/052060
Designated states	All PCT-member states are designated.
Status of proceedings	International research report completed. National proceedings in USA and European Union.

9.5. Material Agreements

Biofrontera Group and Glaropharm AG have entered into manufacturing agreement dated 1 April 2009 for the manufacture and delivery of Ameluz® and Belixos®, pursuant to which Biofrontera Pharma GmbH has pledged to purchase its total requirements for the first five years and thereafter 80 per cent of its requirements for another two years exclusively from Glaropharm for the products currently marketed under the trade names "Ameluz®" and "Belixos®" for the European market. Glaropharm agreed to produce the products according to a quality assurance agreement concluded between the two parties and will guarantee that the products are manufactured in accordance with the rules and regulations of Switzerland and the European Union and that Glaropharm has all the necessary permits and licenses required for manufacturing. Biofrontera is largely dependent on Glaropharm to produce the products.

A service agreement dated 25 September 2013 between Biofrontera Bioscience GmbH and Accovion GmbH ("Accovion") concerning project management of a clinical research program. Accovion will provide services under the contract including project management, clinical monitoring, data manage-

ment, programming of biostatistics and the drawing up of medical assessments and their publication. The agreement is valid until the fulfillment of all project related commitments assigned to Accovion. The study period is 74 months. Accovion and Biofrontera Bioscience GmbH may terminate the project on 30 days' notice. Biofrontera Bioscience GmbH is exclusively entitled to any intellectual property rights arising in connection with the project. Under the terms of the contract, current estimated costs are between approximately EUR 1.7 million and EUR 2.2 million for Accovion and up to approximately EUR 220,000 in pass-through costs. The total commercial volume of this contract over the entire term is estimated at EUR 2,400,000 plus up to EUR 300,000 for additional consulting services.

9.6. Investments

The Issuer's investments in the period covered by the historical financial information were centered around research and development activities. The research and development expenses mainly consist of expenses incurred in developing, testing, manufacturing and seeking regulatory approval relating to both the admission process with the FDA as well as the indication extension to the treatment of basal cell carcinoma with the EMA (see above), including:

- expenses associated with regulatory submissions, clinical trials and manufacturing;
- payments to third-party contract research organizations, contract laboratories and independent contractors;
- payments made to regulatory consultants;
- payments made to third-party investigators who perform clinical research on our behalf and clinical sites where such testing is conducted;
- personnel related expenses, such as salaries, benefits, travel and other related expenses;
- expenses incurred to maintain regulatory licenses, patents and trademarks.

Research and development costs were EUR 4,534 thousand and EUR 6.204 thousand in the years ended December 31, 2014 and 2015, respectively.

The Issuer was able to finance these investments with the proceeds from its ordinary course of business as well as by several rounds of capital increases in the past. The details of research and development investments are discussed under 9.1.4.3 for the respective time periods.

The Issuer has currently not made principal investments other than in the research and development as set out above. In particular, during the period from 30 June 2016 until the date of this prospectus, the Issuer has not made any principal investments. No principal investments are in progress at the current time. The management bodies of the Issuer have, at the date of this prospectus, not made any binding commitments regarding future principal investments.

9.7. Environmental issues

Biofrontera Group does not hold property, plants or equipment that might cause environmental issues.

9.8. Legal and arbitration proceedings

During the period of the previous twelve months, no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) have nor have had in the past any significant effects on the Issuer and/or Biofrontera Group's financial position or profitability.

9.9. No significant change in the Issuer's financial or trading position

No significant change in the Issuer's or Biofrontera Group's financial or trading position has occurred since 30 June 2016, i.e. the end of the last financial period for which audited financial information or interim financial information have been published.

10.Tax

10.1. General responsibility for withholding tax

When paying out dividends, the Issuer is generally obliged to levy withholding tax (*Kapitalertragsteuer*) at a rate of 25% on the amount of the distribution. A solidarity surcharge of 5.5% is also levied on the withholding tax amount, resulting in a total withholding of 26.375% (plus church tax, if any). The Issuer assumes liability for withholding of taxes from sources on distributions, in accordance with statutory provisions. This means that the Issuer is released from liability for the violation of its legal obligation to withhold and transfer the taxes from the sources if it provides evidence that it has not breached its duties intentionally or grossly negligent.

10.2. Taxation in Germany

The following sections describe a number of key German taxation principles that may be relevant to purchasing, holding or transferring the shares. The information provided does not constitute a comprehensive or definitive explanation of all possible aspects of taxation in this area. This summary is based on applicable German tax law as of the date hereof, including the double taxation treaties that Germany has concluded with other countries. It should be noted that the legal situation may change, including, in certain cases, with retroactive effect.

Persons interested in purchasing shares should seek advice from their own tax counsel regarding the tax implications of purchasing, holding, disposing, donating and bequeathing shares, and the regulations on reclaiming previously withheld withholding tax (*Kapitalertragsteuer*). Due consideration to a shareholder's specific tax-related circumstances can only be given within the scope of an individual tax consultation.

10.2.1. Taxation of the Issuer

The earnings of entities with seat or place of management in Germany are subject to corporate income tax of 15.0% plus a solidarity surcharge (*Solidaritätszuschlag*) of 5.5% of this amount (that is, a total tax rate of 15.825%). In addition, income generated at their German permanent establishments is also usually subject to trade tax of between 7.0% and 17.5%, depending on the multiplier applied by the relevant municipal authority. Trade tax is generally based on the taxable income as determined for corporate income tax purposes taking into account, however, certain add-backs and deductions.

In principle, dividends that a company receives from German or foreign corporations are effectively 95% exempt from corporate tax. An amount equal to 5% of such receipts are treated as non-deductible business expenses and are subject to corporate tax (and solidarity surcharge (*Solidaritätszuschlag*)

thereon) at a rate of 15.825%. However, dividends that the Issuer receives from German or foreign corporations after 28 February 2013, are no longer exempt from corporate tax (including solidarity surcharge thereon), if the Issuer holds a direct participation of less than 10% in the share capital of such corporation at the beginning of the calendar year (hereinafter in all cases, a "**Portfolio Participation**" – *Streubesitzbeteiligung*). The acquisition of a participation of at least 10% in the course of a calendar year is deemed to have occurred at the beginning of such calendar year for the purpose of this rule. Losses on disposals are not tax deductible. Participations in the share capital of other corporations which the Issuer holds through a partnership, including co-entrepreneurships (*Mitunternehmerschaften*), are attributable to the Issuer only on a *pro rata* basis at the ratio of the interest share of the Issuer in the assets of relevant partnership.

The Issuer's gains from the disposal of shares in a German or foreign corporation are in general effectively 95% exempt from corporate income tax (including the solidarity surcharge thereon), regardless of the size of the participation and the holding period. 5% of the gains are treated as non-deductible business expenses and are therefore subject to corporate income tax (plus the solidarity surcharge thereon) at a rate of 15.825%. Conversely, losses incurred from the disposal of such shares are generally not deductible for corporate income tax purposes. Currently, there are no specific rules for the taxation of gains arising from the disposal of Portfolio Participations.

In principle, profits derived from the sale of shares in another domestic and foreign corporation are treated in the same way for trade tax purposes as for corporate income tax. In contrast, dividends derived from German and foreign corporations are only effectively 95% exempt from trade tax, if, among other things, the company that is receiving the dividends has held or holds a stake of at least 15% in the share capital of the company making the distribution at the beginning or – in the case of foreign corporations – since the beginning of the assessment period. In the case of distributing companies domiciled in another member state of the European Union, a stake of 10% at the beginning of the assessment period is sufficient. Additional limitations apply with respect to shares in profits received from non-EU corporations and it is currently unclear whether and to what extent such additional limitations also apply to EU corporations. Otherwise, profits resulting from shares in corporations are fully subject to trade tax.

The earning-stripping rules (*Zinsschranke*) limit the degree to which interest expenses are tax deductible. Hence, for corporate income and trade tax purposes, if no exception to the rules on interest deduction limits applies, net interest expense is only deductible in an amount of up to 30% of attributable EBITDA for tax purposes (*verrechenbares EBITDA*) in the given fiscal year. Nondeductible interest expense can be carried forward. Attributable EBITDA that has not been fully utilised can be carried forward to and utilised in the subsequent five-year period if certain prerequisites are met. For the purpose of trade tax, however, the deductibility of interest expenses is further restricted: since 25% of the

interest expense, to the extent it was deductible for income tax purposes and not subject to the interest deduction limits, is added back to compute the trade tax base, the deductibility amounts to only 75%.

While there is no limit on carrying over tax loss carryforwards, they can only be fully offset against taxable income up to €1 million in each year. In addition, 60% of the portion of taxable income exceeding this amount can be offset against existing and usable tax loss carryforwards; 40% is subject to corporate income tax and trade tax at the applicable rates.

If, directly or indirectly, more than 50% of a company's shares or voting rights are transferred to a purchaser (including parties related to the purchaser and a group of purchasers whose interests are aligned) or a similar transfer occurs within five years, all of the company's as yet unused loss carryforwards and interest carryforwards lapse and any losses accrued during the current fiscal year until the relevant transfer may not be offset against future profits. If, directly or indirectly, more than 25% up to and including 50% of the shares or voting rights are transferred to a purchaser (including parties related to the purchaser and a group of purchasers whose interests are aligned), the loss carryforwards, the interest carryforwards, or accrued losses pertaining to the current fiscal year are forfeited only in proportion to the shares or voting rights transferred.

10.2.2. Taxation of Shareholders

Shareholders of the Issuer are subject to taxation in connection with the holding of shares (see "—*Taxation of Dividends*"), the disposal of shares (see "—*Taxation of Capital Gains*") and the gratuitous transfer of shares (see "—*Inheritance and Gift Tax*").

10.2.2.1. Taxation of Dividends

When paying out dividends, the Issuer is generally obliged to levy withholding tax (*Kapitalertragsteuer*) at a rate of 25% on the amount of the distribution. A solidarity surcharge of 5.5% is also levied on the withholding tax amount, resulting in a total withholding of 26.375% (plus church tax, if any). The assessment basis for the withholding tax is the dividend approved by the general shareholders' meeting.

The withholding tax is generally withheld regardless of whether and to what extent the dividend is exempt from tax at the shareholder's level and whether the shareholder is a resident of Germany or elsewhere. If shares – as it is the case with the shares in the Issuer – are admitted to be held in collective safe custody (*Sammelverwahrung*) with a central securities depository (*Wertpapiersammelbank*) pursuant to § 5 German Act on Securities Accounts (*Depotgesetz*) and are entrusted to such central securities depository for collective safe custody in Germany, the withholding tax is withheld and discharged for the account of the shareholders by the domestic credit or financial services institution (*inländisches Kredit- oder Finanzdienstleistungsinstitut*) (including domestic branches of foreign credit and financial services institutions), by the domestic securities trading company (*inländisches*

Wertpapierhandelsunternehmen) or the domestic securities trading bank (*inländische Wertpapierhandelsbank*) which keeps and administers the shares and disburses or credits the dividends or disburses the dividends to a foreign agent or by the central securities depository to which the shares were entrusted for collective safe custody if the dividends are disbursed to a foreign agent by such central securities depository (hereinafter referred to jointly or separately as "Dividend Paying Agent"). The Issuer assumes responsibility for the withholding of taxes (with the exception of church tax) on distributions, in accordance with statutory provisions. This means that the Issuer is released from liability for the violation of its legal obligation to withhold and transfer the taxes if it provides evidence that it has not breached its duties intentionally or through gross negligence.

However, if monies from the tax contribution account (*steuerliches Einlagekonto*) are to be used for the distribution, the dividend payment is generally, subject to certain prerequisites, taxexempt and not subject to withholding tax. Nevertheless, dividends lower the acquisition costs of the shares, which may result in a greater amount of taxable capital gain upon the shareholder's sale of the shares. To the extent that dividends from the tax-recognised contribution account exceed the then lowered acquisition costs of the shares, a capital gain is recognised by the shareholder, which may be subject to tax in accordance with the provisions outlined below.

In the case of dividends paid to a company domiciled in another European Union member state and subject to the Council Directive 2011/96/EU dated 30 November 2011 (the "**Parent- Subsidiary Directive**"), upon request and provided that other conditions are also met, including, e.g. the minimum holding requirement of 10% and substance requirements of the German anti-treaty shopping rules, the withholding tax is reduced to zero. The same applies to dividends paid to a permanent establishment of such company located in another European Union member state and to dividends paid to a permanent establishment of a German parent company located in another European Union member state if the shares in the Issuer are classified as business assets of the respective permanent establishment for tax purposes. In certain additional cases, companies domiciled in another European Union or European Economic Area member state may be entitled to a refund of withholding tax, even though the minimum holding requirements of the Parent-Subsidiary Directive are not met.

In the case of dividends paid to other foreign shareholders, a reduced withholding tax rate may be applied (usually a rate of 15%) if the respective shareholder can claim the benefits of a double taxation treaty concluded between its country of residence and Germany and assuming other conditions are met, including substance requirements of the German anti-treaty shopping rules.

The reduction of the withholding tax rate generally does not affect the obligation to comply with withholding obligations. However, an application may be filed with the Federal Central Tax Office (*Bundeszentralamt für Steuern*) for a refund of the difference between the withholding tax withheld and the maximum rate stipulated in the double taxation treaty or the zero rate of the Parent- Subsidiary Directive. The shareholder must submit a certificate, issued by the institution that withheld the tax,

together with the completed application form to receive a refund. Alternatively, withholding tax does not have to be withheld if, prior to the distribution, the tax authorities have issued a (partial) exemption certificate upon application. If dividends are paid to corporations with limited tax liability in Germany, that is, corporations with no seat and no place of management in Germany, then two fifths of the withholding tax withheld as well as two-fifths of the solidarity surcharge thereon at source can be refunded, subject to certain restrictions. This refund is permissible irrespective of the applicability of any double taxation treaty or the fulfilment of the requirements set forth in the Parent- Subsidiary Directive. Nevertheless, certain conditions have to be met, including substance requirements of the German anti-treaty shopping rules. The foreign corporation must file an application form with the Federal Central Tax Office (*Bundeszentralamt für Steuern*).

10.2.2.1.1. Shareholders Tax Resident in Germany

Shares Held as Part of the Private Assets of Individuals

The tax liability applicable to dividend payments to individual shareholders who are German tax residents and who hold shares as part of their private assets is generally satisfied by withholding a flat tax (*Abgeltungsteuer*) of 25% plus solidarity surcharge of 5.5% thereon, resulting in a total tax rate of 26.375% (plus church tax, if any) as described above (see "*—Taxation of Dividends*"). Income-related expenses incurred in connection with private investment income are not tax deductible. The only deduction that may be made is an annual flat-rate savings allowance of €801 (€1,602 for joint-filing spouses) on all private capital income. Shareholders may apply for the whole amount of their capital income, including dividends, to be taxed at the income tax rate based on theirpersonal circumstances instead of the flat-rate withholding tax if this results in a lower tax liability. In such cases, it is also not possible to deduct any income-related expenses other than the flat-rate savings allowance. Furthermore, dividend income can only be offset by losses from capital income, except for losses generated by the disposal of shares. Shareholders may be liable for church tax, which is generally determined by means of an income tax assessment. However, shareholders may generally request that the domestic paying agent (the "**Domestic Paying Agent**") withholds church tax in order to satisfy this church tax liability. With regards to capital gains received after 31 December 2014, the Act on the Implementation of the Recovery Directive (*Beitreibungsrichtlinie- Umsetzungsgesetz*) of 7 December 2011 provides for an automatic procedure for deduction of church tax by way of withholding unless the shareholder has filed a blocking notice (*Sperrvermerk*) with the Federal Central Tax Office.

Individual shareholders who privately hold, directly or indirectly, an interest of at least 25% in the Issuer, and shareholders who privately hold, directly or indirectly, at least 1% in the Issuer and work for the Issuer, may request an exemption from the flat-rate withholding tax. In this case, 60% of the dividends paid to the shareholder is subject to income tax according to the applicable rate plus solidarity surcharge. Expenses incurred in connection with dividend income are generally 60% tax-

deductible. The levied withholding tax is offset against the income tax and any excess withholding is refunded. Dividend payments that are made using funds from the tax contribution account (*steuerliches Einlagekonto*) are generally, subject to certain prerequisites, tax exempt.

Through 2014, shareholders who pay church tax and hold shares as private assets may request the Domestic Paying Agent that pays out their capital investment income to withhold their church tax according to the church tax legislation of their state and remit it to the relevant tax authority. As of 1 January 2015, entities required to collect withholding taxes on capital investment income are required to likewise withhold the church tax on shareholders who pay church tax, unless the shareholder objects in writing to the German tax authorities sharing his private information regarding his affiliation with a denomination. If church tax is withheld and remitted to the tax authority as part of the withholding tax deduction, then the church tax on the dividends is also deemed to be discharged when it is deducted. The withheld church tax cannot be deducted in the tax assessment as a special expense; however, 26.375% of the church tax withheld on the dividends is deducted from the withholding tax (including the solidarity surcharge) withheld by the Issuer. If no church taxes are withheld along with the withholding of capital gains tax, the shareholder who pays church tax is required to report his dividends in his income tax return. The church tax on the dividends will then be imposed during the assessment.

Shares Held as Part of the Business Assets of Corporations

Dividends paid to corporations that are German tax residents are generally exempt from tax, provided that the incorporated entity holds a direct participation of at least 10% in the share capital of the company that is paying the dividend at the beginning of the calendar year in which the dividends are paid. The acquisition of a participation of at least 10% in the course of a calendar year is deemed to have occurred at the beginning of such calendar year for the purpose of this rule. Participations in the share capital of the company which a corporate shareholder holds through a partnership, including co-entrepreneurships (*Mitunternehmerschaften*), are attributable to such corporate shareholder only on a *pro rata* basis at the ratio of the interest share of the corporate shareholder in the assets of relevant partnership. However, 5% of the tax-exempt dividends are treated as non-deductible operating expenses and are subject to tax. Business expenses actually incurred in connection with dividend income from a tax perspective are generally tax-deductible. For trade tax purposes, dividends are only exempt as described above if the entity that is receiving the dividends held a stake of at least 15% in the share capital of the Issuer at the beginning of the assessment period. Otherwise, the dividends will be fully subject to trade tax. The withholding tax withheld is offset against the corporate income tax due and any excess withholding is refunded. The same applies to the solidarity surcharge, which is levied in addition to the corporate income tax. Dividend payments that are made using funds from the tax contribution account (*steuerliches Einlagekonto*) are generally, subject to certain prerequisites, tax-exempt.

Shares Held as Part of the Business Assets of Sole Proprietors

60% of the dividends paid to individuals who are German tax residents and who hold shares as part of their business assets is subject to income tax according to the applicable rate. A solidarity surcharge of 5.5% of this amount also applies. The levied withholding tax is offset against the personal income tax due and any excess amount is refunded. The same applies to the solidarity surcharge. Business expenses incurred in connection with dividend income from a tax perspective are generally only 60% tax-deductible. The dividends are also subject to trade tax, which is fully or partly credited towards the individual's income tax by a lump-sum method. The dividends are exempt from trade tax, provided that the shareholder held at least 15% of the Issuer's share capital at the beginning of the relevant assessment period. Dividend payments that are made using funds from the tax contribution account (*steuerliches Einlagekonto*) are generally, subject to certain prerequisites, tax-exempt.

Shares Held as Part of the Business Assets of a Commercial Partnership

Income tax or corporate income tax (including solidarity surcharge) is not levied at the level of the partnership (*Mitunternehmerschaft*) but rather at the level of the respective partner. The level of taxation for each partner depends on whether the partner is a corporation or an individual. If the partner is a corporation, the dividends contained in its profit share are taxed in accordance with the principles applicable to corporations (see "*—Shares Held as Part of the Business Assets of Corporations*" above). If the partner is an individual and the shares are held as business assets of the partnership, dividends contained in their profit share are taxed in accordance with the principles applicable to sole proprietors (see "*—Shares Held as Part of the Business Assets of a Sole Proprietor*" above). Subject to certain conditions, an individual partner may request that its personal income tax be lowered for earnings not withdrawn from the partnership. If the partnership is liable for trade tax, it is levied at the level of the partnership. If an individual holds an interest in the partnership, the proportionate trade tax may be credited fully or partly towards the individual's income tax by means of a lump-sum method.

Shares Held as Part of the Assets of Certain Companies in the Financial and Insurance Sector

The tax exemption applicable to dividends does not apply to dividends paid to certain companies in the financial and insurance sector.

Dividends from shares that are, pursuant to Article 4 no. 86 of the Commission Regulation 575/2013 of 26 June 2013, part of the trading books of banks and financial services institutions, as well as dividends from shares that are acquired by certain financial enterprises in the meaning of the German Banking Act (*Gesetz über das Kreditwesen*) with the aim of generating a short-term proprietary trading profit, are fully liable for corporate income tax (plus solidarity surcharge). If the stake held at the beginning of the relevant assessment period is 15% or higher, subject to certain conditions, the dividends can be fully exempted from trade tax. Dividends from shares that are classified as investments in the case of life insurers, health insurers and pension funds are fully subject to corporate income tax and trade tax. However, an exemption to the foregoing, and thus a 95% effective tax exemption, ap-

plies to dividends obtained by the aforementioned companies, to which the Parent-Subsidiary Directive applies.

10.2.2.1.2. Shareholders Tax Resident Outside Germany

Dividends paid to shareholders who are not German tax residents (individuals and corporations) are generally subject to German taxation.

If the shares are held as part of business assets in Germany (that is, via a permanent establishment or as part of business assets for which a permanent representative in Germany has been appointed), the provisions outlined above with respect to the taxation of shareholders that are German tax residents principally apply accordingly. The withholding tax and solidarity surcharge that is withheld at source and remitted to the German tax authorities will be credited towards the shareholder's income tax or corporate income tax liability or refunded in the amount of any excess paid. In all other cases, the tax liability of the dividends is settled via the withholding tax plus the solidarity surcharge (which may be reduced pursuant to an applicable double taxation treaty, the Parent-Subsidiary Directive or under national tax laws).

10.2.2.2. Taxation of Capital Gains

10.2.2.2.1. Shareholders Tax Resident in Germany

Shares Held as Part of the Private Assets of Individuals

Capital gains are classified as income from capital investments and are subject to income tax (plus solidarity surcharge and church tax, if any) irrespective of how long the shares have been held. If the shares are held in custody or administered by a domestic credit institution, domestic financial services institution, domestic securities trading company or a Domestic Paying Agent, including domestic branches of foreign credit institutions or financial service institutions, or if such an office executes the disposal of the shares and pays out or credits the capital gains, the tax on the capital gains will in general be discharged for the account of the seller by the Domestic Paying Agent imposing the withholding tax on investment income at the rate of 25% (plus 5.5% solidarity surcharge, resulting in a total withholding of 26.375%, and church tax, if any) in the case of shares held as private assets. The taxable capital gain is calculated by deducting the acquisition costs of the shares and the expenses directly related to the disposal from the proceeds of the disposal.

A shareholder's income tax and solidarity surcharge liability is generally satisfied through the withholding of the withholding tax. Shareholders may, however, request that a tax assessment be carried out on their income from capital investments if this results in a lower tax liability. Income from capital investments may be reduced only by a flat-rate savings allowance of €801 (€1,602 for joint-filing spouses); it is not possible to further deduct income-related expenses actually incurred except for ex-

penses incurred directly in connection with the disposal. Capital gains generated by the disposal of shares can be offset against any type of losses from capital investment income while capital losses incurred on the disposal of shares can only be offset against capital gains from the disposal of shares.

Through 2014, shareholders who pay church tax and hold shares as private assets may request the Domestic Paying Agent that pays out their capital investment income to withhold their church tax on the capital gain according to the church tax legislation of their state and remit it to the relevant tax authority. As of 1 January 2015, entities required to collect withholding taxes on capital investment income are required to likewise withhold the church tax on shareholders who pay church taxes, unless the shareholder objects in writing to the German tax authorities sharing his private information regarding his affiliation with a denomination. If church tax is withheld and remitted to the tax authority as part of the withholding tax deduction, then the church tax on the capital gain is also deemed to be discharged when it is deducted. The withheld church tax cannot be deducted in the tax assessment as a special expense; however, 26.375% of the church tax withheld on the capital gain is deducted from the withholding tax (including the solidarity surcharge) withheld by the Issuer.

If the shareholder making the disposal – or, in the event of a sale of shares acquired without consideration, its legal predecessor – held a direct or indirect stake of at least 1% in the Issuer's share capital at any time in the five years preceding the disposal, any capital gains realised are deemed to be trading income such that the withholding tax levied on the capital gains does not satisfy the tax liability. The capital gains are 60% taxable at the individual tax rate of the shareholder. Thewithholding tax and solidarity surcharge withheld are credited towards the shareholders' tax liability or refunded in the amount of any excess paid on their tax assessment.

Shares Held as Part of the Business Assets of an Incorporated Entity

Gains from the disposal of shares held by incorporated entities that are German tax residents are generally not subject to withholding tax and are in principle exempt from corporate income tax and trade tax. However, 5% of the capital gains are deemed non-deductible business expenses and are thus subject to corporate income tax (plus solidarity surcharge) and – if the shares are held as part of the commercial business assets in Germany – to trade tax. Consequently, capital gains are generally 95% exempt from tax. As a rule, losses on disposals and other profit reductions in connection with the shares sold may not be deducted as business expenses.

Shares Held as Part of the Business Assets of a Sole Proprietor

Gains from the disposal of shares held by individuals are not subject to withholding tax if the disposal proceeds are part of the business income of a business based in Germany and the shareholder declares this fact to the Domestic Paying Agent on the designated official form. If the withholding tax and solidarity surcharge have been withheld, this does not satisfy the tax liability with respect to gains from the disposal of shares held as part of the business assets. Amounts withheld are instead credited to-

wards the seller's income tax (plus solidarity surcharge) liability or refunded in the amount of any excess paid. 60% of the gains from the disposal of the shares is subject to income tax (plus solidarity surcharge and church tax, if any) at the individual tax rate of the shareholder and – if the shares are held as part of commercial business assets in Germany – to trade tax. The trade tax is (partially) credited to the shareholder's personal income tax by means of a lump-sum method. Generally, only 60% of the losses on disposals and business expenses commercially linked to the shares sold may be deducted.

Shares Held as Part of the Business Assets of a Commercial Partnership

Income tax or corporate income tax is not levied at the level of the partnership (*Mitunternehmerschaft*) but at the level of the respective partner. If shares are held as business assets of the partnership, taxation is determined as if the partner held a direct interest in the Issuer, according to the rules outlined above depending on whether the partner is a corporation (see "*— Taxation of Shareholders—Taxation of Dividends—Shareholders Tax Resident in Germany—Shares Held as Part of the Business Assets of Corporations*") or an individual (see "*—Taxation of Shareholders—Taxation of Dividends—Shareholders Tax Resident in Germany—Shares Held as Part of the Business Assets of Sole Proprietors*"). Upon request and subject to further conditions, a partner that is an individual may, subject to certain conditions, have its personal income tax lowered for earnings not withdrawn from the partnership.

For a partnership, capital gains are subject to trade tax if the shares are part of the business assets of a German business operation of the partnership. 5% of these gains are subject to trade tax insofar as they relate to the profit share of a partner that is a corporation and 60% insofar as they relate to the profit share of a partner that is an individual. In the latter case, the trade tax is (partially) credited to the partner's personal income tax by means of a lump-sum method.

Shares Held as Part of Assets of Certain Companies in the Financial and Insurance Sector

Capital gains realised by certain companies in the financial and insurance sector are, as an exception to the aforementioned rules, fully taxable (see "*—Shares Held as Part of the Assets of Certain Companies in the Financial and Insurance Sector*" above). This applies to gains from the disposal of shares in the trading books of banks and financial services companies, to gains from the disposal of shares that were acquired by financial enterprises with the aim of generating a short-term proprietary trading profit, as well as to gains from the disposal of shares held as investments by life insurers, health insurers and pension funds.

10.2.2.2.2. Shareholders Tax Resident Outside Germany

Gains from the disposal of shares held by shareholders that are not German tax residents as part of German business assets (that is, via a permanent establishment or as part of business assets for which a permanent representative in Germany has been appointed), are taxed in Germany principally according

to the same provisions that apply to the taxation of shareholders that are German tax residents as described above.

Otherwise, capital gains realised by shareholders that are not German tax residents are taxable in Germany only if the shareholder making the disposal – or, in the event of shares acquired without consideration, their legal predecessor – held a direct or indirect stake of at least 1% in the Issuer's share capital at any time in the five years preceding the disposal. As a general rule, double taxation treaties concluded by Germany often provide for full exemption from German taxation in such cases and assign fiscal jurisdiction to the shareholder's country of residence. However, certain double taxation treaties contain special provisions for shareholdings in real estate companies subjecting the taxation of capital gains to the same rules applying to shareholders resident in Germany. If tax is levied in Germany and the shareholder is a corporation, generally no more than 5% of the capital gains will ultimately be subject to corporate income tax and the solidarity surcharge. In the case of individuals, by contrast, 60% of the gains from the disposal of the shares is subject to income tax (plus solidarity surcharge). Losses on disposals and other profit reductions or expenses incurred in connection with the shares may be deducted only to a limited extent in line with the principles outlined above. The German tax authorities have ruled that generally no withholding tax needs to be deducted by a Domestic Paying Agent in such cases. However, if the capital gain is subject to tax in Germany, the shareholder is required to file a tax return and pay such taxes.

10.2.2.3. Inheritance and Gift Tax

The transfer of shares to another person upon death or as a gift is generally subject to German inheritance or gift tax in the following circumstances:

(i) the place of residence, customary place of abode, place of management or registered office of the testator, the donor, the heir, the donee or another acquirer is, at the time of the asset transfer, in Germany, or such person, as a German national, has not spent more than five consecutive years outside of Germany without having a place of residence in Germany (this term is extended to ten years for German expatriates with U.S. residence);

(ii) the testator's or donor's shares were part of business assets for which there was a place of business in Germany or for which a permanent representative was appointed; or

(iii) the testator, at the time of death, or the donor with place of management or registered office in Germany, when the gift was made, held a direct or indirect interest of at least 10% of the Issuer's share capital either alone or jointly with other persons closely connected to them.

The small number of double taxation treaties regarding inheritance and gift tax that Germany has concluded to date generally provide for German inheritance or gift tax only to be levied in the cases under (i) and, subject to certain restrictions, in the cases under (ii). Special arrangements apply to certain German nationals and former German nationals living outside Germany.

10.2.2.4. Other Taxes

No German capital transfer tax, value added tax, stamp duty or similar taxes are levied on the purchase or disposal of shares or other forms of share transfer. Wealth tax is currently not levied in Germany. However, an entrepreneur can opt to pay value-added tax on the sale of shares, despite being generally exempt from value-added tax, if the shares are sold to another entrepreneur for the entrepreneur's business

On 22 January 2013, the Council of the EU approved the resolution of the ministers of finance from 11 member states (including Germany) to introduce a financial transaction tax within the framework of enhanced cooperation. On 14 February 2013, the European Commission accepted the Proposal for a Council Directive implementing enhanced cooperation in the area of financial transaction tax. The plan focuses on levying a financial transaction tax of 0.1% (0.01% for derivatives) on the purchase and sale of financial instruments. The directive awaits the unanimous agreement of the 11 participating member states.

10.3. Taxation in Luxembourg

The following information is of a general nature only and is based on the laws in force in Luxembourg as of the date of this prospectus. It does not purport to be a comprehensive description of all the tax considerations that might be relevant to an investment decision. It is included herein solely for preliminary information purposes. It is not intended to be, nor should it be construed to be, legal or tax advice. It is a description of the essential material Luxembourg tax consequences with respect to the Offering and may not include tax considerations that arise from rules of general application or that are generally assumed to be known to shareholders. This summary is based on the laws in force in Luxembourg on the date of this prospectus and is subject to any change in law that may take effect after such date. Prospective shareholders should consult their professional advisors with respect to particular circumstances, the effects of state, local or foreign laws to which they may be subject, and as to their tax position. Please be aware that the residence concept used under the respective headings applies for Luxembourg income tax assessment purposes only. Any reference in the present section to a tax, duty, levy impost or other charge or withholding of a similar nature refers to Luxembourg tax law and/or concepts only. Also, please note that a reference to Luxembourg income tax encompasses corporate income tax (*impôt sur le revenu des collectivités*), municipal business tax (*impôt commercial communal*), a solidarity surcharge (*contribution au fonds pour l'emploi*), as well as personal income tax (*impôt sur le revenu*) generally. Corporate shareholders may further be subject to net wealth tax ("**NWT**") (*impôt sur la fortune*) as well as other duties, levies or taxes. Corporate income tax, municipal business tax as well as the solidarity surcharge invariably apply to most corporate taxpayers resident in Luxembourg for tax purposes. Individual taxpayers are generally subject to personal income

tax and the solidarity surcharge. Under certain circumstances, where an individual taxpayer acts in the course of the management of a professional or business undertaking, municipal business tax may apply as well.

10.3.1. Withholding Tax

Dividend payments made to shareholders by a non-resident company, such as the Issuer, as well as liquidation proceeds and capital gains derived therefrom are not subject to a withholding tax in Luxembourg. Therefore, the Issuer does not assume liability for withholding taxes at the source.

10.3.2. Income Tax

Luxembourg Resident Individuals

Dividends and other payments derived from the shares by resident individual shareholders, who act in the course of the management of either their private wealth or their professional/business activity, are subject to income tax at the progressive ordinary rate with a current top effective marginal rate of 40% (43.60% including the maximum 9% solidarity surcharge) depending on the annual level of income of individuals. A tax credit may be granted for foreign withholding taxes, provided that it does not exceed the corresponding Luxembourg tax. Under current Luxembourg tax law, 50% of the gross amount of dividends received by resident individuals from a company resident in a Member State and covered by Article 2 of the Council Directive 2011/96/EU of 30 November 2011, as amended the Parent-Subsidiary Directive, such as the Issuer, is exempt from income tax.

Capital gains realized on the disposal of the shares by resident individual shareholders, who act in the course of the management of their private wealth, are not subject to income tax, unless said capital gains qualify either as speculative gains or as gains on a substantial participation. Capital gains are deemed to be speculative and are subject to income tax at ordinary rates if the shares are disposed of within six months after their acquisition or if their disposal precedes their acquisition. Aparticipation is deemed to be substantial where a resident individual shareholder holds, either alone or together with his spouse or partner and/or minor children, directly or indirectly at any time within the five years preceding the disposal, more than 10% of the share capital of the Issuer. A shareholder is also deemed to transfer a substantial participation if he acquired free of charge, within the five years preceding the transfer, a participation that was constituting a substantial participation in the hands of the transferor (or the transferors in case of successive transfers free of charge within the same fiveyear period). Capital gains realized on a substantial participation more than six months after the acquisition thereof are subject to income tax according to the half-global rate method (*i.e.*, the average rate applicable to the total income is calculated according to progressive income tax rates and half of the average rate is applied to the capital gains realized on a substantial participation). A disposal may include a sale, an exchange, a contribution or any other kind of alienation of the shares.

Capital gains realized on the disposal of the shares by resident individual shareholders, who act in the course of their professional/business activity, are subject to income tax at ordinary rates. Taxable gains are determined as being the difference between the price for which the shares have been disposed of and the lower of their cost or book value.

Luxembourg Fully Taxable Resident Undertakings with a Collective Character and Luxembourg Permanent Establishments of Foreign Undertakings with a Collective Character or of Non-Resident Individuals

Unless benefiting from a special tax regime, dividends and other payments made by the Issuer to a Luxembourg resident, a fully-taxable undertaking with a collective character or to a Luxembourg permanent establishment of a foreign undertaking with a collective character or of nonresident individuals are subject to income tax at their respective ordinary rates. Under current Luxembourg tax laws, 50% of the gross amount of dividends received from a company resident in a Member State and covered by Article 2 of the amended Parent-Subsidiary Directive, such as the Issuer, is exempt from income tax. A tax credit may further be granted for foreign withholding taxes, provided it does not exceed the corresponding Luxembourg corporate income tax on the dividends and other payments derived from the shares.

However, under the participation exemption regime, dividends derived from shares of an entity covered by Article 2 of the amended Parent-Subsidiary Directive, such as the Issuer, may be 30 exempt from income tax at the level when the shareholder if, at the time the dividend is made available to the shareholders, cumulatively, (i) the shareholder is (a) a fully taxable Luxembourg resident undertaking with a collective character, (b) a Luxembourg permanent establishment of a company covered by Article 2 of the amended Parent-Subsidiary Directive, (c) a Luxembourg permanent establishment of a foreign undertaking with a collective character in a country having a tax treaty with Luxembourg, or (d) a Luxembourg permanent establishment of a company limited by share capital or a cooperative company resident in the EEA other than a Member State, (ii) the shareholder has held or commits itself to hold the shares of the distributing entity (*i.e.*, the Issuer) for an uninterrupted period of at least 12 months, (iii) during this uninterrupted period of 12 months, the shares represent a participation of at least 10% in the share capital of the Issuer or a participation of an acquisition price of at least €1.2 million, and (iv) the dividend is put at its disposal within such period. Liquidation proceeds may be exempt under the same conditions. Shares held through a tax transparent entity are considered as being a direct participation proportionally to the percentage held in the assets of the transparent entity.

Capital gains realized by (i) a Luxembourg fully-taxable resident undertaking with a collective character or (ii) the Luxembourg permanent establishment of a non-resident foreign undertaking with a collective character on the shares of the Issuer are subject to income tax at the maximum global rate of 29.22% in Luxembourg City, unless the conditions of the participation exemption regime, as described above, are satisfied except that the acquisition price must be of at least €6 million for capital gain ex-

emption purposes. Shares held through a tax transparent entity are considered as a direct participation holding proportionally to the percentage held in the assets of the transparent entity.

Taxable gains are determined to be the difference between the price for which the shares have been disposed of and the lower of their cost or book value. Capital gains realized on the disposal of the shares by a non-resident individual holding the shares through a Luxembourg permanent establishment are subject to income tax at ordinary rates. Taxable gains are determined as being the difference between the price for which the shares have been disposed of and the lower of their cost or book value

10.3.3. Net Wealth Tax

Shares held by a Luxembourg fully-taxable resident undertaking with a collective character or a Luxembourg permanent establishment of a foreign entity of the same type are subject to Luxembourg NWT (*impôt sur la fortune*) at the rate of 0.5% applied on its net assets as determined for NWT purposes. Net wealth is referred to as the unitary value (*valeur unitaire*), as determined on January 1 of each year. The unitary value is basically calculated as the difference between (a) assets estimated at their fair market value (*valeur estimée de réalisation or Gemeiner Wert*), and (b) liabilities vis-à-vis third parties, unless one of the exceptions mentioned below is satisfied.

Unless benefiting from a special tax regime, NWT will be levied on the shares in the hands of a Luxembourg fully taxable resident company or of a Luxembourg permanent establishment of a foreign company.

Further, in the case of a company covered by Article 2 of the amended EU Parent-Subsidiary Directive, such as the Issuer, the shares may be exempt for a given year, if the shares represent at the end of the previous year a participation of at least 10% in the share capital of the Issuer or a participation of an acquisition price of at least €1.2 million. The NWT charge for a given year can be reduced if a specific reserve, equal to five times the NWT to save, is created before the end of the subsequent tax year and maintained during the five following tax years. The maximum NWT to be saved is limited to the corporate income tax amount due for the same tax year, including the employment fund surcharge, but before imputation of available tax credits.

10.3.4. Other Taxes

Under Luxembourg tax law, where an individual shareholder is a resident of Luxembourg for inheritance tax purposes at the time of his/her death, the shares are included in his/her taxable basis for inheritance tax purposes. Gift tax may be due on a gift or donation of the shares if the gift is recorded in a Luxembourg notarial deed or otherwise registered in Luxembourg.

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Annual Report 2015

Combined Company and Group Management Report as of 31 December 2015

Fundamentals of the Group

1. Group structure

This report describes the business performance of the Group (hereafter also referred to as "Biofrontera" or the "Biofrontera Group") for the 2015 financial year. The Group consists of the parent company Biofrontera AG and five wholly owned direct subsidiaries - Biofrontera Bioscience GmbH, Biofrontera Pharma GmbH, Biofrontera Development GmbH, Biofrontera Neuroscience GmbH and Biofrontera Inc. Biofrontera Inc. has its registered office in Wilmington, Delaware, USA. All the other companies are based at Hemmelrather Weg 201 in 51377 Leverkusen, Germany.

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 undertakes the research and development tasks for the Group and is the holder of patents and the approval for Ameluz®. Based on a licence agreement with Biofrontera Bioscience GmbH, Biofrontera Pharma GmbH, which is also the holder 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. The product BF-derm1, which is intended for the treatment of severe chronic urticaria, is 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. By outsourcing the development projects, a structure has been created through which the financing of the further development of these two products can be separated from the normal Group financing.

Biofrontera Inc. was established in March 2015 and will be used in future to conduct business in the USA.

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 further expansion of business in Europe, the main priorities are to increase the range of indications for existing products and to develop the independent marketing operation in the USA.

Biofrontera was the first small German company to receive 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 operation was gradually developed, and Biofrontera has been selling Ameluz® via its own field

sales team to dermatologists in Germany since the product was launched in February 2012 and in Spain since March 2015. In the UK, the contract with the local marketing partner was terminated on 31 July 2015. Biofrontera will take over distribution in the UK itself once indications have been extended to include basal cell carcinoma. The drug is distributed in other countries of the European Union, as well as in Israel and Switzerland, by licensing partners.

Biofrontera has thus established itself as a specialist pharmaceutical company with an unusually high level of research and development expertise in comparison to other companies in this sector. The focus of the Group's strategy is to further expand its business in Europe, achieve market entry of Ameluz® in the USA and extend the indications to include basal cell carcinoma, first in the EU and at a later stage in the USA.

Further preparatory work was carried out for the approval of Ameluz® in the USA in the reporting period. In early July 2015, the approval application (NDA = New Drug Application) was submitted to the FDA (Food and Drug Administration). Ameluz® and BF-RhodoLED® have to be approved as a combination of a drug and a medical device in the USA, and therefore the approval application is unusually complex. In accordance with the guidelines, the FDA made a decision on the formal "acceptance to file" after a period of 60 days, and this was granted on 11 September 2015. In the subsequent "74-day letter", the company was informed on 2 October 2015 that no significant verification issues had been identified in the preliminary review process. In this letter, the FDA also gave the date for the detailed interim report including the proposed labelling as 30 March 2016, and gave an estimated date for issuing the final approval (PDUFA date) of 10 May 2016, provided that no significant problems arise. In a further communication on 20 January 2016, the FDA informed the company that the midcycle review had been completed and the FDA had no further questions arising from this regarding the approval application. The proposed labelling was provided to the company by the FDA at the end of March 2016. Once the approval process has been completed, Biofrontera will have access to the largest healthcare market in the world.

The extension of the indications for Ameluz® to include the treatment of basal cell carcinoma (BCC) was initiated in 2014. The phase III clinical testing was carried out in direct comparison with the competitor product Metvix®. Patient recruitment was completed in May 2015 and the last patient completed the clinical part of the trial in November 2015. There is then a 5-year follow-up period for all the patients. The results of the trial have been available since January 2016 and prove that Ameluz® is highly clinically effective for the indication of BCC. In comparison with the competitor product Metvix®, it demonstrated higher healing rates, especially with thicker and nodular carcinomas. Metvix® has had a major competitive advantage over Ameluz® up to now due to its approval for the treatment of basal cell carcinoma, despite its statistically significant inferiority for the treatment of actinic keratosis (in the case of AK, Ameluz® is approved for mild and moderate AK on the face and scalp as the first choice therapy, while Metvix® is only approved for mild AK on the face and scalp as a second choice therapy). Particularly in other European countries, where dermatologists are mainly based in hospitals and there are fewer independent practices, the market opportunities of Ameluz® are significantly reduced by the lack of approval for BCC. The extension of the indications currently being sought is therefore expected to put Biofrontera in a significantly improved market position. The application to extend the indications of Ameluz® to include basal cell carcinoma is due to be made once the trial report has been completed in the 2nd quarter of 2016, and the approval of the European Medicines Agency is then expected in the 4th quarter of 2016.

2016 will therefore be a very decisive year for Biofrontera, with new Ameluz® approvals expected for actinic keratosis in the USA, Switzerland and Israel and an approval extension expected for basal cell carcinoma in Europe. In light of this and the related challenges facing Biofrontera, the Management Board was expanded to include a Chief Commercial Officer. Christoph Dünwald was appointed as Chief Commercial Officer, bringing

with him extensive international experience and all the necessary skills to successfully manage the internationalisation of sales and in particular the marketing of Ameluz® in the USA and Europe. Mr. Dünwald has 24 years of experience in sales and marketing in the healthcare sector in Europe, the USA and Asia. He joined Biofrontera on 16 November.

3. Products

Ameluz®

Ameluz® 78 mg/g Gel ("for people who love the light", development name: BF-200 ALA) received a first centralised European approval for the treatment of mild and moderate actinic keratoses on the face and scalp in December 2011. During the phase III development, its superiority compared to its direct competitor product Metvix® was proven for this indication. 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 Medicines Agency (EMA) explicitly mentions the significant superiority of Ameluz® for removing all of a patient's keratoses compared to its direct competitor product.

In the phase III approval trials, Ameluz® showed excellent healing rates and demonstrated significant superiority compared to the approved comparator product, which was tested in parallel. In the first phase III trial in which the drug was combined with an LED lamp, in 87% of patients treated with Ameluz®, all keratoses were completely removed, and in terms of the number of individual keratosis lesions, as many as 96% were completely eradicated (all the values stated are ITT *(intent to treat)* values). In the second phase III approval trial, the effectiveness of Ameluz® was tested in comparison with the approved standard medication. The results of the trial provided evidence that Ameluz® was clearly superior to the competitor product already available in Europe at the time. Based on the average for all lamps used in the treatment, Ameluz® resulted in the complete healing of actinic keratoses in 78% of patients, whereas the competitor product already approved at the time achieved a healing rate of only 64%. With LED lamps, the healing rates increased to 85% for Ameluz® and 68% for the competitor product. The side effect profile was comparable for both products.

As approval in the USA requires a combination of drug and lamp, Biofrontera has developed its own PDT lamp, BF-RhodoLED®, and has had it CE-certified in the EU, which requires the company to be certified pursuant to the ISO 9001 and ISO 13485 standards. In preparation for the approval in the USA, a phase III trial was carried out with a combination of Ameluz® and BF-RhodoLED®, and was completed in the reporting period. With this combination, keratoses were completely eradicated from 91% of patients, and in terms of the number of individual lesions, 94% were completely removed after treatment (99.1% of mild and 91.7% of moderate lesions). As it has been widely reported in the literature that PDT has pronounced skin-rejuvenating properties, particularly in the case of sun-damaged skin, in this trial, for the first time in a phase III trial of PDT anywhere in the world, the drug was applied over large surface areas (field therapy) and the cosmetic result was established, without taking into account the disappearance or not of the keratotic lesions. All the parameters that were tested improved significantly as a result of the treatment. The proportion of patients without rough, dry and scaly skin increased from 14.8% to 63.0% after treatment with Ameluz®. The group of patients without hyperpigmentation or hypopigmentation increased from 40.7% to 57.4% and from 53.7% to 70.4%, respectively. The proportion of patients with mottled pigmentation who had both hyperpigmentation and hypopigmentation in the treated area decreased from 48.1% to 29.6%. Before treatment, 22.2% of the patients had mild scarring, which dropped to 14.8% of patients after treatment. Atrophic skin was diagnosed in 31.5% of patients before treatment but in only 16.7% of patients after the treatment.

The patients treated in the field therapy trial were observed by the trial doctors over the course of a year after the final treatment. Here, the long-term nature of the pharmaceutical effect of Ameluz® was analysed in terms of effectiveness, safety and the cosmetic result. 63.3% of the patients who were initially completely asymptomatic were still asymptomatic one year later. The long-term effectiveness achieved using field therapy is thus in the region of that already observed in previous long-term studies on lesion-directed PDT with Ameluz®. The improvement in the skin appearance of patients treated with Ameluz® that was observed immediately after PDT continued to develop during the follow-up period. Before PDT, only 14.8% of patients had no impairments to the surface of the skin. Whereas twelve weeks after the last PDT, 63% of patients were already free of such cosmetic damage, this percentage rose after a year to 72.2%. Similar results were also observed for pigment disorders. Before PDT, hyperpigmentation occurred in 59.3% and hypopigmentation in 46.3% of patients, with 48.1% exhibiting irregular pigmentation. Twelve weeks after Ameluz® PDT, these percentages initially fell to 42.6%, 29.6% and 29.6% and decreased over the course of a year to 24.1%, 11.1% and 18.5%. These results clearly show that the skin rejuvenation effect achieved using photodynamic therapy with Ameluz® is long-lasting and the repair processes triggered by the therapy remain active for at least 12 months.

It is the first time that data on the aesthetic effect of PDT has been collected within the scope of a phase III approval trial. The results underline the significance of PDT with Ameluz® and BF-RhodoLED® and show that the therapy stands out clearly from many other treatment options.

Both the phase I trials required by the American approval authority, the FDA, were also completed in the reporting period. These clinical trials were initiated with a total of approximately 240 patients or subjects in order to add to the European approval package for Ameluz® the safety data required for registration in the USA. Specifically, one of the trials was a sensitisation study, which determines the potential of Ameluz® to trigger allergies, and the other was a maximal use trial, which tests the absorption in the blood of the active ingredient in Ameluz®, aminolevulinic acid, and the light-activated metabolite protoporphyrin IX in cases of treatment with the maximum quantity, i.e. the application of a complete tube onto the defective skin. No safety concerns were identified in either of the studies.

Actinic keratosis is classified as a tumour that requires treatment, and the international treatment guidelines list photodynamic therapy as the gold standard for the removal of actinic keratoses, particularly for patients with large keratotic areas. The latest statistics show that actinic keratosis is becoming a widespread disease, with up to 8 million people affected in Germany alone, and that there is a marked upward trend in cases. In particular, subclinical and mild actinic keratoses 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 therefore taking actinic keratosis increasingly seriously is illustrated by the fact that actinic keratosis has been recognised as an occupational disease 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 time and who fulfil certain criteria, for the duration of these patients' lives. Reimbursement will be determined shortly.

At present, actinic keratoses are treated using a wide range of methods. Lesions are treated, sometimes for weeks, with topical creams, which are often ineffective, or the diseased skin may be removed by mechanical intervention (curettage) or freezing (cryotherapy), which very often leads to scar formation or permanent pigment disorders.

The market for topical creams continues to show constant growth, and medicinally and legally questionable PDT formulations continue to be used in Germany. Because Ameluz® is the market leader among independent dermatologists in Germany in the PDT proprietary medicinal product market, with a market share of over 70%, a significant increase in sales can and must result from the above-mentioned sectors.

The overall advantages of Ameluz® in terms of effectiveness, handling, user-friendliness and cosmetic results, as well as the high healing rates of PDT in the treatment of actinic keratoses, will increasingly bring this treatment option to the attention of dermatologists over the next few years. This will be helped by the expansion of the range of indications to include basal cell carcinoma, which the company is currently working on, as the vast majority of PDT treatments are carried out for this indication, particularly in the UK and Spain.

Biofrontera has carried out a phase III trial for the extension of the European approval to include the indication basal cell carcinoma (BCC). BCCs are the most common invasive tumours that affect humans and account for approximately 80% of all invasive white skin cancers. Around 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, gives rise to excellent cosmetic results. In the pivotal phase III trial, a total of 278 patients were treated. The trial was conducted under the clinical supervision of Prof. Dr. Colin Morton (UK) and Prof. Dr. Markus Szeimies (Germany) and was carried out at 27 clinical trial centres in the UK and Germany. Patient recruitment for the trial, which was carried out in direct comparison with the competitor product Metvix®, was completed in May 2015 and the last patient completed the trial in November 2015. The results of the trial have been available since January 2016. The results confirm the company's positive expectations. In the clinical trial, the effectiveness and safety of Ameluz® were compared with that of Metvix®, a drug already approved in the EU for the treatment of BCC. Non-aggressive (superficial and nodular) BCCs with a thickness of up to 2 mm were included in the trial. Ameluz® achieved the complete elimination of all BCCs from the patient in 93.4% of cases compared to 91.8% with Metvix®. There were greater differences in the case of thicker BCCs. With Ameluz®, 89.3% of the tumours were completely removed, compared to only 78.6% with Metvix®.

Based on the results of this phase III trial, Biofrontera will shortly apply to the European Medicines Agency for approval for the treatment of BCC with Ameluz®. As the existing Ameluz® approval only has to be extended for this, the extended approval should be issued as early as this year.

BF-RhodoLED®

BF-RhodoLED® is a lamp designed for photodynamic therapy (PDT), and uses LEDs emitting red light at a wavelength of approx. 635 nm. Light at this wavelength, which is ideally suited for PDT illumination with drugs containing ALA or methyl ALA, is red but is still below 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 energy and fan power settings can be adjusted during a PDT treatment session in order to reduce any discomfort caused by 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®

Belixos® is a modern active cosmetic product specially developed for sensitive and irritated skin. The biocolloid technology patented by Biofrontera, which optimises epidermal penetration, makes the products

unique: pure plant biocolloids are combined with medicinal plant extracts to form an extraordinary combination of active substances with proven depth penetration, bringing together the best of nature and science.

Belixos® Cream rapidly and reliably soothes itching and is the ideal basic treatment for inflamed, reddened and flaky skin. It soothes the skin, reduces scratching and allows the skin to regenerate naturally. Belixos® Cream, which has been available since 2009, has thus proved particularly useful as an effective basic treatment for atopic dermatitis and psoriasis.

Over the past two years, other specialist regenerative cosmetic products for skin problems have been developed. The typical deep yellow colour is the unmistakeable mark of quality. This is derived from the traditional medicinal plant extract obtained from the roots of Mahonia aquifolium. Belixos® products use only natural active substance extracts with clinically proven effects.

Belixos® Liquid is an innovative scalp tonic with a practical pipette for dosing, which soothes scalps irritated by psoriasis or eczema, for example, and restores their balance. For itchy and flaky scalps, a combination of anti-inflammatory mahonia, moisturising oats, irritation-relieving panthenol and a special zinc PCA complex is used.

Belixos® Gel is specially formulated for skin that is inflamed, reddened and prone to skin blemishes, providing an effective treatment for rosacea and acne. The gel texture is formulated to be extra grease-free, has a complex of active substances consisting of anti-inflammatory mahonia and Sepicontrol A5, is antibacterial, removes hardened skin and regulates sebum.

In summer 2015, a modern daily skincare product for sun-damaged skin with exceptional lipid matrix formulation and skin-regenerating properties was added to the Belixos® range: Belixos® Protect. Highly concentrated niacinamide smooths the skin and helps repair skin damage. It also contains UVA and UVB broad spectrum protection with SPF15 to protect against further light-induced skin ageing and hyperpigmentation.

Irritated skin requires the highest level of care. Belixos® products are manufactured in accordance with strict quality and environmental requirements. They are free of paraffins, parabens, ethyl alcohol, animal products, dyes and fragrances that may have negative dermatological effects. Their skin-compatibility was dermatologically tested without the use of animal testing and was assessed as "very good" by the independent institute 'Dermatest'. Belixos® is available at selected pharmacies, dermatological institutes and on Amazon.

A further product launch is planned for 2016.

4. Sales and markets

With its central European approval, Ameluz® can be sold and distributed in all EU countries as well as in Norway, Iceland and Liechtenstein. However, in many European countries, the price and the reimbursement status have to be defined prior to market launch, which can be a very lengthy process. To date, the company has commenced sales and distribution in Germany, the UK, Spain, Austria, the Netherlands, Luxembourg, Belgium, Denmark, Sweden, Norway and Slovenia. The drug is available in these countries at a pharmacy retail price of between just under EUR 200 and approx. EUR 270 per 2g tube.

Ameluz® is marketed in Germany and, since March 2015, also in Spain by Biofrontera's own field sales force, and in other European countries using marketing partners. In the UK, Biofrontera is currently preparing its own sales operation, and the contract with a local marketing company was terminated on 31 July 2015. Biofrontera

also carries out its own sales and distribution in Slovenia, but its local marketing there is supported by a local company.

Distribution to public pharmacies generally takes place via pharmaceutical wholesalers, whereas hospital pharmacies are supplied directly. In addition to regular visits by the field sales force to dermatologists, Biofrontera has presented Ameluz® at the major dermatological conferences both in Germany and in other European countries since it was introduced onto the market. The response from dermatologists has been extraordinarily positive. In 2015, Biofrontera again recorded a significant increase in sales of 34% compared to the previous year. The market share of Ameluz® in the segment of PDT drugs dispensed by German public pharmacies is consistently over 70%. In spite of this, Ameluz® still only has a small share of the overall market for preparations used to treat actinic keratosis, because only approximately 5% of patients are treated with proprietary medicinal products for photodynamic therapy (PDT). 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 in the statutory health insurance sector. In this sector in Germany, doctors do not usually receive any compensation from statutory health insurance for performing PDT. A film about PDT is available to view on YouTube (http://www.youtube.com/watch?v=aK4a3R5kqMA, and in English http://www.youtube.com/watch?v=2xEO8DWCO8o).

Approval for basal cell carcinoma is a prerequisite for the widespread use of Ameluz® in hospitals, as basal cell carcinoma is mainly treated there, whereas this is only very rarely the case for actinic keratosis. This indication plays an essential role for the breakthrough of Ameluz®, particularly in European countries. BCCs are the most common invasive tumours that affect humans and account for 50-80% of all invasive white skin cancers. Around 30% of all Caucasians develop at least one BCC in their lifetime, and this is a rapidly growing trend worldwide due to increased exposure to UV light. BCCs are normally removed surgically, often resulting in scarring. Treatment with photodynamic therapy (PDT) is a highly effective alternative which also leads to excellent cosmetic results. According to a market study published in 2014 by Technavio, the international market for actinic keratosis medications is expected to grow by approx. 8% annually, from approx. USD 546 million to USD 942 million in 2020. However, during the same period, the market for basal cell carcinoma medications is expected to grow at a phenomenal rate, from approx. USD 236 million today to nearly USD 5 billion, because the availability of new drugs (Ameluz® is mentioned in this context) will mean that fewer and fewer patients undergo operations.

In Denmark, Sweden and Norway, Ameluz® is marketed by Desitin Arzneimittel GmbH, in Benelux by Bipharma N.V. and in Austria, by Pelpharma Handels GmbH. Biofrontera carries out its own sales and distribution activities in Slovenia and is supported in its marketing activities by PHA Farmed. The cooperation with Spirit Healthcare in the UK was terminated by Biofrontera as of 31 July 2015, and Biofrontera is currently preparing to set up its own sales operation in the UK. Sales in Spain were initially handled by Allergan SA, but since March 2015 Biofrontera has marketed its products itself in Spain via its own branch, Biofrontera Pharma GmbH sucursal en España. Louis Widmer SA has been granted the Ameluz® distribution licence for Switzerland and Liechtenstein, and the Ameluz® distribution licence for Israel has been allocated to Perrigo Israel Agencies LTD. In these countries, it is necessary to undergo an independent approval process, which is currently being carried out by the above-mentioned distribution partners in collaboration with Biofrontera. In Switzerland, both the approval and the reimbursement approval were issued in December 2015. The market launch will take place during 2016. In Israel, Ameluz® has been included in the National Health Basket and thus accepted for reimbursement. Approval is now also expected in the next few months.

The contracts with the respective sales partners 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 linked to their own sales price. Biofrontera's share of the sales price varies considerably depending on the market conditions in each country, ranging from 35% to 60% of net sales.

For France, Biofrontera has submitted its application to make Ameluz® reimbursable and to establish the pricing with the assistance of a consultancy that specialises in this field. The processing of the application has not yet been completed.

Biofrontera has already started preparations for its sales operation in the USA. With the help of a consulting firm specialising in market access and a team of medical advisors, Biofrontera has started to analyse the actinic keratosis drug market and the reimbursement systems in the American healthcare system. For this, Biofrontera can draw on the experience of DUSA Pharmaceuticals Inc. with a competitor product already sold and distributed in the USA, Levulan Kerastick®. A local subsidiary, Biofrontera Inc., was established in March 2015 and a very experienced CEO was appointed in the form of Monica L. Tamborini, who has already started setting up the necessary infrastructure for a pharmaceutical company in the USA and developing detailed plans to prepare for marketing. If approval is granted by the FDA as planned on 10 May 2016, the plan is to launch Ameluz® on the US market on 1 September 2016. As the drug and lamp are approved as a combined product in the USA, the speed of market penetration in the USA will depend in particular on Biofrontera's ability to position the BF-RhodoLED® PDT lamp.

5. Other 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 trial has already been completed that has demonstrated the product's efficacy and also its limited side effects. As Biofrontera will be concentrating on further developing Ameluz® over the next few years, it intends to look for a partner for the further development and funding of the phase III costs and the approval expenses. However, no work has yet been carried out on this for reasons of capacity.

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. As this product candidate no longer fits Biofrontera's dermatological product focus, the intention is to license it out after the initial development stages.

After the first results in 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 has been synthesised in accordance with the Good Manufacturing Practice (GMP) quality standards.

Patent and trademark developments since 31 December 2014

Nanoemulsion

Regarding the "Nanoemulsion" patent (PCT/EP2007/011404), further official communications were issued in Canada, India, Israel, Chile, Europe, the United Arab Emirates and the USA, and responses were sent by the relevant deadlines.

In Europe, the patent is expected to be issued shortly, so patent protection is likely soon.

The patent was issued in Canada on 24 November 2015 and in India on 26 June 2015.

Belixos®

Regarding the patent "Pharmaceutical and/or cosmetic composition for treating the skin" (US Patent Application No. 13/081,737), a pending official communication was answered by the deadline and an application was made for continued testing.

Migraines

Regarding the migraine patent EP 1 438 307, this was not renewed in Belgium, Bulgaria, Estonia, Finland, Greece, Ireland, Luxembourg, Monaco, Portugal, Slovakia, the Czech Republic and Cyprus, and therefore this patent will expire in these countries due to non-payment of renewal fees.

The same applies to the corresponding patent in Hong Kong (HK1073311).

Brand development

Protection was granted in full for Russia, Singapore, Japan and the USA for two different versions of the international trademark "Natural Heritage with Herbal Biocolloids".

Protection for international trademark No. 1113422 (BF-RhodoLED) and No. 1031222 (Ameluz) was granted in Liechtenstein.

An application was made for a new European Community Trademark, "Daylight-PDT" (No. 014943518).

Economic report
For the 2015 financial year for the Biofrontera Group:

- 34% overall sales growth compared to the previous year, including significant growth of 27% in Germany and strong sales growth of 61% in the other European countries
- Operating profit/loss: EUR -10.2 million (previous year: EUR -9.6 million)

- Consolidated profit/loss before tax: EUR – 11.2 million (previous year: EUR -10.7 million)
- Liquid assets as of 31 December: EUR 4.0 million (previous year: EUR 8.5 million)
- Undiluted earnings per share amounted to EUR -0.48 (previous year: EUR -0.49)

Sales revenue: Sales revenue in Germany increased by 27% compared to the same period in the previous year. This almost corresponds to the desired increase for the whole year of 30%. In the third quarter in particular, an unusually large increase in sales was achieved, boosted by high levels of stocking by wholesalers. Moreover, significantly higher orders were recorded in other European countries than in the previous year, which led to a sharp increase of 61% in international sales. Down-payments remained unchanged compared to the previous year, at EUR 70 thousand.

Operating profit/loss: In the 2015 financial year, Biofrontera again invested substantial amounts to further develop its products and to establish sales and marketing structures. Overall, the costs exceeded the sales revenue achieved, leading to an operating loss of EUR 10.2 million.

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

Sales revenue

The Biofrontera Group recorded sales of EUR 4,138 thousand during the 2015 financial year (2014: EUR 3,096 thousand), corresponding to an increase of 34% compared to the same period in the previous year. Revenue from sales of our products in Germany increased by 27% to EUR 3,028 thousand (2014: EUR 2,379 thousand), and in other countries, sales rose significantly, by 61% to EUR 1,040 thousand (2014: EUR 647 thousand). In the 2015 financial year, EUR 70 thousand of down-payments were received (2014: EUR 70 thousand).

Cost of sales, gross profit from sales

The gross profit from sales improved from EUR 1,979 thousand in the 2014 financial year to EUR 2,902 thousand in the 2015 financial year. The gross margin increased to 70%, compared to 64% in the same period in the previous year.

The cost of sales amounted to EUR 1,236 thousand, or 30% of the sales revenue, improving slightly relative to sales revenue compared with the previous year (EUR 1,117 thousand, or 36%).

Development costs

The research and development costs increased by 37%, from EUR 4,534 thousand in the previous year to EUR 6,204 thousand in the 2015 financial year. The investment in research and development to extend the range of indications and obtain approval for Ameluz® in the USA remained almost constant. In addition, a submission fee ("PDUFA fee") of EUR 2,072 thousand was paid for the submission of the approval application to the

FDA. This fee is usually waived for small companies for their initial submission. In consultation with the FDA, Biofrontera lodged an application for a waiver of this fee, but this could not be processed on the filing date as the American approval authority, the FDA, did not have a process for handling such applications. This fee was refunded by the FDA in March 2016.

Sales costs

The sales costs increased only slightly by 8% to EUR 4,170 thousand compared to the previous year (EUR 3,847 thousand), despite the build up of a sales structure in Spain. The sales costs include the costs of our own field sales team in Germany and Spain, as well as marketing expenses. They also include expenses for marketing preparations in the USA.

Administrative costs

The administrative costs decreased compared to the same period in the previous year by EUR 485 thousand to EUR 2,759 thousand, primarily due to lower financing costs. Financing costs shown under administrative costs include primarily consultancy and placement fees in connection with support for the search of investors.

Financial result

The financial result consists primarily of the interest payable for the 2009/2017 warrant bond (EUR 439 thousand, previous year: EUR 447 thousand) and for the 2011/2016 warrant bond placed in 2011 (EUR 727 thousand, previous year: EUR 702 thousand), calculated using the effective interest method. The aforementioned interest expenses of EUR 439 thousand (previous year: EUR 447 thousand) for the 2009/2017 warrant bond include the opposite effect amounting to EUR 193 thousand (previous year: EUR 156 thousand) resulting from the repurchase of part of the warrant bond on 28 February 2014. The interest payment for the 2014 calendar year from warrant bond I and II occurred in January 2015. The interest payment for warrant bond I for the 2015 financial year was made at the end of December 2015, and for warrant bond II, the interest payment was made beginning of January 2016.

Investments

The increases in intangible assets and property and equipment in the reporting period resulted primarily from the acquisition of further rights of use in connection with the prototype of the PDT lamp (EUR 26 thousand, previous year: EUR 77 thousand) as well as the capitalisation of production facility expenses (EUR 45 thousand; previous year: EUR 0) and office and business equipment (EUR 42 thousand; previous year: EUR 29 thousand). The asset disposals with acquisition and production cost of a total of EUR 20 thousand (previous year EUR 128 thousand) primarily resulted from sales of rental lamps.

Inventories

Inventories amounted to EUR 1,534 thousand (31 December 2014: EUR 1,394 thousand). These included: finished products (Ameluz®) amounting to EUR 400 thousand, BF-RhodoLED® lamps recorded in the invento-

ries amounting to EUR 435 thousand and Belixos® products amounting to EUR 46 thousand as well as unfinished products, raw materials and supplies amounting to EUR 633 thousand.

Receivables

The receivables from goods and services increased by EUR 586 thousand due to the higher sales in the 4th quarter of 2015, from EUR 309 thousand as of 31 December 2014 to EUR 895 thousand.

Share capital

The fully paid share capital of the parent company, Biofrontera AG, as of 31 December 2015 amounted to EUR 25,490,430.00. It was divided into 25,490,430 registered shares with a nominal value of EUR 1.00 each. On 31 December 2014, the share capital amounted to EUR 22,196,570.00 and was increased by a total of EUR 3,293,860.00, divided into 3,293,860 registered shares, during the course of the 2015 financial year by means of two capital increases.

In the first capital increase carried out in 2015, new shares were offered to all shareholders for subscription or additional subscription. The new shares that were not acquired as part of the subscription right or the additional subscription were offered to selected investors for acquisition in a private placement. EUR 1,377,272.00, divided into 1,377,272 registered shares, was placed and the execution was entered in the commercial register on 1 June 2015. The issue proceeds amounted to EUR 3.1 million.

In addition, in a further capital increase, a total of EUR 1,916,588.00, divided into 1,916,588 registered shares, was placed and this was entered in the commercial register on 3 December 2015. This capital increase was also initially offered to all shareholders for subscription or additional subscription. Shares that were not acquired as part of the subscription or additional subscription were offered to institutional investors for subscription. The issue proceeds amounted to EUR 3.5 million.

Biofrontera AG shares were listed on the regulated market of the Düsseldorf Stock Exchange in 2006. 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 Xetra computer trading system and all other German stock exchanges. On 3 June 2014, the shares were admitted to the Prime Standard of the Frankfurt Stock Exchange and to the AIM Market of the London Stock Exchange. The listing on the AIM Market was rescinded effective from 18 February 2016.

Group equity and company equity

According to IFRS, the Group has negative equity amounting to EUR -4,809 thousand. As of 31 December 2015, Biofrontera AG has positive shareholders' equity of EUR 65,496 thousand (previous year: EUR 65,847 thousand). There is no over-indebtedness in the legal sense at the two subsidiaries Biofrontera Bioscience GmbH and Biofrontera Pharma GmbH as their balance sheet insolvency is remedied by qualified letters of subordination from Biofrontera AG. On the level of Biofrontera AG extraordinary depreciation on the investment book values of Biofrontera Neuroscience GmbH and Biofrontera Development GmbH were recorded in a total amount of EUR 6,561 thousand, since the group will focus on the development and approvals of Ameluz® and BF-RhodoLED® in the US as well as indication expansion in Europe and therefore no intensive efforts

were made in the fiscal year 2015 which would lead to positive cash flows from the products BF-derm1 and BF-1 in the near future.

The net loss of Biofrontera AG is thus EUR -7,263 thousand (previous year: EUR -1,409 thousand).

Financial position

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. The equity reconciliation statement provides further information about the development of equity.

The cash flow from operating activities fell compared to the previous year, from EUR -7,928 thousand to EUR -9,717 thousand on 31 December 2015.

Sales of rental lamps held in inventory decreased compared to the previous year from EUR 117 thousand to EUR 20 thousand. At the same time, cash flows from interest revenue increased by EUR 41 thousand to EUR 184 thousand. Investments into fixed assets increased slightly by EUR 16 thousand. These factors led to a decrease in the cash flow from investment activities of EUR 62 thousand from EUR 79 thousand to EUR 17 thousand.

The cash flow from financing activities decreased by EUR 8,275 thousand compared to the same period in the previous year, from EUR 13,425 thousand to EUR 5,150 thousand. This change results primarily from proceeds from the issuance of shares, a capital increase with issuance proceeds of EUR 15.3 million was performed in the previous year.

The company was able to meet its payment obligations at all times, but it will also be dependent on further financing in future. (compare notes to liquidity risk)..

Achievement of objectives in 2015:

	Outlook for 2015	Achievement of objectives as of 31 December 2015
Group sales revenue	EUR 4 to 5 million	EUR 4.1 million
Research and development costs	EUR 4 to 5 million	EUR 6.2 million
Net profit/loss before tax	EUR -9 to -10 million	EUR -11.2 million

Biofrontera achieved all of its financial objectives in 2015, when considering the one time payment of the submission fee to the FDA ("PDUFA-fee") in an amount of EUR 2.1 million. In the forecast, sales revenue of EUR 4 to 5 million was expected. In Germany, revenues from product sales increased by more than 27% com-

pared with the previous year and were thus close to the target. Furthermore, sales in other European countries and with foreign sales partners were increased by 61%. Despite this, market penetration in other European countries continues to be difficult, particularly due to the fact that basal cell carcinoma is not yet included as an indication.

Biofrontera also continued to invest heavily in research and development and regulatory affairs in 2015, in order to expand the indications for Ameluz® - to include basal cell carcinoma in particular - and to obtain approval in the USA. The R&D costs of EUR 6.2 million were on target considering the PDUFA fee paid in May 2015.

Our net loss before taxes of EUR -11.2 million also lay within the predicted range, also considering the PDUFA-fee.

Personnel details

Management Board

The Management Board comprises Prof. Dr. Hermann Lübbert (Chief Executive Officer), Mr. Thomas Schaffer (Chief Financial Officer) and Mr. Christoph Dünwald (Chief Commercial Officer).

The remuneration of the Management Board members consists of a fixed salary that is paid in twelve equal monthly instalments. In addition, there is an annual, performance-based bonus for the directors, as well as a long-term remuneration component consisting of participation in the company's stock option programme. Company cars are also available to the directors for business and private use.

Staff

As of 31 December 2015, 58 employees worked for the Biofrontera Group (31 December 2014: 46). Of these, 17 were employed at Biofrontera AG (31 December 2014: 16), 6 at Biofrontera Bioscience GmbH (31 December 2014: 6) and 34 at Biofrontera Pharma GmbH, including the Spanish office (31 December 2014: 24). No staff are employed at Biofrontera Development GmbH or Biofrontera Neuroscience GmbH. As of 31 December 2015, one member of staff was employed by Biofrontera Inc.

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 regarding 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 the 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.

On 24 November 2010, 106,400 options (first tranche) were issued with an exercise price per share of EUR 1.91. On 30 September and on 7 October 2011 (second tranche) a further 96,400 options were issued with an exercise price of EUR 2.48 each. On 23 March 2012 and 11 May 2012 (third tranche), 65,000 options were issued with an exercise price of EUR 3.30 each, and 51,500 options were issued with an exercise price of EUR 4.09 each. On 2 September 2013, 179,500 options were issued (fourth tranche) with an exercise price of EUR 3.373 each. On 2 April 2014, 159,350 options were issued with an exercise price of EUR 3.43 each. A total of 123,750 options were forfeited by employees leaving the company. No options were issued in the 2015 financial year.

The authorisation to issue options under the 2010 stock option programme ended on 1 July 2015. By resolution of the Annual General Meeting on 28 August 2015, the conditional capital III provided to service options under this programme was reduced to EUR 542,400.00.

Supervisory Board

By resolution of the Annual General Meeting of 10 May 2011, the following were appointed as Supervisory Board members for five years:

Jürgen Baumann	Chairman of the Supervisory Board, expert in the field of sales and marketing of pharmaceuticals, resident in Monheim, Germany
Prof. Dr. Bernd Wetzel	Deputy chair of the Supervisory Board, advisor, resident in Biberach/Riss, Germany
Dr. Ulrich Granzer	Owner and Managing Director of Granzer Regulatory Consulting & Services, resident in Munich, Germany
Ulrike Kluge	Managing Partner of klugeconcepts GmbH in Cologne, resident in Cologne, Germany
Andreas Fritsch	Member of the management board, Xolaris Service Kapitalverwaltungs AG, Munich; Managing Director of Unternehmensberatung Fritsch, Seefeld, resident in Seefeld, near Munich, Germany
Alfred Neimke	Managing director of Kopernikus AG in Zurich, Switzerland; CFO of MAN Oil in Zug, Switzerland; resident in Zurich, Switzerland

The members of the Supervisory Board had the following other supervisory board positions and positions on other comparable domestic and foreign boards during the reporting period:

Alfred Neimke	Board of directors at DERPHARM AG in Zurich, Switzerland Director Prudent Investment Fund, Luxembourg

Supplementary report

Events of special significance occurring since 31 December 2015

In January 2016, the FDA informed the company that the midcycle review as part of the approval process in the US had been completed, and that the FDA did not have any further questions for the company in this regard.

A submission fee (PDUFA fee) of EUR 2,072 thousand was paid during the 2015 financial year for the submission of the approval application for Biofrontera's drug Ameluz® to the FDA. This fee is usually waived for small companies for their initial submission. In consultation with the FDA, Biofrontera lodged an application for a waiver of this fee, but this could not be processed on the filing date as the American approval authority, the FDA, did not have a process for handling such applications. Biofrontera subsequently requested a refund of the fee from the FDA. The FDA approved the request in a letter dated 14 January 2016 and the fee was refunded in March 2016.

On 28 January 2016, the company announced that the preliminary results of the phase III trial for the treatment of basal cell carcinoma (BCC) were available. In the clinical trial, the effectiveness and safety of Ameluz® were compared with that of Metvix®. Non-aggressive superficial and nodular BCCs with a thickness of up to 2 mm were included in the trial. Ameluz® achieved the complete elimination of all BCCs from the patient more often, with a rate of 93.4%, compared to Metvix® with 91.8%. On 4 March 2016, detailed results from the trial were published and these fully confirm the initial positive impression.

On 16 February 2016, the company announced that a capital increase had been carried out in order to secure further corporate financing by issuing 2,357,384 shares to selected institutional investors, with the exclusion of subscription rights. The issue price for the new shares was EUR 1.90, and the capital increase was entered in the commercial register on 26 February 2016. Net proceeds were EUR 4.4 million.

On 24 March 2016 the company announced an agreement with an institutional investor that has agreed to acquire up to 2.0 million New Shares at an issue price of EUR 2.00 in a yet to be performed capital increase. The capital increase will have a maximum volume of EUR 5.0 million.

On 29 March 2016 the company announced that the Management Board, with the approval of the Supervisory Board, has decided to increase the share capital by up to 2,499,999 New Shares by way of a rights issue. Shareholders shall be granted their statutory subscriptions rights such that up to 2,421,549 New Shares will be offered at a ratio of 23:2 within a subscription period of two weeks according to the execution of subscription rights at an issue price of EUR 2.00. The statutory subscription right was excluded regarding 78,450 supernumerary New Shares. The shareholders are furthermore offered an “Additional Subscription” right. I.e. all shareholders executing subscription rights may apply to subscribe to unsubscribed shares plus the supernumerary shares at the Subscription Price.

No further events subject to mandatory reporting occurred after the balance sheet date.

Risk, opportunity and forecast report

Risk management system

Biofrontera's management has a comprehensive risk management system to deal with the risks existing in the Group. For a description of this system, please refer to the combined company and Group management report most recently published.

Risk management system

The risk and opportunity management system for the Biofrontera Group applies equally to Biofrontera AG. By virtue of its holding function, Biofrontera AG controls all the legally independent entities within the Biofrontera Group. Therefore, it is necessary to assess the risks and opportunities on a uniform basis throughout the entire Group.

The primary objective of the Biofrontera Group is to achieve long-term growth and thus to increase the company's value on a consistent basis. Risk management plays a major role in achieving this objective. At Biofrontera, risk management involves the identification of risks that could do lasting or significant harm to the company's financial position, cash flows and results of operations, as well as the responsible analysis and monitoring of these risks, and the adoption of suitable countermeasures. To this end, it is necessary to establish guidelines, organisational structures and measuring and monitoring processes that are specifically geared to the Biofrontera Group's activities.

Correspondingly detailed risk prevention measures are essential in order to fully exploit the opportunities that arise from Biofrontera's business activities. In the 2015 financial year, Biofrontera's existing risk management structures were enhanced within the scope of the quality management system required for pharmaceutical manufacturers and entrepreneurs and medical device manufacturers. This system incorporates sales and marketing activities, as well as the international responsibilities of licence holders with regard to the manufacture and sale of drugs, medical devices and cosmetics.

The management of opportunities and risks at Biofrontera

The Biofrontera Group's risk management system is incorporated into the Group's corporate processes and decisions, so it is an integral part of the entire Group's planning and controlling processes. Risk management and control mechanisms are coordinated with each other. They ensure that risks relevant to the company are identified and assessed at an early stage, while at the same time enabling the company to respond rapidly to potential opportunities.

Risk management at Biofrontera is organised both locally and centrally. Opportunities and risks are regularly identified, evaluated and analysed at all hierarchical levels. All management staff in the Group are involved in the Group-wide risk policy and associated reporting. This includes the Management Board, the managing directors of the Group companies, and the process and project managers.

The Risk Management Team, under the leadership of the Chief Executive Officer, is responsible for the centrally organised risk management system. It coordinates the individual governing bodies, and it ensures that they continually receive the information that they need in a timely manner. The Risk Management Team is also responsible for the continuous monitoring of risk profiles, for initiating risk prevention measures, and for the corresponding monitoring instruments. The Biofrontera Group management holds regular meetings in which the Group's central and operational departments can exchange information relevant to risk management at all levels.

The Group-wide point of contact is the Risk Management Officer, who is also a member of the Risk Management Team. If unexpected risks arise, he/she immediately initiates the necessary steps to counteract them.

He/she is responsible for developing the risk management system, and for ensuring that it is properly documented in the risk manual. Furthermore, the Risk Manager sets uniform standards and ensures that similar types of risk management processes are implemented throughout the Biofrontera Group. Regular analysis of key business performance figures helps to ensure that any possible discrepancies from expected performance levels can be identified and assessed at an early stage, and that necessary countermeasures can be adopted in good time. Overall monitoring is carried out on the sales activities relating to Ameluz®, including the PDT lamp, and Belixos®. Risk planning and identification in this area are carried out in collaboration with the relevant unit managers. The structure and function of the early risk detection system are assessed by the auditor.

Risks and opportunities for future business development

The Biofrontera Group strives to achieve its strategic objectives, in particular the establishment of its own sales operation in some countries, the identification of sales partners, and the approval of development projects. It has already obtained European approval for Ameluz®, giving it the opportunity to grow rapidly and become highly profitable.

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

It is possible that the product Ameluz® will not be successful in competition with other treatment options for actinic keratosis. Despite the greater effectiveness of Ameluz®, doctors may resort 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 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.

Because of the existing 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, investors' acceptance of this industry and the associated risks as well as the special balance-sheet characteristics and fiscal framework conditions is of great importance. The company cannot influence such circumstances, although they are of crucial importance for the company as long as it is in the development phase and reliant on the allocation of the necessary equity from the financial markets.

Patent protection

Patents guarantee the protection of our intellectual property. If our products are marketed successfully, the resulting profits can be used for sustainable ongoing investment in research and development activities. Because of the long intervening period between the patent application and the launch of a product, Biofrontera generally has only a few years to earn reasonable income from its intellectual input. This makes it all the more important for the Group to obtain effective and secure patent protection. The majority of our products are subject to patent protection. If a patent expires, or we cannot successfully defend it, we generally face the prospect of increased competition and price pressure resulting from the market entry of generic drug suppliers. Moreover, third-party claims regarding Biofrontera's potential infringement of patents or other protective rights may hinder or completely prevent the development or manufacturing of certain products, and may obligate us to pay damages or royalties to third parties. Our patent department regularly reviews the current patent situation, in cooperation with the relevant operational departments, and monitors possible patent infringement attempts, so that it can take suitable legal steps if necessary. We consider it unlikely that patent risks will arise. Biofrontera is not aware of any patent infringement claims lodged by third parties.

Products and product stewardship

Biofrontera assesses potential environmental and health risks associated with a product along the entire value creation chain. This includes every stage from research and development to disposal, including production, marketing and customer use. Although comprehensive trials are carried out prior to approval/registration, it is possible that some or all of our products will subsequently be withdrawn from the market for various reasons, including the occurrence of unexpected side effects. Sales may be stopped voluntarily or as a consequence of legal or official measures. Possible payments of damages associated with the risks described above could have a considerable negative effect on the company's result. Because no previously unknown drug side effects have appeared, we consider it highly improbable that risks of this kind will arise.

Procurement

Purchase prices for raw materials may vary considerably, and they cannot always be passed on to our customers through price adjustments due to regulated drug prices. The safety and tolerance of our products, and the protection of our employees and of the environment, are key priorities. Risks associated with the manufacturing, bottling, storage and transport of products may result in personal injury or material or environmental damage, and may give rise to an obligation to pay damages. In this regard, Biofrontera is dependent to some extent on individual suppliers. Using our own audit and monitoring system, we regularly ensure that the manufacturing conditions at our most important suppliers meet the required standard. This enables us to avoid such risks and damages. We have already found two new suppliers of the agent aminolevulinic acid, whose manufacturing processes have been approved by the EMA. Biofrontera is the owner of the Drug Master Files for one of the two manufacturers. This will ensure the long-term security of supply of aminolevulinic acid. We are currently setting up our own production facilities for the final assembly and final quality control of the BF-RhodoLED® lamp in order to reduce our dependence on suppliers in this area as well.

Staff

Qualified and dedicated staff are a key prerequisite for the company's success. To this end, competitive remuneration and extensive training and development opportunities are essential. Furthermore, we have adopted a

diversity-orientated HR policy in order to exploit the full potential of the labour market. To date, Biofrontera has always succeeded in acquiring the qualified staff necessary for the company, so the company also regards this area as having a low risk.

Information technology

The Group's business processes and internal and external communication are increasingly based on global IT systems. A significant technical malfunction or total failure of IT systems could result in the severe impairment of our business processes. It is of fundamental importance to us that both internal and external data must be confidential. If the confidentiality, integrity or authenticity of data or information is lost, this could result in the manipulation and/or uncontrolled outflow of data and know-how. We have adopted appropriate measures to counteract this risk, e.g. a comprehensive authorisation concept. The measures adopted by the company have always proven to be adequate to date, so this risk must also be regarded as low.

Law and compliance

The Group may be subjected to legal disputes or proceedings in the future. In particular, this includes risks arising from product liability, antitrust law, competition law, patent law, tax law or environmental protection. Inquiries and investigations on grounds of possible infringements of statutory or regulatory provisions may result in criminal and civil sanctions, including considerable fines or other financial disadvantages, and these may damage the company's reputation and ultimately have a negative effect on the company's success.

Liquidity risk

Liquidity risks arise from the possibility that the Group will be unable to fulfil existing or future payment obligations on account of insufficient funds. We calculate and manage the liquidity risk in our weekly and medium-term liquidity planning sessions. Payment obligations arising from financial instruments are defined separately in the consolidated financial statement, based on their due dates.

In order to ensure the ability to make payments at all times, liquid funds are kept available so that all the Group's scheduled payment obligations can be fulfilled on their respective due dates. The size of this liquidity reserve is regularly reviewed and, if necessary, adjusted in line with current circumstances.

The company was able to meet its payment obligations at any time, but will depend on additional financing measures also in the future. To date, Biofrontera has always succeeded in providing the necessary financing for business operations through injections of equity. Due to the capital increases in 2015 and a further capital increase in February 2016, the company currently has sufficient liquidity at its disposal. However, further capital measures will be needed until break-even is reached, particularly to obtain approval in the USA, the planned investments into marketing in the US and to meet obligations from the issued option bond however constitute a necessity for further capital measures during the fiscal year 2016.

On the basis of its previous, invariably successful experience with capital measures, the Management Board assumes that the liquidity required for business activities can be further ensured. If these valid estimates are, contrary to expectations, not realised, this could constitute a threat to the company's continued existence.

Legal disputes

Biofrontera is not currently involved in any legal disputes.

Forecast report (outlook)

In order to support the further expansion of sales of Ameluz® in the European Union, Biofrontera is currently working towards the objective of extending European approval to include field therapy for the treatment of actinic keratosis, and the indication basal cell carcinoma (BCC). The required phase III trials for both approval extensions have been completed with very good results, and the results of both trials have been available since January 2016. According to current plans, it is expected that approval extensions will be granted both for field therapy and for BCC during 2016. The approval extension for field therapy has already been submitted to the EMA.

Furthermore, significant milestones have been reached towards approval in the USA. An initial consultation session with the American approval authority, the FDA, took place in 2012, and in October 2014 we had the final discussion before the submission of the approval application, known as the pre-NDA meeting. In early July 2015, the approval application (NDA = New Drug Application) was then submitted to the FDA (Food and Drug Administration). Ameluz® and BF-RhodoLED® have to be approved as a combination of a drug and a medical device in the USA, and therefore the approval application was unusually complex. In accordance with the guidelines, the FDA made a decision on the formal "acceptance to file" after a period of 60 days, and this was granted on 11 September 2015. In the subsequent "74-day letter", the company was informed on 2 October 2015 that there were no significant verification issues. In this letter, the FDA also announced the date of the detailed report and their proposed labelling as 30 March 2016. Proposed labelling was provided to the company by the FDA at the end of March 2016. An expected approval date of 10 May 2016 was given, provided that no significant problems arise. Biofrontera will then have access to the largest healthcare market in the world.

Biofrontera has decided to operate on the American market using its own sales and marketing organisation. Initial preparations have already been made for this. A wholly owned subsidiary, Biofrontera Inc., was established in the USA for this purpose, and a very experienced CEO was appointed in April 2015 in the form of Ms. Monica Tamborini, who has initially set up the company structures necessary for the pharmaceutical business. In the 2nd and 3rd quarter of 2016, the plan is to appoint more employees and make preparations for the market launch.

Forecast of key financial figures

For the 2016 financial year, Biofrontera expects to achieve sales revenue of approximately EUR 6 to 7 million. In Germany, as in recent years, we envisage an increase in sales revenue of approximately 30% compared with the previous year. It is still very difficult to predict the increase in sales in other European countries, which means that the achievable revenue could be anywhere within a wide margin. In addition, we are also expecting the first sales in the USA towards the end of the year, although the extent of the sales achievable initially is difficult to plan in advance and is heavily dependent on the exact timing of the launch, which is planned for autumn, the availability of suitable staff and the speed with which the BF-RhodoLED® lamps can be placed.

In order to extend the range of indications, and to obtain approval for the USA, Biofrontera will continue to invest heavily in research and development and regulatory affairs in 2016. The development and approval costs

will be approx. EUR 4 to 5 million. In 2016, Biofrontera will invest particularly in setting up its sales and marketing organisation in the USA, and therefore the sales costs will rise significantly compared to 2015, amounting to approx. EUR 10 to 11 million in total.

No significant investments in tangible assets are planned in 2016.

The financial result reflects the interest payments and compounding of interest using the effective interest method for the two warrant bonds. Therefore, this will not significantly change in 2016 compared with 2015.

The reimbursement of the PDUFA fee by the FDA will be shown under "Other Income".

With the above-mentioned conditions and forecasts, the company will achieve a net result of EUR -11 to -12 million in 2016. The achievement of this result depends heavily on progress in terms of sales revenue.

Remuneration report

The total remuneration paid to members of the Management Board in the 2015 financial year and the total accumulated number of stock options issued to the Management Board were as follows as of 31 December 2015:

Prof. Dr. Hermann Lübbert	- Salary/bonus	EUR 405 thousand (31 December 2014: EUR 405 thousand)
	- Stock options	151,850 (fair value when granted: EUR 167,236) previous year 151,850, (fair value when granted: EUR 167,236), of which 0 were granted in 2015 (2014: 16,850).
Thomas Schaffer	- Salary/bonus	EUR 231 thousand (31 December 2014: EUR 202 thousand)
	- Stock options	35,000 (fair value when granted EUR 32,650) previous year 35,000, (fair value when granted EUR 32,650), of which 0 were granted in 2015 (2014: 20,000).
Christoph Dünwald	- Salary/bonus	EUR 29 thousand (31 December 2014: EUR 0)

The salaries/bonuses are classified as short-term employee benefits as defined in IAS 24.17 (a).

Company cars are also available to the directors for business and private use. The existing employment contracts stipulate that – depending on the achievement of targets to be mutually agreed – an annual bonus is payable. If the targets are exceeded, the maximum annual bonus payable is capped. If the targets are missed by a margin no greater than 30% (i.e. a level of at least 70% is achieved), the bonus payment is reduced linearly. If the targets are missed by a greater margin than this, no bonus is payable. The calculation factors are set at the end of each financial year for the following financial year in a mutually agreed target agreement.

Severance pay in the case of premature termination of Management Board duties without good reason is capped at twice the specified annual salary, and amounts to no more than the total remuneration due for the remaining period of the contract (severance cap).

In order to further increase the long-term incentive effect of variable remuneration, and thus to gear it even more effectively to long-term business development, the Management Board members have pledged to match the stock options granted as part of the 2010 stock option programme by holding ordinary shares of the company as private investors, thereby undertaking a personal commitment for a period of three years, starting one month after the date of issue of the options (restricted shares). The level of personal commitment is specified differently in detail for each member of the Management Board. If such restricted ordinary shares are sold prematurely, this must be reported to the Chairperson of the Supervisory Board without delay, and the company can request a return transfer of an equivalent number of stock options free of charge within a month of receiving such notification, with the most recently granted options being those that must be returned first (last in, first out). A return transfer is not required if the Management Board member can demonstrate that the sale of the restricted shares was necessary in order to meet urgent financial obligations. In 2010, the Chief Executive Officer was granted 35,000 options, and the other Management Board member was granted 20,000 options, and in 2011, the Chief Executive Officer was granted 30,000 options and the other Management Board member was granted 20,000 options on this basis. In 2012, a further 40,000 options were granted to the Chief Executive Officer, and an additional 25,000 options were granted to the other Management Board member. In the 2013 financial year, the Chief Executive Officer was granted 30,000 options, and the other Management Board member was granted 15,000 options, and in the 2014 financial year, 16,850 options were granted to the Chief Executive Officer, and 20,000 options were granted to the other Management Board member. No further options were granted to the Management Board members in 2015.

All the Supervisory Board members held their positions throughout the entire 2015 financial year. In the financial year, the remuneration of the Supervisory Board members amounted to EUR 113 thousand (2014: EUR 113 thousand).

Other information pursuant to §§ 289 paragraph 4 and 315 paragraph 4 of the German Commercial Code (HGB)

Management Board members are appointed and removed pursuant to §§ 84 and 85 of the German Stock Corporation Act (AktG). The composition of the Management Board is specified in more detail in § 9 paragraph 3 of the Articles of Association. Pursuant to this, the Management Board must consist of one or more members. Since the addition of Mr. Dünwald to the Management Board in mid-November 2015, it has consisted of three people. The Supervisory Board appoints Management Board members and determines their number. The Supervisory Board may appoint a Chief Executive Officer.

The employment contract of the Chief Executive Officer and that of the Chief Financial Officer include a compensation agreement in the form of a special right of termination, for example in the case of a takeover bid as defined in the Securities Acquisition and Takeover Act (WpÜG).

Pursuant to §119 paragraph 1 number 5, §179 and §133 of the German Stock Corporation Act (AktG), amendments to the Articles of Association must be made by a resolution of the General Meeting. Where legally permissible, a simple majority of the share capital represented at the vote is sufficient for such a resolution, in accordance with § 179 paragraph 2 sentence 2 AktG in conjunction with § 22 paragraph 2 of the Articles of Association, instead of the majority of three-quarters of the represented share capital stipulated in § 179 para-

graph 2 sentence 1 AktG. Pursuant to § 179 paragraph 1 sentence 2 AktG in conjunction with § 22 paragraph 2 of the Articles of Association, the Supervisory Board is authorised to make changes that affect only the wording of the Articles of Association.

With regard to the repurchasing of shares, the Management Board is not subject to any restrictions beyond those specified in the German Stock Corporation Act.

Accounting risk management system and internal control system

Below, in addition to the risk management system already explained under subsection 4.1, the significant aspects of the internal control and risk management system relating to accounting processes for separate and consolidated financial statements, pursuant to § 289 paragraph 5 of the German Commercial Code (HGB), as amended by the German Accounting Law Modernisation Act (BilMoG), are described.

The Biofrontera AG accounting process aims to ensure that the figures and information provided in external accounting instruments (bookkeeping, components of the annual and consolidated financial statements, and the combined company and Group management report) are accurate and complete, and to ensure compliance with the relevant legal requirements and provisions of the Articles of Association. The existing structures and processes for this also include the risk management system and the internal control measures relating to the accounting processes. In line with the increasing sales activities, the internal accounting control system was extended to include processes that had been newly established from the 2012 financial year onwards, and it is subject to a permanent monitoring and improvement process.

The risk management system aims to identify, assess and manage all the risks that could prevent the regular preparation of the annual and consolidated financial statements. Any risks identified must be assessed with regard to their influence on the annual and consolidated financial statements. The purpose of the internal accounting control system is to ensure that the process of compiling financial statements complies with all the relevant laws and regulations, by implementing appropriate guidelines, processes and controls to this end.

The risk management system and the internal control system cover all the areas that are essential for the annual and consolidated financial statements and all the processes relevant to the preparation of the financial statements.

Significant aspects of accounting risk management and control include the clear assignment of responsibilities and controls for the compilation of financial statements, as well as transparent accounting standards. The two-person rule and the separation of roles are also important control principles in accounting processes.

The Management Board assumes overall responsibility with regard to the organisation of the internal control system. The coordinated subsystems of the internal control system are the responsibility of the quality management/controlling/risk management and accounting departments.

Takeover information

Trading venue

Biofrontera shares are traded under stock abbreviation B8F and ISIN DE0006046113 in the Prime Standard segment of the Frankfurt Stock Exchange and on all other German stock exchanges. In addition, the shares were admitted for trading with the same stock ID number in the form of depositary interests (DI) on the Alternative Investment Market (AIM) of the London Stock Exchange up to 18 February 2016.

Shareholders

The numbers of shares held by the shareholders on 31 December 2015, based on the most recent compulsory disclosures of the shareholders, are as follows:

	31 December 2015 EUR	%
Maruho Deutschland Co., Ltd., Osaka Japan The total share of voting rights is assigned to Maruho Co., Ltd. via the company Maruho Deutschland GmbH, Düsseldorf, which is controlled by the former.	4,467,143	17.52
Prof. Dr. Ulrich Abshagen, Germany Professor Abshagen has a direct holding of 62,850 voting rights, and he is indirectly assigned 976,056 voting rights by Heidelberg Innovation BioScience Venture II GmbH & Co.KG (in liquidation) via Heidelberg Innovation Asset Management GmbH & Co. KG, of which he is a managing partner.	1,038,906	4.08
Wilhelm Konrad Thomas Zours Of this, the 3.48% share of voting rights is assigned via the company Deutsche Balaton Aktiengesellschaft.	1,053,154	4.13
Universal-Investment-Gesellschaft mbH, Frankfurt am Main, Germany The share of voting rights is assigned to Universal-Investment GmbH via the company FEHO Vemögensverwaltungsgesellschaft.	799,463	3.14
Prof. Dr. Hermann Lübbert, Leverkusen, Germany	720,512	2.83
Free float	17,411,252	68.30
	25,490,430	100%

Share capital

On 31 December 2015, the fully paid-up share capital of the parent company, Biofrontera AG, amounted to EUR 25,490,430.00. It was divided into 25,490,430 registered shares, each with a nominal value of EUR 1.00.

Two capital increases were carried out against cash contributions in the reporting period. In the first capital increase, new shares were offered to all shareholders for subscription or additional subscription. The new shares that were not acquired as part of the subscription right or the additional subscription were offered to selected investors for acquisition in a private placement. EUR 1,377,272.00, divided into 1,377,272 registered shares, was placed and the execution was entered in the commercial register on 1 June 2015. The issue proceeds amounted to EUR 3.1 million.

In a further capital increase, the company's share capital was increased by EUR 1,916,588.00, divided into 1,916,588 registered shares, and entered in the commercial register on 3 December 2015. This capital increase was also initially offered to all shareholders for subscription or additional subscription. Shares that were not

acquired as part of the subscription or additional subscription were offered to institutional investors for subscription. The issue proceeds amounted to EUR 3.5 million.

Existing capital

The company's share capital was conditionally increased by up to EUR 6,434,646.00 by the issuing of up to 6,434,646 new registered ordinary shares with no par value (no-par-value shares) (Conditional Capital I). The purpose of the conditional capital increase is (i) to ensure the granting of option rights and the agreement of option obligations in accordance with the bond conditions and (ii) to ensure the fulfilment of conversion rights and the fulfilment of conversion obligations in accordance with the bond conditions, which are issued, agreed and guaranteed by the company or its direct or indirect majority-owned subsidiaries (affiliated companies) in the period up to 27 August 2020, based on the authorisation of the Annual General Meeting of 28 August 2015. The conditional capital increase is to be implemented only in the event that financial instruments are issued based on the authorisation of the Annual General Meeting of 28 August 2015, and only insofar as the holders or creditors of financial instruments issued by the company exercise their option or conversion rights or fulfil their option or conversion obligations. The new shares carry dividend rights from the start of the financial year in which they are issued. The Management Board is authorised to determine the other details of the implementation of the conditional capital increase, subject to the approval of the Supervisory Board. The Supervisory Board is authorised to amend § 7 of the Articles of Association in accordance with the use of conditional capital and after the expiry of all option and conversion periods.

The share capital was conditionally increased by up to EUR 500,000.00 by the issuing of up to 500,000 new registered ordinary shares, each of which constitutes a share of EUR 1.00 of the share capital (no-par-value shares) (Conditional Capital II). The purpose of the conditional capital increase is to redeem option rights, pursuant to the option conditions, to the benefit of the holders of warrants from warrant bonds issued on the basis of the authorisation resolution of the Annual General Meeting of 17 March 2009. The new shares are issued at the option price set pursuant to the aforementioned authorisation resolutions (issue amount pursuant to § 193 paragraph 2 No. 3 AktG). The conditional capital increase is to be implemented only in the event that warrant bonds are issued, and only insofar as that the holders of the warrants exercise their option rights, and the company does not use other sources for the required shares or replace them with a cash payment. The new shares issued by the exercise of the option right carry dividend rights from the start of the financial year in which they are issued. The Management Board is authorised to determine the other details of the implementation of the conditional capital increase, subject to the approval of the Supervisory Board. The company's share capital was conditionally increased by EUR 542,400 by the issuing of up to 542,400 no-par-value registered shares (no-par-value shares) (Conditional Capital III). The purpose of the conditional capital increase is solely to fulfil the options granted up to 1 July 2015 on the basis of the authorisation of the Annual General Meeting of 2 July 2010. The conditional capital increase is implemented only insofar as holders of the issued options exercise their right to purchase shares in the company, and the company does not grant any of its own shares or pay cash settlement in order to fulfil the options. The new shares carry dividend rights from the start of the financial year in which they are issued by the exercise of options.

The company's share capital was conditionally increased by up to EUR 2,494,890.00 by the issuing of up to 2,494,890 new ordinary registered no-par-value shares (no-par-value shares) (Conditional Capital IV). The purpose of the conditional capital increase is to ensure the granting of option rights and the agreement of option obligations in accordance with the warrant bond conditions on holders or creditors of warrants from warrant bonds, or to ensure the fulfilment of conversion rights and the fulfilment of conversion obligations in

accordance with the convertible bond conditions on holders or creditors of convertible bonds issued by the company in the period up to 9 May 2016 on the basis of the authorisation of the Annual General Meeting of 10 May 2011. The conditional capital increase is to be implemented only in the event that warrant or convertible bonds are issued, and only insofar as the holders or creditors of warrants or convertible bonds issued by the company on the basis of the authorisation of the Annual General Meeting of 10 May 2011 exercise their option or conversion rights or fulfil their option or conversion obligations (also in the event that a corresponding company voting right is exercised). The new shares carry dividend rights from the start of the financial year in which they are issued. The Management Board is authorised to determine the other details of the implementation of the conditional capital increase, subject to the approval of the Supervisory Board.

The company's share capital was conditionally increased by EUR 1,814,984.00 by the issuing of up to 1,814,984 no-par-value registered shares (no-par-value shares) (Conditional Capital V). The purpose of the conditional capital increase is solely to fulfil the option rights granted up to 27 August 2020 on the basis of the authorisation of the Annual General Meeting of 28 August 2015. The conditional capital increase is implemented only insofar as holders of the issued options exercise their right to purchase shares in the company, and the company does not grant any of its own shares or pay a cash settlement in order to fulfil the options. The new shares carry dividend rights from the start of the financial year in which they are issued by the exercise of options. The Supervisory Board is authorised to amend § 7 of the Articles of Association in accordance with the use of conditional capital and after the expiry of all option and conversion periods.

The Management Board is authorised, subject to the approval of the Supervisory Board, to increase the company's share capital by up to EUR 9,870,333.00 up to 27 August 2020 by issuing up to 9,870,333 no-par-value registered shares in exchange for cash contributions and/or assets in kind in one or more share issues (Authorised Capital I). The Management Board is authorised, subject to the approval of the Supervisory Board, to define the further content of the share rights and the conditions of the share issue. The new shares are to be offered to the shareholders for subscription. Subscription rights can also be granted to shareholders indirectly pursuant to § 186 paragraph 5 AktG.

The capital measure carried out in February 2016 has resulted in changes with regard to Authorised Capital I and the authorisation of the Management Board. Further information on this can be found in the supplementary report.

Declaration on Corporate Governance pursuant to § 289a of the German Commercial Code (HGB), including the statement required by § 161 of the German Stock Corporation Act (AktG) on the German Corporate Governance Code

Pursuant to § 289a HGB, listed stock corporations are required to issue a Declaration on Corporate Governance. This must either be included in the management report, or it must be published on the company's website. The current Declaration on Corporate Governance by Biofrontera AG and the Corporate Governance Report are available on the company's website at www.biofrontera.com in the section "Investors", subsection "Corporate Governance".

Leverkusen, 07 April 2016

Biofrontera AG

Prof. Dr. Hermann Lübbert
Chief Executive Officer

Christoph Dünwald
Chief Commercial Officer

Thomas Schaffer
Chief Financial Officer

Affirmation of the legal representatives pursuant to § 37y of the German Securities Trading Act (WpHG) in conjunction with § 37w para. 2 no.3 WpHG

We affirm that, to the best of our knowledge and in accordance with the applicable accounting principles, the consolidated financial statement gives a true and fair view of the financial position, cash flows and results from operations of the Group, and that the combined company and Group management report presents the business performance, including the business results and the position of the Biofrontera Group and of Biofrontera AG, in such a way that a true and fair view is conveyed, and that the main opportunities and risks relating to the anticipated performance of the Biofrontera Group and Biofrontera AG are described.

Leverkusen, 07 April 2016

Biofrontera AG

Prof. Dr. Hermann Lübbert | Thomas Schaffer | Christoph Dünwald

Consolidated balance sheet as of 31 December 2015

Annex 1

Assets

in EUR	Note	31 December 2015	31 December 2014
Non-current assets			
Tangible assets	(1)	372,834.23	339,532.00
Intangible assets	(1)	1,901,927.93	2,580,077.17
		2,274,762.16	2,919,609.17
Current assets			
Current financial assets			
Trade receivables	(3)	894,558.96	308,984.35
Other financial assets	(4)	730,440.34	726,790.94
Cash and cash equivalents	(7)	3,959,207.16	8,509,398.16
		5,584,206.46	9,545,173.45
Other current assets			
Inventories	(2)		
Raw materials and supplies		590,420.47	684,455.83
Unfinished products		42,723.50	107,784.39
Finished products and goods		900,505.05	601,281.83
Income tax reimbursement claims	(5)	32,220.80	62,072.99
Other assets	(4)	72,879.33	90,118.27
		1,638,749.15	1,545,713.31
		7,222,955.61	11,090,886.76
Total assets		9,497,717.77	14,010,495.93

Liabilities

in EUR	Note	31 December 2015	31 December 2014
Equity	(9)		
Subscribed capital		25,490,430.00	22,196,570.00
Capital reserve		79,525,292.28	76,402,715.36
Capital reserve from foreign currency conversion adjustments		(1,188.65)	0.00
Loss carried forward		(98,620,285.49)	(87,899,306.51)
Net loss for the year		(11,203,410.20)	(10,720,978.98)
		(4,809,162.06)	(21,000.13)
Long-term liabilities			
Long-term financial liabilities	(10)	11,229,946.00	10,774,298.38
Current liabilities			
Current financial liabilities			
Trade payables	(11)	1,043,425.65	967,437.66
Short-term financial debt	(9)	830,174.00	1,224,598.00
Other financial liabilities	(13)	37,622.28	27,012.10
		1,911,221.93	2,219,047.76
Other current liabilities			
Other provisions	(12)	1,041,860.80	951,944.41
Other current liabilities	(13)	123,851.10	86,205.51
		1,165,711.90	1,038,149.92
		3,076,933.83	3,257,197.68
Total liabilities (1)		9,497,717.77	14,010,495.93

(1) Please note that “total liabilities” in the meaning of this balance sheet include equity, long-term liabilities and current liabilities.

Consolidated statement of comprehensive income for the 2015 and 2014 financial year

Annex 2

in EUR	Note	01.01.-31.12.2015	01.01.-31.12.2014
Sales revenue	(15)	4,137,917.39	3,095,555.98
Cost of sales	(16)	-1,235,504.25	-1,116,686.16
Gross profit from sales		2,902,413.14	1,978,869.82
Operating expenses:			
Research and development costs	(17)	-6,203,986.93	-4,534,181.97
General administrative costs	(19)	-2,759,334.78	-3,244,158.24
of which financing costs		-264,924.08	-869,733.43
Sales costs	(18)	-4,170,044.72	-3,847,487.94
Loss from operations		-10,230,953.29	-9,646,958.33
Financial result			
Interest expenses and the like	(20)	-1,168,551.42	-1,169,613.16
Interest income and the like	(20)	9,225.68	190,294.10
Other income and expenses			
Other expenses	(21)	-32,046.20	-280,282.13
Other income	(21)	218,915.03	185,580.54
Profit/loss before income tax	(23)	-11,203,410.20	-10,720,978.98
Income tax		0.00	0.00
Profit or loss for the period	(23)	-11,203,410.20	-10,720,978.98
Expenses and income not included in profit/loss			
Subsequent valuation of financial assets available for sale		0.00	0.00
Other expenses and income not included in profit/loss		0.00	0.00
Total profit/loss for the period	(23)	-11,203,410.20	-10,720,978.98
Undiluted (= diluted) earnings per share	(22)	-0.48	-0.49

Statement of changes in equity for 2015

Annex 3

See Note 9	Ordinary shares Number	Subscribed capital EUR	Capital reserve EUR	Capital reserve from foreign currency conversion adjustments EUR	Accumulated loss EUR	Total EUR
Balance as of 01 January 2014	17,753,168	17,753,168.00	65,598,778.57	0.00	(87,899,306.51)	(4,547,359.94)
Capital increase	4,443,402	4,443,402.00	11,105,950.00	0.00	0.00	15,549,352.00
Cost of equity procurement	0	0.00	(215,725.71)	0.00	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	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	0.00	(99.00)
Increase in capital reserves from the stock option programme	0	0.00	112,750.50	0.00	0.00	112,750.50
Net loss for the year	0	0.00	0.00	0.00	(10,720,978.98)	(10,720,978.98)
Balance as of 31 December 2014	22,196,570	22,196,570.00	76,402,715.36	0.00	(98,620,285.49)	(21,000.13)
Capital increase	3,293,860	3,293,860.00	3,515,382.80	0.00	0.00	6,809,242.80
Cost of equity procurement	0	0.00	(495,769.88)	0.00	0.00	(495,769.88)
Foreign currency conversion adjustments	0	0.00	0.00	(1,188.65)	0.00	(1,188.65)
Increase in capital reserves from the stock option programme	0	0.00	102,964.00	0.00	0.00	102,964.00
Net loss for the year	0	0.00	0.00	0.00	(11,203,410.20)	(11,203,410.20)
Balance as of 31 December 2015	25,490,430	25,490,430.00	79,525,292.28	(1,188.65)	(109,823,695.69)	(4,809,162.06)

Consolidated cash flow statement for the 2015 and 2014 financial year

Annex 4

In EUR (see Note 26)	01.01.-31.12.15	01.01.-31.12.14
Cash flows from operations:		
Total profit/loss for the period	-11,203,410.20	-10,720,978.98
Adjustments to reconcile profit/loss for the period to cash flow into operations:		
Financial result	1,159,325.74	1,099,319.06
Depreciation	811,681.84	811,005.00
(Gains)/losses from disposal of assets	115.00	2,632.00
Non-cash expenses and income	-22,203.75	302,084.17
Changes in operating assets and liabilities:		
Trade receivables	-585,574.61	269,426.25
Other assets and income tax assets	-11,314.11	-269,667.37
Inventories	-140,126.97	191,674.09
Trade payables	75,987.99	254,339.49
Provisions	149,945.42	132,619.86
Other liabilities	48,255.77	-385.69
Net cash flow into operations:	-9,717,317.88	-7,927,932.12
Cash flows from investment activities:		
Purchase of intangible and tangible assets	-180,303.54	-164,082.80
Interest received	183,978.17	142,588.26
Revenue from the sale of intangible and tangible assets	13,353.71	100,368.88
Net cash flow from (into) investment activities	17,028.34	78,874.34
Cash flows from financing activities:		
Proceeds from the issue of shares	6,313,472.92	15,333,626.29
Payouts from the repurchase of own warrant bonds	0.00	-1,500,750.00
Interest paid	-1,224,598.00	-454,489.62
Increase/(decrease) in long-term financial debt	455,647.62	-742,357.20
Increase/(decrease) in short-term financial debt	-394,424.00	788,848.00
Net cash flow from financing activities	5,150,098.54	13,424,877.47
Net increase (decrease) in cash and cash equivalents	-4,550,191.00	5,575,819.69
Cash and cash equivalents at beginning of period	8,509,398.16	2,933,578.47
Cash and cash equivalents at end of period	3,959,207.16	8,509,398.16
Composition of financial resources at end of period:		
Cash and bank balances and cheques	3,959,207.16	8,509,398.16

Explanatory Notes to the Consolidated Financial Statement as of 31 December 2015

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, Biofrontera Neuroscience GmbH and Biofrontera Inc., which is based in Wilmington, Delaware, USA, 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 small German pharmaceutical company to receive centralised European drug approval for an independently developed drug, Ameluz®. Ameluz® was approved for the treatment of mild and moderate actinic keratoses in December 2011. Two further clinical development projects, one a dermatological project and one for the prevention of migraines, have been hived off into dedicated subsidiaries and 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 introduced in the spring of 2014 and a Belixos® gel skin care for rosacea and acne was launched at the beginning of December 2014. Belixos® Protect, a day cream with protective anti-aging properties designed especially for photodamaged skin, followed in July 2015.

The product Ameluz® (development name BF-200 ALA), which was approved at the end of 2011, has been tested for the European approval in one phase II and two phase III clinical trials for the treatment of actinic keratosis. In preparation for approval in the USA, two further phase I trials and a phase III trial have been conducted. Ameluz® is a combination of the drug aminolevulinic acid (ALA) and a nanoemulsion (BF-200), with the latter providing chemical stabilisation of the ALA and enhancing its skin penetration. 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. For the approval in the USA, an application for approval of the drug was submitted to the FDA in early July 2015 and this was accepted for intensive examination ("acceptance to file") by the FDA in September 2015. Since then, the approval application has been examined by the FDA and inspections have been carried out at study centres and manufacturers as part of a structured process. Subject to the successful completion of the examination, the FDA has announced that the approval date in the USA will be 10 May 2016. In addition, Biofrontera has carried out another phase III trial for the treatment of basal cell carcinoma. This trial is to form the basis for the application for an extension of the existing European approval to include this indication.

In November 2012, Biofrontera's BF-RhodoLED® PDT lamp received pan-European approval for use as a medical device and has since been sold together with Ameluz®. In Europe, doctors can choose to use any of the lamps approved for PDT, whereas in the USA the approval of Ameluz® will be linked to that of the lamp. This will therefore be approved as a combination product, along with the drug.

The BF-derm1 project, which is currently not being actively pursued, was tested in a three-part phase II trial for the treatment of chronic, antihistamine-resistant urticaria. 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 BF-1 project 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 for administration in tablet form.

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, the two projects were acquired by Biofrontera AG and introduced as shareholder contributions to the two subsidiaries Biofrontera Development GmbH and Biofrontera Neuroscience GmbH, which were formed 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 company's 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.

Summary of significant accounting and valuation methods

Basis for preparation of the consolidated financial statement

The consolidated financial statement for Biofrontera AG for the financial year from 1 January 2015 to 31 December 2015 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), which are endorsed by the European Union (EU) and applicable on the balance sheet date. In addition, the law pursuant to § 315a paragraph 1 of the German Commercial Code (HGB) has been observed.

The assets and liabilities are defined and valued in accordance with the IFRS that were mandatory on 31 December 2015.

Standards, amendments to standards and interpretations used for the first time in the consolidated financial statement for 31 December 2015.

Standard / Interpretation	First mandatory use according to IASB	First mandatory use in the EU

IFRIC 21 "Levies"	1 January 2014	17 June 2014
Annual improvement project: :cycle 2011-2013	1 July 2014	1 January 2015

Unless described below, the standards and interpretations listed above that have to be applied for the first time have no effect on the Biofrontera Group.

In May 2013 the IASB published IFRIC 21, an interpretation of IAS 37 regarding provisions, contingent liabilities and contingent receivables. This interpretation guides the accounting of public charges, which do not constitute income taxes according to IAS 12, and clarifies in particular, at which point in time such charges have to be accounted for as liabilities. The interpretation has to be applied on financial years beginning on or after 17 June 2014. The new interpretation did not result in any changes of the accounting in the reporting year for the Group. Following the approval in the USA however public fees for the commencement of the trade business will become due on a yearly basis.

The IASB has published the standards and interpretations listed below, which have already been adopted in EU law through the endorsement process but which were not yet mandatory in the 2015 financial year. The group will not apply these standards and interpretations prematurely. We do not expect any of the optional standards and interpretations listed to have any effect on the Biofrontera Group, as the relevant circumstances do not apply.

Standard / Interpretation	First mandatory use according to IASB	First mandatory use in the EU
Amendments to IAS 19 "Employee Benefits": Defined Benefit Plans: Employee contributions	1 July 2014	1 February 2015
Annual improvement project: cycle 2010-2012	1 July 2014	1 February 2015
Amendments to IAS 1 "Presentation of Financial Statements": Disclosure initiative	1 January 2016	1 January 2016
Amendments to IAS 16 "Property, plant and equipment" and IAS 38"Intangible Assets": Clarification of acceptable methods of depreciation and amortisation	1 January 2016	1 January 2016
Amendments to IAS 16 " Property, plant and equipment " and IAS 41 "Agriculture": Bearer plants	1 January 2016	1 January 2016
Amendments to IAS 27 "Separate Financial Statements": Equity method in separate financial statements	1 January 2016	1 January 2016
Amendments to IFRS 11 "Joint Arrangements": Accounting for acquisitions of interests in joint operations	1 January 2016	1 January 2016
Annual improvement project cycle 2012-2014	1 January 2016	1 January 2016

The IASB has published the standards and interpretations listed below, which were not yet mandatory in the 2015 financial year. These standards and interpretations have not previously been endorsed by the EU and are

not applied by the group. The group currently assumes that no effects will arise from the not yet applicable standards and interpretations.

Standard / Interpretation	First mandatory use according to IASB	First mandatory use in the EU
Amendments to IAS 7 "Statement of cash flows":Disclosure initiative	1 January 2017	Not yet known
Amendments to IAS 12 "Income Taxes": Recognition of deferred tax assets for unrealised losses	1 January 2017	Not yet known
Amendments to IAS 28 "Investments in Associates and Joint Ventures" and IFRS 10 "Consolidated Financial Statements": Sale or contribution of assets between an investor and its associate or joint venture	suspended indefinitely	Not yet known
IFRS 9 "Financial Instruments"	1 January 2018	Not yet known
Amendments to IFRS 10 “Consolidated Financial Statements”, IFRS 12 “Disclosure of Interests in Other Entities” and IAS 28 “Investments in Associates and Joint Ventures”: Investment Entities: Application of Consolidation Exception	1 January 2016	Not yet known
IFRS 14 "Regulatory Deferral Accounts"	1 January 2016	No recognition by EU
IFRS 15 "Revenue from Contracts with Customers“	1 January 2018	Not yet known
IFRS 16 "Leases"	1 January 2019	Not yet known

It is expected that unless details of their effects are given below, the listed standards and interpretations that are not yet applied will have no effect on the Biofrontera Group, in the absence of relevant facts and circumstances.

As part of its disclosure initiative, the IASB has published amendments to IAS 7 - Statements of cash flows. The core changes are requirements for additional disclosures via notes, which should enable the readers of financial statements to assess the changes in liabilities arising from financing activities of the company. The amendments are to be applied for the first time in the first reporting period of a financial year beginning on 1 January 2017 or thereafter. Earlier application is also permitted. When first applied, there is no comparative information from the same period in the previous year to report. Adoption of the amendments by the EU is still pending. Apart from the requirement for additional notes, the group expects no impact on its consolidated financial statement.

In May 2014, the IASB issued the new standard IFRS 15. The aim of this new standard about revenue recognition is to bring together the variety of rules previously contained in various standards and interpretations. At the same time, uniform principles are defined that are applicable for all sectors and for all types of revenue transactions. The questions regarding what amount, at what time and for which time period revenue is to be realised are answered with the help of the 5-stage model. In addition, the standard includes a number of other regulations covering detailed issues and an expansion of the disclosures required. The new standard is to be applied to annual periods beginning on or after 1 January 2017. The first application must in principle be carried out retrospectively, but various simplification options are available; earlier application is permitted. Adoption of the amendments by the EU is still pending. The group pursues instalment purchases over several years which include a financing element. Effects by the initial application are expected insofar the standard will be endorsed by the EU in this form. No effect is expected from the first application insofar this standard will be adopted by the EU.

In January 2016, the IASB issued the new standard IFRS 16 - Leases. IFRS 16 establishes principles for the recognition, measurement, presentation and disclosure of leases, and notes regarding leases, with the aim of ensuring that lessees and lessors provide relevant information regarding the impact of leases. At the same time,

the previous accounting model applied in accordance with IAS 17, involving the classification into operating and finance leases, is abandoned in favour of a uniform accounting model for leasing agreements with a mandatory control concept. For the lessee, the standard provides a single accounting model. This model leads in the case of the lessee to all the assets and liabilities from leases being recognised in the balance sheet, provided that their term does not exceed 12 months or if they are minor assets (option). The lessor continues to differentiate, for accounting purposes, between finance and operating leases. The mandatory first application of IFRS 16 - Leases is for financial years beginning on or after 1 January 2019. Early application is permitted in principle, if IFRS 15 - Revenue from Contracts with Customers is already applied (early) in full. The lessee either has to fully apply IFRS 16 retrospectively, with the inclusion of prior reporting periods, or has to recognise the cumulative adjustment effect at the point in time of initial application as an entry in equity at the beginning of the financial year of initial application. Adoption of the standard by the EU is still pending. The group is currently evaluating the possible impact of the initial application of IFRS 16 on its consolidated financial statement, and will define an adoption date and transitional method, provided that the standard is adopted by the EU in this form.

The accounting and valuation principles applied are consistent with those applied on 31.12.2014, with the exception of the new and revised standards and interpretations described above that were applied from the 2015 financial year for the first time.

The consolidated financial statements as at 31 December 2015 are presented in EUR or thousands of EUR.

The Biofrontera Group presents current and non-current assets and current and non-current liabilities as separate categories in the balance sheet, in accordance with IAS 1.60, with these categories also being broken down to some extent according to their respective terms in the notes to the consolidated financial statement for 31 December 2015. The statement of profit/loss is prepared using the cost of sales method. In this reporting format, the net turnover is set against the expenses incurred in achieving it, broken down into cost of sales, research and development costs, distribution costs and general administration costs.

The consolidated financial statement for 31 December 2015 contains no separate segment-based reporting, as the activities of the Biofrontera Group are limited to a single business segment in terms of the definition in IFRS 8. All business operations focus on the product Ameluz®, including the supplementary products BF-RhodoLED® (PDT lamp) and Belixos®, and are internally monitored and managed accordingly.

Basis for consolidation

The consolidated financial statement for 31 December 2015 includes the financial statements of the parent company, Biofrontera AG, and the subsidiary companies in which the parent has a direct majority of the voting rights or another means of exerting control. The following companies have been included in the consolidated financial statement:

1. Biofrontera Bioscience GmbH, Leverkusen, Germany, with a direct shareholding of 100%
2. Biofrontera Pharma GmbH, Leverkusen, Germany, with a direct shareholding of 100%
3. Biofrontera Development GmbH, Leverkusen, Germany, with a direct shareholding of 100%
4. Biofrontera Neuroscience GmbH, Leverkusen, Germany, with a direct shareholding of 100%.
5. Biofrontera Inc., Wilmington, Delaware, USA with a direct shareholding of 100% since March 2015.

Biofrontera Inc. was founded on 3 March 2015, with its registered head office at 1209 Orange Street, Wilmington, Delaware, 19801, County of New Castle, USA. The share capital of Biofrontera Inc. is USD 1.00. It is divided into 1000 shares with a nominal par value of USD 0.001 each.

The basis for the consolidation of the companies included in the consolidated financial statements is the financial statements (or HBII pursuant to IFRS) of these companies prepared for 31 December 2015 pursuant to uniform principles. The consolidated financial statement for 31 December 2015 has been prepared on the basis of uniform accounting and valuation principles (IFRS).

The subsidiaries have been fully consolidated from the date of acquisition. The date of acquisition is the point in time at which the parent company obtained control of these subsidiaries. The subsidiaries are included in the consolidated financial statements until the state of control over these companies no longer exists.

All inter-company balances and income and expenses have been eliminated on consolidation. Interim results have not been realised.

Conversion of amounts in foreign currencies

The consolidated financial statements for 31 December 2015 have been drawn up in EUR (or thousands of EUR), which is the operational currency of all the German companies included in the consolidated financial statement and of the group, and is the group's reporting currency.

For subsidiaries with a functional currency that is the local currency of the country in which they have their registered office, the assets and liabilities that are accounted for in the foreign currency in the balance sheets of the foreign, economically independent subsidiaries, are converted to euros using the relevant period-end exchange rate. Income and expense items are converted using the average exchange rates applicable to the relevant period. The differences resulting from the valuation of equity at historic rates and using the period-end exchange rates are reported as a change not affecting net income recognised in equity within the other equity components.

Transactions made in currencies other than EUR are recorded using the exchange rate on the date of the transaction. Assets and liabilities are revalued using the closing exchange rate for each balance sheet date. Gains and losses arising from such conversions are recognised in income.

Use of estimates

The preparation of the consolidated financial statement for 31 December 2015 pursuant to IFRS required the use of estimates and assumptions by the management that affect the value of assets and liabilities - as well as contingent assets and liabilities - reported on the balance sheet date, and revenues and expenses occurring during the financial year. The main areas in which assumptions, estimates and the exercising of a degree of discretion are appropriate relate to the determination of the useful lifespans of long-term assets and the establishment of provisions, for example employee pensions and other benefits, as well as income taxes. Estimates are based on historical experience and other assumptions that are considered to be appropriate in the circumstances. They are continually reviewed but may vary from the actual values.

Transactions with related parties

With regard to transactions with shareholders, particularly in connection with capital increases and the issue of Biofrontera AG bonds, please see our comments in the appendix note "Equity".

With respect to the issue of share options to employees of the Biofrontera Group, please see our comments on the "Share Option Plan" in the appendix note "Equity".

With regard to the remuneration of Management Board members, please see our comments in the appendix note "Members of the Management Board".

With regard to the remuneration of Supervisory Board members, please see our comments in the appendix note "Members of the Supervisory Board".

Fixtures and equipment

Pursuant to IAS 16, the value of fixtures and equipment is recorded in the balance sheet based on the historical purchase or production costs minus the scheduled depreciation.

Depreciation of fixtures and equipment is generally linear over the estimated useful lifespan of assets (generally 3 to 13 years). The main useful lifespans are unchanged:

- IT devices 3 years, linear
- Office furniture and equipment 4 years, linear
- Office and laboratory facilities 10 years, linear
- Laboratory devices 13 years, linear

Since 01 January 2008, low value assets with acquisition costs of between EUR 150 and EUR 1,000 have been booked to the year of acquisition as a single item for the relevant year, and are fully written off over five years.

Intangible assets

Software that is purchased is valued at cost and depreciated linearly over a useful lifespan of three years.

Intangible assets that are acquired consist of licenses and other rights. They are accounted for at cost less accumulated depreciation. Only intangible assets acquired from third parties are entered on the assets side, as the requirements for the recognition of internally generated intangible assets are not met. Intangible assets are entered on the assets side and written off over the estimated useful life of between 4 and 10 years.

Borrowing costs are not included as part of the procurement cost of the acquired assets but rather as an expense for the period in which they arise, because the group has no qualified assets in terms of the definition in IAS 23.5.

Impairment of assets

The company reviews assets for impairment when there are indications that the book value of an asset exceeds its recoverable amount. The recoverability of assets held for use is evaluated by carrying out a comparison of the book value of an asset with the future, expected cash flows generated from the asset. When such an asset is considered to be impaired, the impairment loss is valued at the amount by which the book value of the asset exceeds its fair value. Assets that are to be sold are reported as the lower of the book value or the fair value less costs to sell.

Financial instruments

The financial instruments held by the Biofrontera Group on the balance sheet date primarily consist of cash and cash equivalents, short-term investments, trade payables and receivables and financial debt. Biofrontera does not currently use derivative financial instruments. Due to the short maturities of short-term financial investments and trade payables and receivables, the book values of these items correspond to their fair values. The short-term financial investments are assigned to the 'available for sale' category, and other receivables and liabilities are assigned to the 'loans and receivables' category. The financial liabilities are measured using the effective interest method, minus treasury stock.

The Biofrontera Group was not exposed to significant foreign currency risk on the balance sheet date. Financial investments have been transacted in euros. Trade payables denominated in foreign currency are of secondary importance. Trade receivables are regularly checked with respect to a potential default risk.

Regarding the selection of short-term capital investments, various security criteria are applied (for example, ratings, capital guarantee, safeguarding by the deposit protection fund). Based on the selection criteria and the ongoing monitoring of capital investments, Biofrontera does not consider there to be any default risks in this area that have not been taken into account. The amounts reported in the balance sheet generally represent the maximum default risk.

The monitoring and management of liquidity is based on short-term and long-term corporate planning. Liquidity risks are detected at an early stage, using simulations of various scenarios. Current liquidity is recorded and monitored on a daily basis.

To date, Biofrontera has always succeeded in providing the necessary financing for its business operations through injections of equity.

As a result of the capital increases carried out in June and December 2015 and another capital increase implemented in February 2016, the company currently has sufficient liquidity at its disposal. However, further capital measures will be needed until break even is reached, in particular in order to carry out marketing activities in the USA. On 31 December 2015, Biofrontera held no financial positions that were exposed to interest rate risks.

Financial assets available for sale

The company classifies the securities held as short-term financial investments as financial assets available for sale, in accordance with IAS 39.9. On the reporting date of 31.12.2015, Biofrontera had in its portfolio holdings of its own Warrant Bond I 2009/2017 with a nominal value of EUR 1,500 thousand. The warrant bonds held by Biofrontera were depreciated by a further EUR 100 thousand (previous year: EUR 167 thousand), to EUR 1,233

thousand, as of 31 December 2015, due to a fall in the market price. In accordance with IAS 32, the bonds are reported as balanced against the corresponding bonded debt.

Inventories

Raw materials and supplies, as well as finished and unfinished goods, are valued at the lower of acquisition/manufacturing cost or market price. Borrowing costs are not capitalised. The acquisition/manufacturing costs are calculated in accordance with a first-in-first-out method (FIFO). A value adjustment is made to the inventories on the balance sheet date if the fair value is lower than the book value.

Trade receivables

Trade receivables are shown with their nominal value. In the case of value adjustments, these are booked directly against the relevant receivable. Receivables denominated in foreign currencies have been converted to euros using the exchange rates applicable on the balance sheet date, with any conversion differences being recorded in the statement of income.

Cash and cash equivalents

Cash and cash equivalents include cash-in-hand, cheques and bank deposits with a maturity of up to three months at the time of acquisition, as well as short-term financial assets. These are valued at amortised acquisition cost.

Trade payables, overdrafts

Trade payables, as well as liabilities from current accounts and other liabilities, are stated at their redemption amount. Due to their short-term nature, the reported book value reflects the fair value. Foreign currency liabilities are converted using the period-end exchange rate. Exchange rate losses and gains are shown in the statement of income.

Provisions

Provisions are formed if an obligation to third parties resulting from a past event exists and is likely to result in an outflow of assets in the future, and if the effect on assets can be reliably estimated.

Share options

Share options (share-based remuneration transactions settled via equity instruments) are valued at the market value on the date of granting. The market value of the obligation is capitalised as a personnel expense over the retention period. Obligations relating to share-based payment transactions with cash settlement are recognised as liabilities and are valued at the market value on the balance sheet date. In the event that Biofrontera AG has the right to choose between payment in cash or payment using shares when a right is exercised, an increase in the capital reserve is initially carried out pursuant to IFRS 2.41 and IFRS 2.43. The costs are compiled over the retention period. The market value of share-based payment transactions with cash settlement and equity instru-

ment settlement are generally determined using internationally accepted methods, if the fair value of these share-based payments can be reliably determined.

Warrant bonds

In accordance with IAS 32, warrant options are classified as compound financial instruments that represent a debt security with an embedded conversion or purchase option. The issuer of such a financial instrument, which contains both a liabilities and an equity component, is obligated to portray the liabilities component and the equity component separately from the originally recorded financial instrument in the balance sheet. Initially, the market value of the liabilities component equates to the present value of the contractually defined future cash flows, discounted at the market interest rate valid at that time for financial instruments that have a comparable credit status and give rise under the same conditions to effectively the same cash flows, but which do not contain a conversion or purchase option. The subsequent valuation is carried out using the effective interest method. The liability is derecognised when the obligation underlying the liability is fulfilled, terminated or expires. The equity instrument consists of the embedded option to convert the liability into equity of the issuer. The market value of the option comprises its current value and, where relevant, its intrinsic value. The intrinsic value of an option or of another derivative financial instrument is, if any, the difference between the market value of the underlying instrument and the contract price at which the underlying instrument is to be purchased, issued, sold or exchanged. The fair value of a derivative financial instrument consists of its market value less its intrinsic value. The current value is determined by the length of the remaining period up until maturity or until the expiration of the derivative financial instrument.

If the warrant bonds are redeemed before maturity via early redemption or early repurchase, with the original conversion rights remaining unchanged, the fee paid and all transactions relating to the repurchase or redemption are allocated to the liability and equity components of the instrument at the time of the transaction. The method for the allocation of the fees and transaction costs to the two components is identical to that used in the original allocation applied to the revenue received when issuing the bond.

Income tax

In accordance with IAS 12, Biofrontera recognises deferred taxes for valuation differences between commercial law and tax law valuation. Deferred tax liabilities are generally recorded for all taxable temporary differences - claims from deferred taxes are only recorded to the extent that it is probable that taxable profits will be available in order to be able to utilise the claims. The book value of deferred income tax claims is reviewed on each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available against which the deferred tax claim can be at least partially utilised. Previously unrecognised deferred income tax claims are reassessed on each balance sheet date and are recognised to the extent that it is probable from a current perspective that sufficient future taxable profit will be available in order to realise the deferred tax claim.

Deferred tax liabilities and deferred tax assets are offset if there is a right to offset and if they are being collected by the same tax authority.

Current taxes are calculated on the basis of the company's taxable earnings for the period. The tax rates applicable to the respective companies on the balance sheet date are used for this purpose.

Earnings per share

Earnings per share are calculated by dividing net consolidated income by the weighted average number of outstanding shares during the year in accordance with IAS 33 ("earnings per share").

Leasing

The leasing contracts that are signed are classified either as finance leases or operating leases. If as the lessor has passed all significant opportunities and risks onto the group as a lessee, the group is assigned beneficial ownership. The companies included in the consolidated financial statement have usually concluded contracts that are classified as operating leases. In this case, ongoing lease payments are recorded as expenses when they are incurred. Concluded leasing contracts that are classified as finance leases are entered on the assets side with the lower value of the present value of the minimum lease payments or the fair value of the leased asset at the beginning of the lease and depreciated over the shorter of the two periods duration of the lease and useful life, provided that the transfer of ownership to the lessee at the end of the contractual period is not sufficiently certain.

Revenue recognition

The company states earnings in accordance with IAS 18 if the earnings process is complete and if the property-related risks and opportunities have been transferred to the customer. The company realises its turnover primarily through the sale of its products. Income from milestone and licensing agreements with third parties is realised once the underlying contractual conditions come into force. It is always possible for turnover to be received immediately and in full and to be recorded as income if the conditions of IAS 18 IE 20 are met in the version of a one-off contract start payment.

Revenue and other income are realised when the amount can be measured reliably and payment is sufficiently probable as well as other conditions mentioned below are met.

All income in connection with the sale of products and licence income are recorded as revenue. Other operating incomes are shown as other operating income.

Revenue is determined to be realised when the deliveries and services owed have been provided and substantial risk and chances have been passed to the acquirer.

The majority share of revenues is achieved by product sales. The sale of Ameluz® is frequently pursued through pharma wholesalers or directly to pharmacies or hospitals.

Upon direct sales of the BF-RhodoLED® those conditions are only met after complete installation, since the installation services requires specialised knowledge, is not just an ancillary service and the lamp may only be used by the customer after successful installation. Those conditions are met with rental lamps (i.e. lamps already installed for testing) once a binding sales contract has come into effect and the outgoing invoice has been generated.

Belixos® is predominantly sold through Amazon. Revenue is recognised after delivery and payment by the customer. Based on experience, return rights granted with the sale through Amazon are exercised by customers only in very few cases.

Revenues are recognised less revenue based trade taxes and sales deductions. Expected sales deductions, for instance rebates, discounts or returns, are recognised based on estimated values at revenue recognition. Payment terms for Ameluz® include short term payment terms with a possibility for sales rebates. Instalment payments over 48 months which include a financing component are sometimes agreed upon with the sale of BF-RhodoLED®.

Licence income as well as milestone based payments are recognised when the contractual obligation has been fulfilled.

Research and development expenses

The costs relating to development are recognised, in accordance with IAS 38, as intangible assets, if certain conditions are fulfilled. Research costs are entered as costs as they are incurred. Development costs are capitalised, if certain conditions are fulfilled, depending on the possible outcome of development activities.

Estimates of such possible outcomes involve the making of significant assumptions by the management. In the management's opinion, due to uncertainties related to the development of new products, the criteria prescribed under IAS 38.57 "Intangible Assets" for capitalising development costs as assets are only fulfilled by the Biofrontera Group if the prerequisites for the expansion of the European approval and the approval in the USA are met, and if it is likely that the company will accrue a future economic benefit.

The research and development costs relating to the medication Ameluz®, which has been approved in Europe, and to the company's other research and development projects, are therefore recorded as expenses in the period in which they are incurred.

Balance sheet notes

1 Tangible and intangible assets

The development of fixed asset items in the 2015 financial year is shown in the statement of assets, together with an indication of the accumulated depreciation. Tangible fixed assets consist mainly of office and business equipment and laboratory and production facilities.

Inflows to intangible assets and fixed assets in the reporting period resulted mainly from the acquisition of additional usage rights associated with the prototype of the PDT lamp (EUR 26 thousand, previous year: EUR 77 thousand) as well as the capitalisation of production facility expenses (EUR 45 thousand; previous year: EUR 0) and office and business equipment (EUR 42 thousand; previous year: EUR 29 thousand). The asset outflows with total acquisition and manufacturing costs of EUR 20 thousand (previous year: EUR 128 thousand) resulted primarily from sales of the rental lamps, which accounted for EUR 20 thousand (previous year: EUR 117 thousand).

The reported use rights, with a net book value totalling EUR 1,778 thousand, relate mainly to rights totalling EUR 1,642 thousand to use technology developed by the company ASAT Applied Science and Technology AG, Zug, Switzerland, in terms of the active ingredient ALA (aminolevulinic acid), including all patents and expertise associated with this. The rights of use that are acquired are depreciated over their estimated remaining useful lifespan of 20 years, from their date of acquisition, due to their direct usability. This useful lifespan is derived from the term of the patents issued and acquired by Biofrontera AG and is reviewed annually pursuant to IAS

38.104. There are no indications for an impairment loss. The development costs for the prototypes of the BF-RhodoLED® have also been capitalised in this item.

Consolidated statement of changes in fixed assets in 2015

		Acquisition and production costs				Accumulated depreciation				Book values	
		01 Jan. 2015 EUR	Inflows EUR	Outflows EUR	31 Dec. 2015 EUR	01 Jan. 2015 EUR	Inflows EUR	Outflows EUR	31 Dec. 2015 EUR	31 Dec. 2015 EUR	31 Dec. 2014 EUR
I.	Tangible assets										
	Operating and business equipment	3,342,769.00	154,418.76	20,271.71	3,476,916.05	3,003,237.00	107,647.82	6,803.00	3,104,081.82	372,834.23	339,532.00
II.	Intangible assets										
1	Software and licences	418,895.51	0.00	0.00	418,895.51	281,912.08	13,140.00	0.00	295,052.08	123,843.43	136,983.43
2	Usage rights	6,027,454.31	25,884.78	0.00	6,053,339.09	3,584,360.57	690,894.02	0.00	4,275,254.59	1,778,084.50	2,443,093.74
		6,446,349.82	25,884.78	0.00	6,472,234.60	3,866,272.65	704,034.02	0.00	4,570,306.67	1,901,927.93	2,580,077.17
		9,789,118.82	180,303.54	20,271.71	9,949,150.65	6,869,509.65	811,681.84	6,803.00	7,674,388.49	2,274,762.16	2,919,609.17

Consolidated statement of changes in fixed assets in 2014

		Acquisition and production costs				Accumulated depreciation				Book values	
		01 Jan. 2014 EUR	Inflows EUR	Outflows EUR	31 Dec. 2014 EUR	01 Jan. 2014 EUR	Inflows EUR	Outflows EUR	31 Dec. 2014 EUR	31 Dec. 2014 EUR	31 Dec. 2013 EUR
I.	Tangible assets										
	Operating and business equipment	3,395,985.95	74,917.75	128,134.70	3,342,769.00	2,928,662.32	99,708.50	25,133.82	3,003,237.00	339,532.00	467,323.63
II.	Intangible assets										
	1 Software and licences	410,461.51	8,434.00	0.00	418,895.51	267,487.08	14,425.00	0.00	281,912.08	136,983.43	142,974,43
	2. Usage rights	5,937,723.26	89,731.05	0.00	6,027,454.31	2,887,489.07	696,871.50	0.00	3,584,360.57	2,443,093.74	3,050,234.19
	3. Prepayments made	9,000.00	0.00	9,000.00	0.00	0.00	0.00	0.00	0.00	0.00	9,000.00
		6,357,184.77	98,165.05	9,000.00	6,446,349.82	3,154,976.15	711,296.50	0.00	3,866,272.65	2,580,077.17	3,202,208.62
		9,753,170.72	173,082.80	137,134.70	9,789,118.82	6,083,638.47	811,005.00	25,133.82	6,869,509.65	2,919,609.17	3,669,532.25

2 Inventories

Inventories encompass finished products, unfinished products, and raw materials and supplies in the sales company.

Inventories amount to EUR 1,534 thousand (31.12.2014: EUR 1,394 thousand). In assessing the consumption of inventories, the sequence of consumption is assumed to be based on the first-in-first-out (FIFO) method.

3 Trade receivables

Trade receivables relate mainly to the sale of Ameluz®, the BF-RhodoLED® PDT lamp and the medical cosmetic product Belixos®. It is expected that all trade receivables will be settled within twelve months of the balance sheet date. Provisions for doubtful receivables have not been made. There were overdue receivables for which no value adjustment was made amounting to EUR 20 thousand (31.12.2014: EUR 30 thousand) on the balance sheet date. Of these, EUR 15 thousand were 15 to 30 days overdue, and EUR 5 thousand were more than 30 days overdue. At the time of preparation of the consolidated financial statement, no overdue receivables were still unpaid.

4 Other financial and miscellaneous assets

Miscellaneous assets primarily include prepayments for medical trials (EUR 585 thousand; 31.12.2014: EUR 586 thousand) and VAT reimbursement claims (EUR 57 thousand; 31.12.2014: EUR 87 thousand). No individual value adjustments were carried out during the reporting year (31.12.2014: EUR 261 thousand)

5 Income tax reimbursement claims

These consist of claims for tax refunds relating to withheld capital gains tax, plus the solidarity surcharge (EUR 32 thousand; 31.12.2014: EUR 38 thousand).

6 Securities

The valuation of securities is based on the prices quoted in an active market. On 31 December 2015, the company's holdings in its own Warrant Bond I 2009/2017 had a nominal value of EUR 1,500 thousand (31.12.2014: EUR 1,500 thousand). The warrant bonds held by Biofrontera were depreciated by a further EUR 100 thousand (depreciation 31.12.2014: EUR 167 thousand), to EUR 1,233 thousand (31.12.2014: EUR 1,333 thousand) due to a fall in the market price. In accordance with IAS 32, the bonds are offset against the bonded debt.

7 Cash and cash equivalents

Cash and cash equivalents relate to cash-in-hand, cheques, bank deposits and money deposits with a maturity of up to three months at the time of acquisition amounting to EUR 3,959 thousand (31.12.2014: EUR 8,509

thousand). The book values of the cash and cash equivalents correspond to their fair value, due to the short-term nature of these investments.

8 Deferred income tax claims

The Biofrontera Group recorded a net loss before tax on 31 December 2015 and on 31 December 2014. Deferred tax assets are generally determined on the basis of the existing income tax rates in Germany. The corporate tax rate is 15% as a result of the 2008 Company Tax Reform Act. When a solidarity surcharge of 5.5% is included, this results in a combined tax rate of 15.8% (previous year: 15.8%). Because of the basic rate of tax of 3.5% for businesses and the lack of deductibility of business tax as a business expense, the resulting tax rate, taking into account the local business tax rate, is 16.6% (previous year 16.6%).

The following table provides details of the basic current deferred tax claims arising from tax loss carryforwards as they have developed within the group (the previous year's figures have been adjusted to the amounts determined for tax purposes):

	31 December 2015		31 December 2014	
	Loss carried forward EUR	Deferred tax claims EUR	Loss carried forward EUR	Deferred tax claims EUR
Corporation tax including solidarity surcharge	104,757	16,583	93,151	14,746
Business tax	94,915	15,784	84,306	14,020
Total		32,367		28,766

These losses carried forward have an unlimited carry forward period under current German law.

Due to the lack of predictability regarding future taxable profits, the fundamentally existing deferred tax claims from loss carryforwards (EUR 32,367 thousand; 31.12.2014: EUR 28,766 thousand) and tax deductible differences of EUR 33 thousand (31.12.2014 EUR 55 thousand) were not entered in the balance sheet, in accordance with IAS 12.34.

The following provides a reconciliation between expected and actual reported income tax expense, with the output value being based on the rounded income tax rate of 32.5% currently applicable to the Biofrontera Group:

	31.12.2015 kEUR	31.12.2014 kEUR
Group income before income taxes	(11,203)	(10,721)
Expected income tax reimbursement at the tax rate of the parent company	3,635	3,479
Differences arising from different tax rates	0	0
Tax reductions due to changes in permanent differences	161	70
Tax increases due to non-deductible expenses	(187)	(150)

Changes in unrecognised deferred tax assets		
- from active temporary differences	33	55
- from losses carried forward	(3,602)	(3,456)
Other effects	(40)	2
Income taxes according to statement of overall profit/loss	0	0

9 Equity

The fully paid in share capital of the parent company, Biofrontera AG, amounted to EUR 25,490,430.00 on 31 December 2015. It was divided into 25,490,430 registered shares with a nominal value of EUR 1.00 each. On 31 December 2014, the share capital amounted to EUR 22,196,570.00 and was increased by a total of EUR 3,293,860.00, divided into 3,293,860 registered shares, during the course of the 2015 financial year, as a result of two capital increases.

In the first capital increase carried out in 2015, subscription of new shares was offered to all shareholders for allocation and additional subscription. The new shares that were not acquired as part of the subscription right or the additional subscription were offered to selected investors for acquisition in a private placement. EUR 1,377,272.00, divided into 1,377,272 registered shares, was placed and the implementation was entered in the trade register on 1 June 2015. The proceeds amounted to EUR 3.1 million

In addition, in a further capital increase, a total of EUR 1,916,588, divided into 1,916,588 registered shares, was placed and this was registered in the trade register on 3 December 2015. This capital increase was also initially offered to all shareholders for subscription and additional subscription. Shares that were not acquired in the allocation and additional subscription were offered to institutional investors for subscription. The proceeds amounted to EUR 3.5 million.

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 Xetra computer trading system and all other German stock exchanges. On 3 June 2014, the share was admitted to the Prime Standard of the Frankfurt Stock Exchange and the AIM market of the London Stock Exchange. The listing on the AIM Market was rescinded on 18 February 2016.

The numbers of shares held by the shareholders on 31 December 2015, based on the most recent compulsory disclosures of the shareholders, are as follows:

	31 December 2015 EUR	31 December 2014 EUR
Maruho Deutschland Co., Ltd., Osaka Japan The total share of voting rights is assigned to Maruho Co., Ltd, Osaka, via the company Maruho Deutschland GmbH, Düsseldorf, which is controlled by the former.	4,467,143	4,467,143
Dr. Carsten Maschmeyer, Germany Dr Maschmeyer is assigned all the voting rights of the company ALSTIN Family GmbH, Hanover, which he controls (formerly: Alternative Strategic Investments GmbH), and MM Familien KG, Hanover.	0	2,282,177
Professor Ulrich Abshagen, Germany Professor Abshagen has a direct holding of 62,850 voting rights, and he is indirectly assigned 976,056 voting rights by Heidelberg Innovation BioScience Venture II GmbH & Co.KG (in liquidation) via Heidelberg Innovation Asset Management GmbH & Co. KG, of which he is one of the managing partners.	1,038,906	1,028,349
Wilhelm Konrad Thomas Zours Of this, 3.48% of the voting rights are assigned via the company Deutsche Balaton Aktiengesellschaft	1,053,154	0
Universal-Investment-Gesellschaft mbH, Frankfurt am Main, Germany The voting rights are assigned to Universal-Investment GmbH via the company FEHO Vermögensverwaltungsgesellschaft	799,463	981,438
Prof. Dr. Hermann Lübbert, Leverkusen, Germany	720,512	685,512
Free float	17,411,252	12,751,951
Total	25,490,430	22,196,570

The company's capital management body regularly reviews the equity ratio of the group and 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. Two financings took place, in June 2015 and December 2015.

The statement of changes in equity provides further information about the development of equity.

In connection with the already issued 2009/2017 warrant bond and the 2011/2016 warrant bond issued in July 2011 (1st tranche) and December 2011 (2nd tranche), the following items were reported on 31 December 2015:

	31.12.2015 EUR	31.12.2014 EUR
Long-term financial debt (at amortised cost)	11,229,946.00	10,744,299.63
Short-term financial debt (accrued interest from nominal interest rate)	830,174.00	1,224,598.00
Capital reserve (equity component 2009/2017 warrant bond)	1,485,294.99	1,485,294.99
Capital reserve (equity component 2011/2016 warrant bond)	1,226,747.16	1,226,747.16

The interest effects of the warrant bonds on the long-term borrowings were initially calculated using an effective annual interest rate of 14.35% for the 2009/2017 warrant bond, 9.8% for the first tranche of the 2011/2016 warrant bond and 5.8% for the second tranche of the 2011/2016 warrant bond.

In accordance with IAS 32.37, the equity procurement costs reduced by any related income tax benefits are accounted for as a deduction from equity. As, in the opinion of the company management, the realisation of the losses carried forward is associated with a high degree of uncertainty, the costs of raising equity have been deducted in full from equity. In the 2015 financial year, costs of raising equity totalling EUR 496 thousand (previous year: EUR 216 thousand) were recognised in connection with the capital increases that were carried out.

In the event of the company achieving an annual surplus, the Management Board and the Supervisory Board are authorised to place all or part of the annual surplus that remains, after deduction of the sums to be placed in the legal reserves and of a loss carryforward, in the surplus reserves. It is not permissible to place more than half of the annual surplus in the surplus reserves if, after such placement, the other surplus reserves would exceed half of the share capital. The shareholders' dividends are calculated based on the size of their holding of the share capital.

2010 share option programme

At the Annual General Meeting on 2 July 2010, the Management Board and Supervisory Board proposed a share option programme for employees to the Annual General Meeting, which approved the initiative. In accordance with this, the Management Board, or the Supervisory Board if the beneficiaries are Management Board members, are entitled to issue up to 839,500 share options, the exercising of which is linked to specific targets.

The programme has a total nominal volume of EUR 840,000 and a term of six years from the issue date, i.e. until 24.11.2016. For this, conditional capital amounting to EUR 839,500 was decided by means of the issuing of up to 839,500 registered no-par value unit shares with a proportional amount of the share capital of EUR 1.00 per share, in accordance with § 192 para. 1 no. 3 of the German Stock Corporation Act (AktG). The conditional capital was registered on 30 July 2010 in the trade register of the Cologne District Court, under HRB 49717. Eligibility for the 2010 share option programme was granted to members of the Management Board and employees of the company as well as to members of management bodies and employees of affiliates of Biofrontera AG.

The date of issue was 24 November 2010. The granting of options is made without any payment being provided in return. On 24 November 2010, 106,400 options (first tranche) were issued with an exercise price per share of EUR 1.91. On 30 September 2011 and 7 October 2011 (second tranche) a further 96,400 options were issued with an exercise price of EUR 2.48 each. On 23 March 2012 and 11 May 2012 (third tranche), 65,000 options were issued with an exercise price of EUR 3.30 each, and 51,500 options were issued with an exercise price of EUR 4.09 each. On 2 September 2013, 179,500 options were issued (fourth tranche) with an exercise price of EUR 3.373 each. On 2 April 2014, 159,350 options were issued with an exercise price of EUR 3.43 each.

In accordance with the associated conditions, each subscription right that is granted entitles the beneficiary to acquire one new registered no-par value unit share in the company. The exercise price is equal to the arithmetical average (unweighted) of the closing prices ascertained on the Frankfurt Stock Exchange via the trading floor and Xetra trading for the company's shares on the ten trading days prior to the issuing of the share. However, the minimum exercise price amounts to the proportionate share of the company’s share capital allocated to each individual no-par value unit share, pursuant to § 9, paragraph 1 of the German Stock Corporation Act.

The options granted may only be exercised after expiry of a retention period. The retention period is four years from the respective date of issue. A prerequisite for the whole or partial exercising of the options is that the following performance target is achieved:

Exercising the options from a tranche is possible if at the beginning of the respective exercise period, the price (hereinafter referred to as the "reference price") of a share in Biofrontera Aktiengesellschaft exceeds the exercise price by at least 20%, and a minimum reference price of at least EUR 5.00 is achieved (hereinafter referred to as the "minimum reference price"). The reference price is equal to the arithmetical average (unweighted) of the closing prices ascertained on the Frankfurt Stock Exchange via the trading floor and Xetra trading for the Company's shares between the 15th and the 5th trading day (inclusive in each case) prior to the respective exercise window. The minimum reference price is adjusted in the following cases in order to bring the stated performance target into line with changed circumstances:

- In the event of a capital increase from company funds being carried out by issuing shares, the minimum reference price is reduced by the same ratio as new shares issued compared to existing shares. If the capital increase is carried out from company funds without the issuing of new shares (§ 207 paragraph 2 clause 2 German Stock Corporation Act (AktG)), the minimum reference price remains unchanged.

- In the case of a capital reduction, no adjustment of the minimum reference price is carried out, provided that the total number of shares is not changed by the capital reduction or if the capital reduction is connected to a return of capital or an acquisition of own shares against payment. In the case of a capital reduction performed by consolidating shares without capital repayment and in the case of increasing the number of shares with no associated change in capital (share split), the minimum reference rate increases in line with the capital reduction or share split.

Other adjustments to the minimum reference price are not carried out.

The exercising of options is limited to the following time periods (hereinafter "exercise windows"), i.e. only declarations of exercising of rights submitted to the company within an exercise window will be considered:

a) on the 6th and the next 14 banking days after the date of the Annual General Meeting (exclusive),

b) on the 6th and the next 14 banking days after the date of submission of the semi-annual or quarterly report or an interim statement by Biofrontera AG (exclusive)

c) in the period between the 15th and the 5th banking day before expiration of the options for each respective expiry date (exclusive).

After expiry of the relevant retention period, the options can be exercised up until the expiry of six years from the date of issue (exclusive).

The right to exercise the options ends at the latest six years after the first day of issue. The right to exercise the first options that were issued thus ends on 24.11.2016. If the options have not been exercised by this time, they expire without provision of compensation. In the valuation of the employee share options, we have assumed an average holding period of 5 years.

Any claim by the beneficiaries to receive a cash settlement in the event of non-exercise of the options is invalid even in the event of the existence of the above exercise prerequisites. An option may only be exercised if the holder has a current service or employment contract with the company or another company affiliated with

the company or if the holder is a member of the Management Board or the management team of another company affiliated with the company.

In the event of the exercising of a subscription right, the company is generally and in specific cases permitted to choose between granting the registered share in exchange for payment of the exercise price, or fulfilling its debt by paying a cash settlement to the holder of the subscription right. The cash settlement per subscription right is equal to the difference between the exercise price per share and the share price on the exercise date, minus due taxes and fees.

As this share option scheme involves share-based remuneration with a choice of settlement at the discretion of the company, the company has decided, in accordance with IFRS 2.41 and IFRS 2.43, to book the transactions pursuant to the provisions for share-based remuneration settled with equity instruments (IFRS 2.10-29). Therefore, the fair value of a share from this share option programme with a granting date of 24 November 2010 was determined, on the basis of a binomial model, to have a value of EUR 0.57 / share option. For the share options issued on 31.12.2010, this resulted in a total value of options of EUR 60,648.00. For the additional share options granted in 2011, a fair value of EUR 119,536.00 was calculated. For the two tranches of options granted in 2012, fair values of EUR 104,000.00 and EUR 106,090.00 were calculated, respectively. For the share options granted in 2013, a fair value of EUR 192,065 was calculated. For the share options granted in 2014, a fair value of EUR 132,260.50 was determined. The booking of the pro-rata amounts is carried out proportionately as personnel expenses and as increases in the capital reserves over the period of accumulation, until the end of the retention period. Share price volatility factors of 45.78% and 51.3% were used in assessing the fair value of the options granted in 2010 and 2011, factors of 53.5% and 65% were used for the options granted in 2012, a factor of 39.2% was used for the options granted in 2013 and a factor of 32.3% for the options granted in 2013 (based on valuation date volatility). A dividend yield of 0% was used in all cases, as well as respective risk-free interest rates of 1.75%, 1.21%, 0.9% and 0.82% in 2012 as well as 0.71% in 2013 and 0.68% in 2014, and a uniform annual fluctuation of beneficiaries of 20%. No share options were issued in financial year 2015.

The vesting period for the first tranche ran until 30 Nov 2014 and until 30 Sep 2015 for the second tranche, no options were exercised until the balance sheet date.

No options from the third, fourth and fifth tranche could be exercised due to the vesting period.

A total of 123,750 options were forfeited by employees leaving the company.

The authorisation to issue options under the 2010 share option programme ended on 1 July 2015. By resolution of the Annual General Meeting made on 28 August 2015, the conditional capital III foreseen for the servicing of options under this programme was reduced to EUR 542,400.00.

The expenditure booked in the reporting period was EUR 103 thousand (previous year: EUR 113 thousand).

10 Financial liabilities

On 26 June 2009, Biofrontera announced the placement of a warrant bond with a term ending on 31 December 2017. As part of this financing measure on the part of the company, an option bond was placed in 2009 ("Warrant Bond I"). The warrant bond has a total nominal value of EUR 10,000,000.00, divided into up to

100,000 bonds with a nominal value of EUR 100.00. The redemption at the end of the term is at 106% of the nominal value of the bond. The warrant bonds bear interest on the following scale:

- from 1.9.2009 to 30.12.2010 annual rate 4%;

- from 31.12.2010 to 30.12.2011 annual rate 6%;

- from 31.12.2011 to 31.12.2017 annual rate 8%.

The accrual of interest on each warrant bond ends on the day before it is due for redemption. The interest payment is made on the last business day of the calendar year, but not until 31 December 2010, i.e. the interest for 2009 does not become due until then. Ordinary termination by the bondholders is not permitted. Biofrontera has the right, upon issuing of written notice to the bondholders of Warrant Bond I, to repay 106% of the nominal amount (plus any accrued interest) at any time. Each holder of a partial bond is, in accordance with the bond and option terms, entitled to five detachable option rights per partial bond, with each of these providing the irrevocable right to acquire a registered no-par value unit share with voting rights in Biofrontera AG with a notional proportion of the share capital of EUR 1.00, at an option price of EUR 5.00 each. The option right expires on 30 December 2017. The share resulting from the exercising of an option right is entitled to participate in the company's profits from the beginning of the financial year in which it arose from the exercising of the option right and payment of the capital contribution. In order to provide financing for the option rights, conditional capital of the company amounting to up to EUR 500,000.00 was approved at the Extraordinary General Meeting held on 17.03.2009.

Of these warrant bonds, partial bonds were issued with a total nominal value of EUR 4,930,300.00.

The liability from this warrant bond was valued at the time of issue and was attributed a cash value of EUR 3,238,744.00, and the book value of the long-term financial debt amounted to EUR 2,836 thousand on 31 December 2015 (31.12.2014: EUR 2,671 thousand), using the effective interest method. The short-term portion of this financial liability, i.e. debts payable within one year, amounts to EUR 394 thousand (31.12.2014: EUR 789 thousand). The nominal interest for 2014 was paid in the beginning of January of the following financial year and for 2015 on 31 December 2015. See section 6 for details of the warrant bonds held by Biofrontera.

On 7 June 2011, the Management Board decided, with the approval of the Supervisory Board and based on the authorisation granted by the Annual General Meeting, to issue a warrant bond 2011/2016 (hereinafter "Warrant Bond II").

Warrant Bond II has a total nominal value of up to EUR 25,000,000.00 and is divided into up to 250,000 individual warrant bonds with a nominal value of EUR 100.00 each. Each individual warrant bond is associated with ten detachable warrants issued by the company; each warrant entitles the holder to acquire a registered no par value unit share in the company, with associated voting rights and with a stake in the share capital of EUR 1.00 each, at an option price of EUR 3.00. If all the option rights were to be issued and exercised, this would result in a calculated total exercise price of EUR 7,500,000.00.The issue price of each warrant bond is EUR 100.00.

The term of the warrant bonds begins on 20 July 2011 and ends on 31 December 2016. The company will return the warrant bonds on 01 January 2017 at 100% of the nominal amount. The company has the right to repay 100% of the nominal amount of Warrant Bond II (plus any accrued interest) at any time. Bondholders

may terminate Warrant Bond II for good reason in certain cases; normal termination on the part of the bondholders is not possible. In order to provide financing for the option rights, conditional capital of up to EUR 2,500,000.00 was approved at the company's General Meeting on 10 May 2011 and entered in the trade register on 18.05.2011. Warrant Bond II accrues annual interest of 5%. The accrual of interest on each warrant bond ends on 31 December 2016. Interest is paid annually on 1 January for the previous year, commencing on 01 January 2012 with a payment of EUR 195 thousand for the period 20 July 2011 until 31 December 2011. A nominal total of EUR 8,715 thousand of individual warrant bonds of Warrant Bond II was issued as a result of two transactions that exchanged the convertible bonds for Warrant Bond II in July and December 2011 and the direct acquisition from the initial issue. The resulting interest payment owed for the period from 1 January 2015 until 31 December 2015 was paid out on the interest due date on 04 January 2016, and amounted to EUR 436 thousand (previous year: EUR 436 thousand). On 31 December 2015, the interest payable for the period from 1 January 2015 until 31 December 2015 of EUR 436 thousand was reported within short-term financial debt.

The contractual interest and repayment obligations relating to warrant bonds are broken down on the balance sheet date as follows:

kEUR	31.12.2015					
	2016	2017	2018	2019	2020	Total
Warrant bond 2009/2017:						
Repayment			5,226			5,226
Interest payment	394	394				788
Warrant bond 2011/2016:						
Repayment		8,715				8,715
Interest payment	436	436				872

The situation was as follows in the previous year:

kEUR	31.12.2014					
	2015	2016	2017	2018	2019	Total
Warrant bond 2009/2017:						
Repayment				5,226		5,226
Interest payment	788	394	394			1,576
Warrant bond 2011/2016:						
Repayment			8,715			8,715
Interest payment	436	436	436			1,308

11 Trade payables

The trade payables (EUR 1,043 thousand; 31.12.2014: EUR 967 thousand) increased by EUR 76 thousand from the previous year. The increase is due to trade payables invoiced at the end of the year and the underlying payment conditions.

12 Other provisions

Other provisions have developed as follows:

Biofrontera Group	EUR 01.01.2015	Utilised	Liquidated	Allocated	EUR 31.12.2015
- Bonuses for employees	106,622.00	79,622.00	27,000.00	142,741.00	142,741.00
- Outstanding holiday	72,262.67	72,262.67	0.00	82,015.08	82,015.08
- Outstanding invoices	635,764.67	546,041.66	28,949.15	598,901.10	659,674.96
- Financial statement and auditing costs	93,884.00	87,134.32	6,749.68	109,200.00	109,200.00
- Other provisions	43,411.07	5,715.70	0.00	10,534.39	48,229.76
Total provisions	951,944.41	790,776.35	62,698.83	943,391.57	1,041,860.80

The remaining provisions concern various individually identifiable risks and uncertain obligations. The use of provisions classified as current is anticipated within the subsequent financial year.

13 Other financial and non-financial liabilities

	31 December 2015 EUR	31 December 2014 EUR
Payroll tax	97	66
Financial leasing	12	20
Credit card payments	16	16
Other	36	11
	161	113

14 Reporting on financial instruments

In the ordinary course of business, the group faces market price and credit risks as well as liquidity risks, which may have an effect on the financial position, cash flows and results of operations.

Market price risk: The risk associated with interest rate changes is considered insignificant because, as a rule, the existing interest modalities for the relevant financing of the Biofrontera Group can be adjusted to market conditions in the short to medium term. There is no cash flow risk for the fixed-rate warrant bonds. No adverse changes in interest payments can occur, as a result of the fixed interest rates. Since the liabilities are not accounted for at fair value, but at amortised cost, there is also no fair value risk.

Credit risk: A credit risk arises for the group if transaction partners cannot meet their obligations within the normal payment deadlines. On the balance sheet, the maximum non-payment risk is represented by the book value of the relevant financial asset. The situation regarding receivables is monitored so that any possible non-payment risks can be identified at an early stage and appropriate steps taken. In the reporting year, no individual value adjustments were made for other financial assets (31.12.2014: EUR 261 thousand); also no individual value adjustments were made to trade receivables in the reporting year (31.12.2014: EUR 0).

Financial instruments evaluated at fair value in the consolidated balance sheet can be classified according to the following valuation hierarchy, which reflects the extent to which the fair value is observable:

Level 1: Fair value valuations using prices listed on active markets (not adjusted) for identical assets or liabilities.

Level 2: Fair value valuations using input data for the asset or liability that are either directly observable (as prices) or indirectly observable (derived from prices), but which do not constitute listed prices pursuant to Level 1.

Level 3: Fair value valuations using input data for the asset or liability that are not based on observable market data (unobservable input data).

Biofrontera only has financial instruments at levels 1 and 2. No reclassifications between level 1 and level 2 were carried out during the 2015 financial year. All the financial assets measured at fair value and listed in the following are classified as level 1. With regard to financial liabilities, the full amount of long-term and short-term financial debt (EUR 12,060 thousand; 31.12.2014: EUR 11,999 thousand) is allocated to level 2. This involves financial debt arising from the two warrant bonds.

Biofrontera records individual valuation allowances as trade receivables and the remaining financial liabilities assigned to the "loans and receivables" category are classified as other operating expenses. The losses from currency conversions from the "loans and receivables" assessment category are mainly attributable to liabilities from deliveries and services. The net gains and losses include specific value adjustments and currency conversion effects.

The financial assets and liabilities can be broken down into valuation categories with the following book values, and the net gains and losses:

Financial assets on 31.12.2015 (EUR)	**Fair value**	**Book values**					**Net gains (+) or losses (-)**
		Cash and cash equiva-lents	Loans and receivables	Financial instru-ments recog-nised at fair value in profit or loss (exclud-ing "held for trad-ing")	Financial assets availa-ble for sale	TOTAL BOOK VALUES	
- Financial assets						0	0
- Liquid assets	3,959,207	3,959,207				3,959,207	104
- Trade receivables	894,559		894,559			894,559	0
- Other short-term financial receivables and assets	730,440		730,440			730,440	0
TOTAL	5,584,206	3,959,207	1,624,999	0	0	5,584,206	104

Financial liabilities on 31.12.2015 (EUR)	Fair value	Book values					Net gains (+) or losses (-)
		Other liabili-ties	Financial instruments recognised at fair value in profit or loss (excluding "held for trading")			TOTAL BOOK VALUES	
- Short-term financial debt	830,174	830,174				830,174	0
- Trade payables	1,043,426	1,043,426				1,043,426	(21,594)
- Other short-term financial liabilities	37,622	37,622				37,622	0
- Other long-term financial debt	11,229,946	11,229,946				11,229,946	0
TOTAL	13,141,168	13,141,168	0	0	0	13,141,168	(21,594)

Financial assets on 31.12.2014 (EUR)	Fair value	Book values					Net gains (+) or losses (-)
		Cash and cash equiv-alents	Loans and receivables	Financial instruments recognised at fair value in profit or loss (ex-cluding "held for trading")	Financial assets available for sale	TOTAL BOOK VALUES	
- Financial assets						0	0
- Liquid assets	8,509,398	8,509,398				8,509,398	61
- Trade receivables	308,984		308,984			308,984	(38)
- Other short-term finan-cial receivables and assets	726,791		726,791			726,791	(261,099)
TOTAL	9,545,173	8,509,398	1,035,775	0	0	9,545,173	(261,076)

Financial liabilities on 31.12.2014 (EUR)	Fair value	Book values					Net gains (+) or losses (-)
		Other liabil-ities	Financial instruments recognised at fair value in profit or loss (ex-cluding "held for trading")			TOTAL BOOK VALUES	
- Short-term financial debt	1,224,598	1,224,598				1,224,598	0
- Trade payables	967,438	967,438				967,438	(9,600)
- Other short-term finan-cial liabilities	27,012	27,012				27,012	0
- Other long-term finan-cial debt	10,774,298	10,774,298				10,774,298	0
TOTAL	12,993,346	12,993,346	0	0	0	12,993,346	(9,600)

Liquidity risk: The refinancing of the Biofrontera group companies is generally carried out on a central basis by Biofrontera AG. There is a risk in this regard that the liquidity reserves may be insufficient to fulfil the financial obligations on the due date. In order to cover the liquidity requirements at 31 December 2015, cash and cash equivalents totalling EUR 3,959 thousand (31.12.2014: EUR 8,509 thousand) are available. See the relevant balance sheet notes on (undiscounted) payments from financial debt due in the next years.

Notes on the consolidated statement of comprehensive income of 31 December 2015

15 Sales revenue

The Biofrontera Group recognised sales of EUR 4,138 thousand in the 2015 financial year (previous year: EUR 3,096 thousand), corresponding to an increase of 34% compared to the previous year. Down payments of EUR 70 thousand (previous year: 70 thousand) are included in this. Turnover from sales of products without upfront payments in Germany increased by 27% to EUR 3,028 thousand (previous year: EUR 2,379 thousand), sales in other countries rose by 61% to EUR 1,040 thousand (previous year: EUR 647 thousand).

16 Cost of sales, gross profit from sales

The gross profit from sales improved from EUR 1,979 thousand in the 2014 financial year to EUR 2,902 thousand in the 2015 financial year. The gross margin increased to 70%, compared to 64% in the same period in the previous year.

The cost of sales amounted to EUR 1,236 thousand, and thus 30% of sales (EUR 1,117 thousand and 36%), thus improving relative to the revenue.

The above-average sales development with the European licensing partners had a slightly negative impact on the gross result. Unlike with the margin achieved in Germany and the European countries with direct sales activities, in countries with licensing agreements part of the margin is kept by the licensing partners.

17 Development costs

The costs for research and development increased by 37%, from EUR 4,534 thousand in the previous year to EUR 6,204 thousand in the 2015 financial year. The investment in research and development to extend the range of indications and obtain approval for Ameluz® in the USA remained almost constant. In addition, a submission fee ("PDUFA fee") of EUR 2,072 thousand was paid for the submission of the approval application to the FDA. This fee is usually waived for small companies for their initial submission. In consultation with the FDA, Biofrontera lodged an application for a waiver of this fee, but this could not be processed on the filing date as the American approval authority, the FDA, did not have a process for handling such applications. This fee was refunded by the FDA in March 2016.

18 Marketing costs

The sales costs increased only slightly by 8% to EUR 4,170 thousand compared to the previous year (EUR 3,847 thousand), despite the build-up of a sales structure in Spain. The sales costs include the costs of our own field sales team in Germany and Spain, as well as marketing expenses. They also include expenses for marketing preparations in the USA.

19 Administrative costs

The administrative costs decreased compared to the same period in the previous year by EUR 485 thousand to EUR 2,759 thousand, primarily due to lower financing costs. Financing costs shown under administrative costs include primarily consultancy and placement fees in connection with support for the search of investors.

20 Financial result

The financial result consists primarily of the interest payable for the 2009/2017 warrant bond (EUR 439 thousand, previous year: EUR 447 thousand) and for the 2011/2016 warrant bond placed in 2011 (EUR 727 thousand, previous year: EUR 702 thousand), calculated using the effective interest method. The above mentioned interest expenses of EUR 439 thousand (previous year: 447 thousand) for the warrant bond 2009/2017 includes the opposite effect of EUR 193 thousand (previous year: EUR 156 thousand) resulting from the repurchase on 28 February 2014. The interest payment for the 2014 calendar year for Warrant Bonds I and II was made in January 2015. The payment of interest on Warrant Bond I for the 2015 calendar year was made in the end of December 2015, and the payment of interest on Warrant Bond II for 2015 was made in the beginning of January 2016.

21 Other income (expenses), net

In the 2015 financial year, other operational income increased slightly, by EUR 33 thousand to EUR 219 thousand. This is largely attributable to the reversal of provisions amounting to EUR 63 thousand (31.12.2014: EUR 72 thousand). Other operating expenses decreased, compared to the previous year, from EUR 280 thousand to EUR 32 thousand. This involved in particular a specific value adjustment amounting to EUR 261 thousand made in the previous financial year, relating to a short-term loan made available to a development partner. No specific valuation allowances were made in the 2015 financial year.

22 Earnings per share (EPS)

Earnings per share are calculated on the basis of the net loss for the year of the Biofrontera Group and the average ordinary shares in circulation in the financial year, in accordance with IAS 33.

	31.12.2015	31.12.2014
Number of weighted ordinary shares in circulation (on average)	23,156,343.32	21,757,826.65
Net loss for the year in EUR	(11,203)	(10,721)
Undiluted earnings per share in EUR	(0.48)	(0.49)

When calculating diluted earnings per share for the 2014 and 2015 financial years, the warrant bond already issued in 2009 (2009/2017), with a total nominal value of EUR 4,930 thousand and giving bondholders the right to acquire 246,515 shares at a price of EUR 5.00 each, as well as the warrant bond issued in 2011 (2011/2016), with a total nominal value of EUR 8,715 thousand and giving bondholders the right to acquire 871,500 shares at a price of EUR 3.00 each, generally have be taken into account. As the group achieved negative annual results in the 2014 and 2015 financial years, no diluted earnings per share were reported, as the conversion or subscription rights for the periods shown counteracted any dilution.

23 Additional information regarding the consolidated statement of comprehensive income

In the income statement, there was no "other comprehensive income (OCI)" to report on 31 December 2014 and 31 December 2015, as there were no relevant facts or circumstances. Therefore, the net loss equates to the total profit or loss for the period.

Material costs

The cost of materials included in the cost of sales amounted to EUR 947 thousand (previous year: EUR 841 thousand) for the 2015 financial year.

Depreciation

The depreciation of tangible and amortization of intangible assets of EUR 812 thousand in the 2015 financial year and of EUR 811 thousand in the previous year is included in the following items in the statement of comprehensive income:

	31.12.2015 kEUR	31.12.2014 kEUR
Research and development costs	691	702
General administrative costs	113	105
Cost of sales	8	4
Depreciation of tangible and intangible assets	812	811

Personnel costs

	31.12.2015 kEUR	31.12.2014 kEUR
Salaries and wages	3,591	3,024
Social security charges	482	401
Total	4,073	3,425

The personnel costs include contribution-related expenses for pension schemes amounting to EUR 34 thousand (previous year: EUR 41 thousand).

Earnings before income taxes correspond to earnings for the entire period. There are no expenses and income not affecting net income.

24 Staff

On average, the Biofrontera Group employed 46 people in the 2015 financial year (previous year: 37 employees).

25 Other information

Operating and finance leases

The group companies lease administrative and research facilities, as well as vehicles and equipment, under operating lease contracts. The future minimum commitments relating to leases are as follows:

	2015	2014	2015	2014	2015	2014
	≤ 1 year		1 year to 5 years		> 5 years	
Operating leasing agreements						
Leases for business premises	424,277	142,981	2,156,013	512,482	1,619,895	0
Leases for cars	144,693	147,703	177,517	150,317	0	0
Operating and business equipment	17,789	16,019	35,267	46,775	0	0

Lease-related expenses for the reporting period amounted to EUR 176 thousand (previous year: EUR 191 thousand).

On the balance sheet date, there was a finance lease for a server leased by Biofrontera AG with a book value of EUR 12 thousand (31.12.2014: EUR 20 thousand). The contract has a minimum term of 60 months to 31 July 2017. Biofrontera AG is obliged to purchase the leased asset from the lessor for a fixed residual value of EUR 2 thousand if the lessor exercises its option to sell. In the reporting year, minimum lease payments of EUR 11 thousand were recorded as expenses (previous year: EUR 11 thousand).

On the balance sheet date of 31 December 2015, the present value of the sum of future minimum lease payments can be reconciled to their present values as follows:

All figures in kEUR	Minimum leasing payments		Discounting	Present value
Up to 1 year:	11	3	8	
Between 2 and 5 years:	7	2	4	
More than 5 years:	0	0	0	

26 Notes to the cash flow statement

The cash flow statement is presented pursuant to IAS 7. The net loss is adjusted for effects of non-cash transactions, deferrals or accruals of past or future operational deposits or disbursements, and income and expense items attributable to investment or financing activities.

In the consolidated cash flow statement, cash and cash equivalents include cash-in-hand, cheques, bank deposits and money deposits with a maturity of up to three months. Current account liabilities are incorporated into the cash fund where applicable.

The interest payments made amounted to EUR 1,225 thousand (2014: EUR 454 thousand). The change resulted from both interest payments made in the reporting year for Warrant Bond I being 1 January 2015 for the previous year on the one hand, and interest payment for the reporting year made on 31 Dec 2015. The interest payments received amounted to EUR 184 thousand (2014: EUR 143 thousand) which comprised of interest payments received for the Option Bond I held on our own account and from interest payments received from financial investments.

27 Members of the Management Board

Professor Hermann Lübbert was Chairman of the Management Board in the reporting period. The Chairman of the Management Board holds a professorship at the University of Bochum in Germany. His management contract was extended by a further five years, to 31 October 2020, as a result of a decision made by the Supervisory Board on 27 March 2015.

Thomas Schaffer is the Chief Financial Officer. The management contract with Thomas Schaffer was extended by five years, to 30 November 2020, as a result of a decision made by the Supervisory Board on 9 April 2015.

As a result of a decision made by the Supervisory Board made on 9 July 2015, Christoph Dünwald was appointed as an additional member of the management of Biofrontera AG with effect from 16 November 2015. On the board he is responsible for the area of Sales and Marketing.

The remuneration of the Management Board members consists of a fixed salary that is paid in twelve equal monthly instalments. In addition, there is an annual, performance-based bonus for the directors, as well as a long-term remuneration component consisting of participation in the company's share option programme. Company cars are also available to the directors for business and private use.

The remuneration for members of the Management Board in the period 1 January until 31 December 2015 consisted of a salary and a bonus and share options. The total remuneration for Management Board members in the reporting period, including the value of share options at the time they were granted, amounted to EUR 866 thousand (previous year: EUR 807 thousand). This was divided as follows

Prof. Dr. Hermann Lübbert	- Salary/bonus	EUR 405 thousand (31.12.14: EUR 405 thousand)
	- Share options	151,850 (fair value when granted: EUR 167,236) previous year 151,850, (fair value when granted: EUR 167,236), of which granted in 2015: 0 (2014: 16,850).
Thomas Schaffer	- Salary/bonus	EUR 231 thousand (31.12.14: EUR 202 thousand)

	- Share options	35,000 (fair value when granted EUR 32,650) previous year 35,000, (fair value when granted: EUR 32,650)), of which granted in 2015: 0 (2014: 20,000)
Christoph Dünwald	- Salary/bonus	EUR 29 thousand (31.12.14: EUR 0)

All salaries/bonuses are classified as short-term employee benefits as defined in IAS 24.17 (a).

28 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 Munich, Germany
Ulrike Kluge	Managing partner of klugeconcepts GmbH, Cologne; resident in Cologne, Germany
Andreas Fritsch	Member of the Management Board, Xolaris Service Kapitalverwaltungs AG, Munich; Managing Director, Unternehmensberatung Fritsch, Seefeld, resident in Seefeld near Munich, Germany
Alfred Neimke	Managing Director of Kopernikus AG in Zurich, Switzerland; CFO of MAN Oil in Zug, Switzerland; resident in Zurich, Switzerland, Director Prudent Investment Fund, Luxembourg

The members of the Supervisory Board had the following other supervisory board positions and positions on comparable domestic and foreign boards during the reporting period:

Alfred Neimke	Administrative Board of DERPHARM AG in Zurich, Switzerland

In the 2015 financial year, the remuneration of the Supervisory Board members amounted to EUR 113 thousand (previous year: EUR 113 thousand). The remuneration is classified as short-term employee benefits as defined in IAS 24.17(a).

During the reporting period, the company availed itself of additional advisory services from a member of the Supervisory Board, Dr Ulrich Granzer. These services went beyond the scope of normal Supervisory Board

activities. Dr Granzer assisted the company with key issues relating to the preparation of the applications for approval submitted to the supervisory authorities in Europe and the USA. During the course of the 2015 financial year, advisory services amounting to EUR 62 thousand (previous year: EUR 98 thousand) were provided by Granzer Regulatory Consulting & Services. Accounts payable to Granzer Regulatory Consulting & Services amounted to EUR 0 thousand on 31.12.2015 (31.12.2014: EUR 6 thousand). The amounts stated here do not include statutory VAT at the current rate of 19%. The underlying consultancy contract was approved in consideration of the statutory provisions.

29 Related party disclosures

In the 2015 financial year, there were no reportable transactions or relationships with related parties, beyond the facts and circumstances stated in subsections 27 and 28. The group of related persons and entities is limited to those referred to therein.

In the context of the underlying holding structure, Biofrontera AG is responsible for the administrative and management tasks. Biofrontera AG is also responsible for the financing of the currently still loss-making areas of business, as it is a listed company and therefore has the best access to the capital markets.

The funds made available to the subsidiaries as loans bear interest at market rates and are, if necessary, furnished with a subordination clause.

In light of the close cooperation between the subsidiaries, internal offsetting is applied, which is reviewed and adjusted to requirements on an annual basis.

30 Corporate governance statement pursuant to § 289a of the German Commercial Code (HGB), including the statement required by § 161 of the German Stock Corporation Act (AktG) on the German Corporate Governance Code

The Management Board and Supervisory Board of Biofrontera AG have provided the corporate governance statement as required pursuant to § 289a HGB, including the statement required pursuant to § 161 AktG, and have made these available to shareholders on the Biofrontera AG website.

31 Fees and services of the auditor

The total fee invoiced by the auditor Warth & Klein Grant Thornton AG for the 2015 financial year consists of the following:

	2015	2014
	kEUR	kEUR
Auditing services	122	105
of which for the previous year	16	14
Other certification services	43	33
Tax advisory services	0	0
Other services	0	7
	165	145

32 Events occurring after the balance sheet date

In January 2016, the FDA informed the company that the midcycle review as part of the approval process in the US had been completed; the FDA thus has no further questions for the company in this regard.

On 28 January 2016, the company announced that the preliminary results of the phase III trial for the treatment of basal cell carcinoma (BCC) were available. In the clinical study, the efficacy and safety of Ameluz® were compared with that of Metvix®. The study included non-aggressive superficial and nodular BCCs with a thickness of up to 2 mm. Ameluz® achieved complete destruction of all BCCs in 93.4% of patients, which compared well with the figure of 91.8% achieved with Metvix®. On 4 March 2016, detailed results were published regarding this study, which fully confirmed the initial positive impression.

On 16 February 2016, the company announced that a capital increase had been carried out, with exclusion of subscription rights, by issuing 2,357,384 shares to selected institutional investors in order to secure further corporate financing. The issue price for the new shares was EUR 1.90. The capital increase was registered in the trade register on 26.02.2016. Net proceeds were EUR 4.4 million.

A submission fee ("PDUFA fee") of EUR 2,072 thousand was paid to the FDA for the submission of the approval application for Biofrontera's drug Ameluz®. This fee is usually waived for small companies for their initial submission. In consultation with the FDA, an application for remission of the fee was lodged by Biofrontera, but this could not be processed on the filing date as the American approval authority FDA did not yet have a process for handling such applications. A letter issued by the FDA on 14.01.2016 stated that the request for reimbursement of the PDUFA had been granted. The repayment was made by cheque in March 2016 and was credited as EUR 2,140 thousand after being paid into the bank account.

On 24 March 2016 the company announced an agreement with an institutional investor that has agreed to acquire up to 2.0 million New Shares at an issue price of EUR 2.00 in a yet to be performed capital increase. The capital increase will have a maximum volume of EUR 5.0 million.

On 29 March 2016 the company announced that the Management Board, with the approval of the Supervisory Board, has decided to increase the share capital by up to 2,499,999 New Shares by way of a rights issue. Shareholders shall be granted their statutory subscriptions rights such that up to 2,421,549 New Shares will be offered at a ratio of 23:2 within a subscription period of two weeks according to the execution of subscription rights at an issue price of EUR 2.00. The statutory subscription right was excluded regarding 78,450 supernumerary New Shares. The shareholders are furthermore offered an “Additional Subscription” right. I.e. all shareholders executing subscription rights may apply to subscribe to unsubscribed shares plus the supernumerary shares at the Subscription Price.

No further events subject to mandatory reporting occurred after the balance sheet date.

Leverkusen, Germany, 07 April 2016

Prof. Dr. Hermann Lübbert

Chairman of the Management Board

Thomas Schaffer

Chief Financial Officer

Christoph Dünwald

Head of Sales and Marketing

Audit Certificate

The following repetition of the auditor's opinion in English language is **for translation purposes only**:

Auditor's opinion:

We have audited the consolidated financial statements prepared by Biofrontera AG – comprising a consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income for the period, consolidated statement of changes in equity, consolidated statement of cash flows and notes to the consolidated financial statements – and the combined management report of Biofrontera AG and the group for the financial year from January 1, 2015 to December 31, 2015. The preparation of the consolidated financial statements and the combined management report in accordance with IFRS, as adopted by the EU, and with the additional requirements of the German commercial law pursuant to section 315a paragraph 1 HGB are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and the combined management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with paragraph 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 the consolidated financial statements in accordance with the applicable financial reporting framework 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 annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, 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 of Biofrontera AG for the financial year from January 1, 2015 to December 31, 2015 comply with IFRS, as adopted by the EU, and the additional requirements of the German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The combined management report of Biofrontera AG and the group is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitable presents the opportunities and risks of future development.

Without qualifying this opinion we refer to the explanations in the combined management report. In particular the Management Board clarifies under section "Opportunities and risks relating to future business performance", "Liquidity risk" that further capital measures are

necessary until break-even is reached. Particularly to obtain approval in the USA, the planned investments into marketing in the US and to meet obligations from the issued option bond further capital measures during the fiscal year 2016 will be necessary. On the basis of its previous, invariably successful experience with capital measures, the Management Board assumes that the liquidity required for business activities can be further ensured. If these valid estimates are, contrary to expectations, not realised, this could constitute a threat to the company's continued existence.

Düsseldorf, April 7, 2016

Warth & Klein Grant Thornton AG
Wirtschaftsprüfungsgesellschaft

Dr. Jens Brune
Wirtschaftsprüfer
(German Public Auditor)

Renate Hermsdorf
Wirtschaftsprüferin
(German Public Auditor)

Annual Report 2014

Combined Company and Group Management Report on 31 December 2014

1. Fundamentals of the Group

1.1. Group structure and business model

The report for the 2014 financial year, compiled in accordance with DRS 20, reports on the company's and the group's position and describes the business development of the group (hereinafter also referred to as "Biofrontera" or "Biofrontera Group"). This 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 companies are based at Hemmelrather Weg 201, 51377 Leverkusen, Germany.

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 has responsibility for research and development tasks for the group and is the holder of patents and the approval for Ameluz®. Based on a licence agreement with Biofrontera Bioscience GmbH, Biofrontera Pharma GmbH 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. 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.

Biofrontera pursues the traditional business model of a pharmaceutical company, thus covering the entire value creation chain, from research and development through to the marketing of its own products. Cooperation partners have taken over marketing activities in other European countries for the most part. The production of the products is outsourced.

1.2. 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 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.

Biofrontera was the first smaller 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 gradually developed, 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.

Biofrontera has thus established itself as a specialist pharmaceutical company with unusually high research and development expertise compared to the industry as a whole. The focus of the Group's strategy is to further expand its business in Europe, achieve market entry of Ameluz® in the US and extend the indication to include basal cell carcinoma, first in the EU and in a further step in the USA.

The approval for Ameluz® in the USA was prepared for submission in the reporting year. The clinical part of the registration package was successfully completed. Since Ameluz® and BF-RhodoLED® must be approved in the USA as a combination of a drug product and a medical device, the approval application is unusually complex. The submission of the registration dossier to the FDA (food and drug administration = licensing authority in the USA) is scheduled for Q2 2015. Once the approval has been issued, which is expected approximately 12 months after submission of the application, Biofrontera will have access to the largest healthcare market in the world.

The extension of the indication of Ameluz® to basal cell carcinoma was also initiated in 2014. The clinical testing of phase III is currently ongoing in direct comparison with the competitor product Metvix®. The latter has a competitive advantage over Ameluz® with its approval to treat both basal cell carcinoma and actinic keratoses. In particular in those European countries, in which PDT is mainly established as hospital discipline and less in the registered physician's sector, the market success of Ameluz® is significantly reduced as a result. With the desired indication expansion, Biofrontera thus promises a significantly improved market position. Biofrontera is striving to achieve extension of the indication in the first half of 2016.

1.3. Products

1.3.1. Ameluz®

Ameluz® 78 mg/g Gel ("for those who love light", development name: BF-200 ALA) 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® compared to its direct competitor product in terms of removing all of a patient's keratoses.

In the phase III trials relevant to approval, Ameluz® showed excellent healing rates and demonstrated significant superiority to the approved comparison medication, 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 87% of patients treated with Ameluz® (all values specified here are ITT, *Intent to Treat* values). When counting individual keratosis lesions, no fewer than 96 % 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 already approved rival product at that time 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.

Since approval in the USA requires a combination of medication and lamp therapy, Biofrontera has its own PDT lamp, BF-RhodoLED®, developed and CE-certified in the EU. In preparation for the USA approval, a phase III study with the combination of Ameluz® and BF-RhodoLED® was carried out and completed in the reporting period. With this combination, 91% of patients were completely cured of keratoses. When counting individual lesions, no fewer than 94 % were completely eradicated. As it has been reported in the literature that PDT has pronounced skin rejuvenating properties, in particular with regard to sun-damaged skin, the medication was applied over large surface areas and the cosmetic result was determined in a phase III study on PDT which was the first of its kind in the world. In the double-blind comparison with the placebo group, very significant skin rejuvenation was detectable after the Ameluz® treatment. Although the skin appearance was rated as good or very good in only 35% of the patients in the placebo group, this was the case in 67% of the patients after treatment with Ameluz®. Conversely, an unsatisfactory or damaged skin appearance was only found in 10% of the patients after the Ameluz® treatment, while this was still the case in 42% of the patients in the placebo group.

Both phase I trials required by the American approval authority, the FDA, have also already been completed in the reporting period. These clinical trials were initiated with a total of approximately 240 patients or subjects in order to obtain the safety data required for registration in the USA and add it to the European approval package for Ameluz®. Specifically, one of the trials was a sensitisation study, which determines the potential of Ameluz® to trigger allergies, and the other is a maximal use trial, which tests the absorption in the blood of the active ingredient in Ameluz®, aminolevulinic acid, and the light-activated metabolite protoporphyrin IX in cases of treatment with the maximum quantity, i.e. the application of a complete tube to the defective skin. No safety concerns were identified in either of the studies.

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, with 8 million people 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. However, to date, the remuneration process has not yet been defined, but this is expected to happen in 2015.

At present, actinic keratoses are treated using a wide range of methods. Lesions may be treated for weeks or months with topical creams, which are often ineffective, or the degenerated skin may be removed by mechanical intervention (curettage) or freezing (cryotherapy), which usually leads to scar formation or permanent pigment changes.

The market for topical creams continues to grow and the use of legally questionable PDT formulations remains at a high level. Because Ameluz® has a leading position with dermatologists based in Germany, with

over 70% of the market share in the PDT proprietary medicinal product market, an increase in sales can and must result from taking market share from the above-mentioned sectors.

By means of intensive information campaigns about the manufacturing and liability risks for both physicians and pharmacists when using formulations, these formulations will be gradually replaced in the medium-term by proprietary medicinal products. 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. This will be helped by the expansion of the range of indications to include basal cell carcinoma, which the company is currently striving to achieve, as the vast majority of PDT treatments are for this indication, particularly in Great Britain and Spain.

Biofrontera is currently carrying out a phase III study for the extension of the European approval to include the indication basal cell carcinoma (BCC). BCCs are the most common invasive tumours that 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 in Germany but can lead to clearly visible scarring, whereas treatment with photodynamic therapy (PDT), which is an alternative particularly in the treatment of thin BCCs, 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 for this study is going more slowly than originally planned, but should, however, be completed by April 2015. Thus the clinical part of the study would end in October 2015 and the approval extension could be submitted to the EMA by the end of the year. Such an extension will theoretically take three months. This period may, however, be interrupted by questions from the EMA.

1.3.2. BF-RhodoLED®

BF-RhodoLED® is a lamp designed for photodynamic therapy (PDT), and uses 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 session 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.

1.3.3. Belixos®

Belixos® is a medical skin care product with herbal ingredients for the regeneration of damaged skin. The Belixos® skin cosmetics range combines selected extracts of traditional medicinal plants with a modern formulation technology.

In October 2009, Belixos® cream was launched in this range - it was initially available from an online shop and later in pharmacies. The Belixos range was extended in February 2014 with the addition of Belixos® liquid and in December 2014 with the addition of Belixos® gel. In conjunction with this expansion, sales via the dedicated online shop were discontinued. Instead, the products are now available for sale at the largest German online retailer Amazon.

The innovative biocolloid technology and specific combination of high-quality herbal ingredients should set new standards in the very competitive 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 rapidly and reliably soothes itching 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 antipruritic and anti-oxidative.

Belixos® Liquid treats the problems of itchy and flaky scalp with a combination of anti-inflammatory mahonia, moisturising oats and a 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 regenerative properties.

The new Belixos® gel with mahonia and cinnamon bark was developed for the care of skin that is vulnerable and prone to redness and skin blemishes. In the case of rosacea and acne, it cools the skin and reduces redness. The cinnamon extract in Sepicontrol A5 complex opens closed pores and prevents new blemishes.

The development pipeline for further expansion of the Belixos® range currently includes Belixos® Protect, a day cream with protective anti-aging properties designed especially for photo-damaged skin, and Belixos® to go, a roll-on pen for people on the move that is thus available at any time for treating insect bites or incipient Herpes cold sores.

1.4. Sales and marketing

With its central European approval, Ameluz® can be sold and distributed in all EU countries as well as in Norway, Iceland and Liechtenstein. In many European countries, however, the price and reimbursement status must still be established before market launch, which can be a very lengthy process. To date, the company has commenced sales and distribution in Germany, UK, Spain, Austria, The Netherlands, Denmark, Sweden, Norway and Slovenia. The new drug is available in these countries at a pharmacy retail price of between just under EUR 200 and approx. EUR 280 per 2g tube.

In Germany, Ameluz® is marketed by Biofrontera's own sales force, while in other European countries it is promoted with the help of marketing partners. Biofrontera resumes distribution activities in the UK and Slovenia, but is supported in local marketing by companies based there. 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 2013 and 2014 shows that Biofrontera has achieved a significant increase in sales of more than 27% in Germany. The market share of tube-based Ameluz® is now consistently at over 70%,

with the remaining roughly 30% being held by the competitors, 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). 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 in the public health insurance industry, as physicians do not receive any compensation for performing PDT in this industry. An information video for patients on this subject has been uploaded to YouTube (in German at http://www.youtube.com/watch?v=aK4a3R5kqMA, and in English at http://www.youtube.com/watch?v=2xEO8DWCO8o).

Approval for basal cell carcinoma is a pre-requisite for the distribution of Ameluz® to hospitals, as basal cell carcinoma is mainly treated there, whereas this is less the case for actinic keratosis. This indication plays an essential role for the breakthrough of Ameluz®, in particular in European countries. Basal cell carcinoma is the most common infiltrating tumour in humans: in the US alone, approx. 2.8 million basal cell carcinoma treatments are carried out annually, and European figures are comparable. As basal cell carcinoma is also triggered by lifelong UV exposure, this number is rapidly rising. Compared with the surgical procedures that are most commonly used today, photodynamic therapy offers significant advantages, particularly for thin tumours. 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, during 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 undergo operations.

Ameluz® is marketed by Desitin Arzneimittel GmbH in Denmark, Sweden and Norway, by BiPharma N.V. in Benelux, and by Pelpharma Handels GmbH in Austria. Biofrontera carries out distribution activities itself in the UK and Slovenia and is supported in marketing aspects by Spirit Healthcare Limited in the UK and by PHA Farmed in Slovenia. Distribution in Spain was run by Allergan in the reporting year, but from March 2015 Biofrontera will be directly responsible for distribution there. Louis Widmer SA has been granted the Ameluz® distribution licence for Switzerland and Liechtenstein, and the Ameluz® distribution licence for Israel has been allocated to Perrigo Israel Agencies LTD. Both agreements were concluded in the reporting period. In these countries, it is necessary to obtain an independent approval, which the above-mentioned distribution partners are currently preparing in cooperation with Biofrontera.

The contracts with the responsible distribution partners have been concluded in such a way that Biofrontera has received no 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 30% and 65% of net sales.

Biofrontera previously signed a distribution agreement with Allergan Pharmaceuticals for Spain. As part of the acquisition of Allergan S.A. by Actavis in autumn 2014, Allergan and Biofrontera have agreed that the distribution rights to all Biofrontera products in Spain will return to Biofrontera with effect from 17 March 2015. In light of previous experience, Biofrontera has decided to carry out distribution in Spain from that time onwards with its own branch under the name of Biofrontera Pharma GmbH, sucursal en España.

For France, Biofrontera has prepared the application for eligibility of Ameluz® with the help of a specialised consulting company and will submit the application after the responsibilities for the pharmacovigilance of this application have been clarified.

A decision on the business model for sales in the USA is to be taken in the course of the 2015 financial year. With the help of a "Market Access" consulting company and a scientific advisory team, Biofrontera has started analysing the drug market for actinic keratoses and the reimbursement schemes in the American health care system. In so doing, Biofrontera can fall back on experience with a competitor product Levulan Kerastick® from the company Dusa Pharmaceuticals Inc. Whether the distribution is carried out in the form of a collaboration with another company or by Biofrontera itself depends on the commercial conditions that are achievable with suitable partners, and on the availability of the required assets to build a US branch. Although the second approach would first require further investment, Biofrontera could record all sales and profits in its own profit and loss account in such a model in the long term, and could thus probably lay the foundation for a considerably higher company valuation. A decision should be taken at such a time that preparations can be made to enter the market in good time after receiving the approval.

In conjunction with the expansion of the Belixos® product range, marketing efforts have been gradually realigned and intensified. In addition to promotion among physicians by Biofrontera's field service staff and selected print advertisements in target group-oriented professional magazines, focus will be placed on content marketing and trading on the Internet. Since February 2014, Belixos® has been promoted on Facebook (www.facebook.com/belixos) and now has over 6000 fans there, who regularly receive informative posts concerning topics relating to healthy and beautiful skin, in addition to the offers on the Belixos homepage. Furthermore, Facebook is also being used to advertise Belixos® products to target groups beyond the fan base there. In addition to this, topics relating to Belixos® have been posted on Pinterest, a high-quality image content-based social network, since August 2014. The online trading platform Amazon has established itself as an important distribution channel for the product range, with it enjoying continuously increasing sales figures since the sales launch of Belixos® via that channel in July 2014. The extremely high customer satisfaction is reflected on the site in the continuous excellent ratings on the Belixos® products, which contribute significantly to the strengthening of brand trust and awareness.

1.5. Research and development

1.5.1. Ameluz®

In research and development (R&D), Biofrontera has focussed on Ameluz® to the greatest extent possible, so as to optimise this product's market potential before other products are developed. The Ameluz® development programme is thus being advanced further through further clinical trials with which a better market positioning can be achieved. Biofrontera expects this to produce an increase in the value of Ameluz®, as the cost/risk ratio in trials involving a drug that has already been approved is considerably more favourable than in development programmes involving new active ingredients.

The study on the indication expansion for basal cell carcinoma already mentioned earlier is currently being carried out.

In addition, Biofrontera is working on preparing the application for approval of Ameluz® in the USA. Following initial exploratory talks with the FDA in July 2012, the next steps in the process have been defined and the time frame along with the costs associated with the approval have been estimated. The trials required by the FDA regarding sensitisation and pharmacokinetics have already been completed. A phase III study required for the FDA approval has also been completed.

In October 2014, a pre-NDA (NDA = New Drug Application) meeting was held with the US Food and Drug Administration. Pre-NDA meetings with the FDA are the final talks held by companies with the authorities prior to the filing of the approval package for a drug product. In preparation of the meeting, the FDA will typically be presented with a summary of the approval documents and possible questions with suggested answers, together with justifications, in writing. Since Ameluz and BF-RhodoLED® must be approved in the USA as a combination of a drug product and a medical device, the approval application is unusually complex. Accordingly, the company submitted 12 sets of questions to the authorities concerning regulatory, clinical, pre-clinical, manufacturing and quality aspects. Due to the high quality of the documents submitted in preparation for the meeting however, only a few discussion points remained following the assessment of the proposed answers by the FDA. The pre-NDA meeting was thus held as a conference call at the request of the FDA. Agreement was reached on all points during this discussion. In particular, no additional studies were needed. Since then, Biofrontera has been working on the required analyses and their incorporation into the approval dossier.

1.5.2. 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. However, no work to this end has yet been undertaken, for reasons of capacity.

1.5.3. 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 has been synthesised, in accordance with the Good Manufacturing Practice (GMP) quality standards.

1.6. Patent and trademark developments since the end of 2013

Biofrontera has a broad portfolio of patents and brands protecting its products from competition. A detailed list is available in the securities prospectus issued on 20 January 2014 on the company's website. Specifically, the patent portfolio was changed in the following ways in 2014:

1.6.1. Ameluz®

In the 2014 financial year, further official communications regarding the "Nanoemulsion" patent (PCT/EP2007/011404) were issued in Europe, Japan, Canada, India, Israel and the USA, 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 patent grant is expected in Europe and the USA.

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

1.6.2. 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.

1.6.3. Brand development

For the Belixos® range, 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.

2. Economic report

2.1. Market for AK and BCC

According to a market study published a few months ago by Technavio, the worldwide market for medication used to treat actinic keratoses was USD 546 million in 2013. The annual growth rate up until 2010 is estimated at 8% per annum. The largest share by far is applicable to topical medications; medication for treatment with photodynamic therapy plays a lesser role, despite its superior efficacy and better cosmetic results.

The pharmaceutical market for the treatment of basal cell carcinoma (BCC) is set to develop with considerably more dynamism. Although the world market was only USD 236 million in 2013, it is expected to increase to nearly USD 5 billion by 2020. It is expected that the majority of operations performed today will be made redundant and will be replaced by a more cost-effective medical treatment with much better cosmetic results, due to the availability of new medication. This will open up considerable market opportunities for Ameluz® in particular.

2.2. Business Development

2014 financial year for the Biofrontera Group:

- Growth in sales revenue in Germany exceeded 27%
- Only limited sales revenue performance in other European countries as existing stocks of the product were sold-off
- EBIT -9.6 million (-2.8 million compared with previous year)
- Consolidated result before taxes – 10.7 million (-2.7 million compared with previous year)
- Undiluted earnings per share amounted to -0.49€ (previous year: -0.47€)

Sales: Sales increased by 27% in Germany. That nearly corresponds to the desired increase for the whole year in German sales of approximately 30%. Especially in the fourth quarter, significant increases in sales revenue could be achieved compared to the same period in the previous year. Only low sales were recorded in the rest of Europe, as our distribution partners have to order large production volumes with labelling in their respective national languages, and they only make new orders once these quantities have been sold in the respective countries. In 2014, smaller quantities were delivered to our European partners than in the previous year. Overall sales growth outside Germany has therefore declined due to technical reasons and will pick up again considerably in 2015. We expect significant improvements as a result of the extension of approval to include basal cell carcinoma, as PDT in other European countries is carried out primarily in hospitals.

Belixos®: The Belixos® liquid hair tonic has been available in pharmacies and via Amazon since February. The Belixos® gel was introduced in December as well. Sales have increased significantly due to parallel promotion on Facebook. Sales of the Belixos® range roughly quadrupled compared to the previous year, which is well above the internal planning expectations, but the overall volume is still of relatively little relevance to the total sales in the reporting year.

Preparation of the approval application for Ameluz® in the USA: Three clinical trials have been carried out and concluded with the desired result in preparation for submission of the approval application file to the FDA (Food and Drug Administration). These included two safety studies required by the FDA and a phase III study on field therapy of actinic keratosis with Ameluz® in combination with the PDT lamp BF-RhodoLED®. According to FDA rules, it is still necessary to reformat the data and jointly analyse all the clinical results for the dossier. The submission of the dossier is now envisaged for the second quarter of 2015. Approval is expected to be issued about one year later. The so-called pre-NDA (New Drug Application) meeting, at which significant issues relating to the approval dossier are discussed again, was held at the beginning of October 2014.

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. Because of Israel's relatively small population, a smaller down payment was agreed here, which will be paid in several instalments. Biofrontera will subsequently receive a transfer price for Ameluz® of a similar size to that 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.

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

2.3.1. Revenue

The Biofrontera Group achieved turnover of EUR 3,096 thousand in the 2014 financial year (previous year: EUR 3,115 thousand). Downpayments of EUR 70 thousand (previous year: 0) are included in this. Revenues from the sale of our products in Germany amounted to EUR 2,379 thousand and foreign turnover was EUR 647 thousand. Sales revenue outside Germany developed only modestly in 2014, as many of our distribution partners had not fully sold off their production lots purchased in 2013 and we therefore received only a few new orders. Although significant progress was made in key countries, and the necessary reimbursement agreements and other agreements were concluded there, the increase in turnover was behind expectations in 2014. We do, however, expect the performance to significantly improve in 2015.

2.3.2. Cost of Sales

The cost of sales amounted to EUR 1,117 thousand and thus 36% of revenues (previous year: EUR 1,604 thousand or 51% of revenues). The structural improvement is primarily attributable to cost savings in the production area. In addition, start-up costs for the fulfilment of requirements for the EMA and the qualification of new suppliers that were incurred in 2013 still had an effect in 2014, but were lower.

2.3.3. Research & Development Costs

Research and development costs increased by 42%, from EUR 3,186 thousand in the previous year to EUR 4,534 thousand in the 2014 financial year. In line with its strategy, Biofrontera has increased its investment in research and development in order to enable an expansion of the above-mentioned indications as well as approval for Ameluz® in the USA.

2.3.4. Sales & Marketing Costs

The sales & marketing costs amounted to EUR 3,847 thousand in 2014 (previous year: EUR 3,036 thousand). Cost increases arose from investments in the market access for other European countries and for marketing preparation in the USA.

2.3.5. General Administration Costs

General administration costs increased by EUR 698 thousand compared to the previous year, to EUR 3,124 thousand, primarily due to financing costs.

2.3.6. Financial result

The interest expenses included in the financial result, which amount to EUR 1,290 thousand, are almost entirely the result of interest payments for the two warrant bonds, and of the compounding of interest on the two warrant bonds using the effective interest method. Interest payments for the 2014 calendar year for the warrant bonds I and II occurred in January 2015.

2.3.7. Investments

The increases in intangible assets and property and equipment in the reporting period resulted primarily from the acquisition of further rights of use in connection with the prototype of the PDT lamp (EUR 77 thousand, previous year: EUR 1 thousand) as well as the capitalisation of the expenses associated with the storage facility (EUR 22 thousand; previous year: EUR 0).

2.3.8. Inventories

Inventories amounted to EUR 1,394 thousand (31 December 2013: EUR 1,585 thousand). These included: finished products (Ameluz®) amounting to EUR 284 thousand, the BF-RhodoLED® lamps and Belixos® products recorded in the company's own inventories, which amounted to EUR 245 thousand and EUR 46 thousand respectively, and unfinished products, raw materials and supplies amounting to EUR 792 thousand.

2.3.9. Receivables

Receivables were reduced by EUR 269 thousand, from EUR 578 thousand on 31 December 2013 to EUR 309 thousand. This reduction is partly the result of the restructuring of receivables with shorter payment terms. It is also attributable to consistent receivables management.

2.3.10. Share capital

On 31 December 2014, the fully paid-up share capital of the parent company, Biofrontera AG, was 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 it was increased in the course of 2014 by EUR 4,443,402.00, divided into 4,443,402 registered shares (see subsection 7.3, "Share capital"). Biofrontera AG shares have been listed on the Regulated Market of the Düsseldorf Stock Exchange since 2006 and on the Regulated Market of the Frankfurt Stock Exchange since August 2012. In addition, since 03 June 2014, the company's shares have been traded in the Prime Standard segment of the Frankfurt Stock Exchange. They are also admitted to trading on the Alternative Investment Market (AIM) of the London Stock Exchange, and are traded on the computer trading system Xetra and all other German stock exchanges.

2.3.11. Group Equity and Equity

According to IFRS, the group has negative equity amounting to EUR -21 thousand. As at 31 December 2014, Biofrontera AG had positive equity of EUR 65,847 thousand. There is no over-indebtedness in the legal sense at the two subsidiaries Biofrontera Bioscience GmbH and Biofrontera Pharma GmbH, as their balance sheet insolvency is remedied by qualified letters of subordination from Biofrontera AG.

2.3.12. Financial position and cash flows

The company's capital management 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 equity financing took place in February 2014.

For more details of the development of the company's equity capital, see the equity reconciliation statement.

Primarily because of the high net loss, cash flow from operating activities fell from EUR -7,225 thousand in the previous year to EUR -7,928 thousand. As there was an increase in interest payments received, from EUR 19 thousand to EUR 143 thousand, the company achieved a positive cash flow from investment activity amounting to EUR 79 thousand (previous year: EUR -323 thousand).

In both 2013 and 2014, capital increases were implemented in order to provide further financing for the company. Equity proceeds were significantly higher in 2014 than in 2013. Therefore, cash flow from financing activities rose from EUR 7,116 thousand to EUR 13,425 thousand.

For more details of the consolidated cash flow statement, see Annex 4.

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

A capital increase against cash contribution was implemented in the reporting period. 4,438,292 new shares were issued as part of this, and the increase was registered in the commercial register on 06 February 2014. The capital increase was offered to all shareholders as a rights offering with the option to oversubscribe, and it was fully subscribed.

Furthermore, the share capital was increased by the issuing of 5,110 shares from the exercising of warrants from the 2011-2016 warrant bond.

2.4. Achievement of objectives in 2014

Achievement of objectives in 2014:

	Outlook for 2014	Reduced outlook in Nov 2014	Achievement of objectives on 31 Dec 2014
Revenues	EUR 5-6 mil-	EUR 3.0-3.5	EUR 3.1 mil-

	lion	million	lion
Research and development costs	EUR 7-8 million	less than EUR 7 million	EUR 4.5 million
Net profit/loss before tax	EUR -10 million to -11 million	EUR -10 million to -11 million	EUR -10.7 million

In the forecast for 2014, turnover of EUR 5 to 6 million was expected. In Germany, revenue from product sales increased by more than 27% compared with the previous year, so the objective in the plan was nearly achieved. However, it was also planned that there would be a one-time license payment from other European licensees, amounting to EUR 1 million in the year as a whole. In France in particular, the restrictive conditions imposed by local health authorities meant that it was not possible to conclude a licensing agreement under economically reasonable conditions as planned. Therefore, Biofrontera decided to submit its own application for reimbursement coverage, and then to decide upon its marketing strategy and the necessity for a licensee. Furthermore, there were still problems with market penetration in other European countries. The continuing absence of the indication basal cell carcinoma for Ameluz® represents a greater impediment to sales performance in some European countries than either the company or its licensees assumed at the beginning of the year. Hence, sales in other European countries were lower than expected in 2014.

Biofrontera also continued to invest heavily in research and development and regulatory affairs in 2014, in order to expand the indications for Ameluz - to include basal cell carcinoma in particular - and to obtain approval in the USA. However, thanks to our cost savings, our research and development expenses increased far less than had been forecasted at the beginning of the year.

Our net loss before taxes of EUR -10.7 million lay within the predicted range.

2.5. Staff

2.5.1. Management Board

The Management Board comprises Professor Hermann Lübbert (Chief Executive Officer) and Mr Thomas Schaffer (Chief Financial Officer).

The remuneration of the Management Board members consists of a fixed salary that is paid in twelve equal monthly instalments. In addition, an annual performance bonus is provided for directors, and long-term remuneration components are provided to participants in the company's stock option programme. Company cars are also available to the directors for business and private use.

2.5.2. Staff

On 31 December 2014, 46 employees worked for the Biofrontera Group (31 December 2013: 38). Of these, 16 were employed at Biofrontera AG (31 December 2013: 13), 6 at Biofrontera Bioscience GmbH (31 De-

cember 2013: 4) and 24 at Biofrontera Pharma GmbH (31 December 2013: 21). No staff are employed at Biofrontera Development GmbH or Biofrontera Neuroscience GmbH.

2.5.3. 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 02 July 2010 granted the Management Board and the Supervisory Board the authorisation to issue, within the next 5 years, up to 839,500 options to directors and employees. Further provisions and conditions of this programme were specified in the invitation to the Annual General Meeting and are available on the company's website.

On 24 November 2010, 106,400 options (first tranche) were issued with an exercise price per share of EUR 1.91. On 30 September and on 07 October 2011 (second tranche) a further 96,400 options were issued with an exercise price of EUR 2.48 each. On 23 March 2012 and 11 May 2012 (third tranche) 65,000 options were issued with an exercise price of EUR 3.30 each, and 51,500 options were issued with an exercise price of EUR 4.09 each. On 02 September 2013, 179,500 options were issued (fourth tranche) with an exercise price of EUR 3.373 each. On 02 April 2014 159,350 options were issued at an exercise price of EUR 3.43 each. Altogether, 115,750 options were forfeited by employees leaving the company. There were therefore still 181,350 options outstanding on 31 December 2014. Recorded expenses for the 2014 financial year amounted to EUR 113 thousand.

2.5.4. Supervisory Board

As a result of the resolution passed by the Annual General Meeting held on 10 May 2011, the following Supervisory Board members were appointed for five years:

Jürgen Baumann	Chairperson of the Supervisory Board, expert in the field of sales and marketing of pharmaceuticals, resident in Monheim, Germany
Prof. Dr. Bernd Wetzel	Deputy Chairperson of the Supervisory Board; advisor, resident in Biberach/Riss, Germany
Dr Ulrich Granzer	Owner and Managing Director of 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

3. Supplementary report

Events of special significance occurring since 31 December 2014

On 17 March 2015, the rights to sell Biofrontera products in Spain were transferred back to Biofrontera by Allergan. Since then, Biofrontera has sold its products in Spain through its own branch, Biofrontera Pharma GmbH, sucursal en España.

March 2015 also saw the establishment of a subsidiary in America, Biofrontera Inc., which is based in Wilmington, DE.

Following a decision of the Supervisory Board on 27 March 2015 the service contract with the CEO Prof Hermann Lübbert was extended by five years until 31 October 2020.

4. Risk, opportunity and forecast report

4.1. Risk management system

The risk and opportunity management system for the Biofrontera Group applies equally to Biofrontera AG. By virtue of its holding function, Biofrontera AG manages all legally independent entities within the Biofrontera Group. Therefore, risks and opportunities need to be assessed on a uniform basis throughout the entire group.

The primary objective of the Biofrontera Group is to grow sustainably and thus to increase the company's value on a consistent basis. Risk management plays a major role in the achievement of this objective. At Biofrontera, risk management involves the identification of risks that could do lasting or significant harm to the company's financial position, cash flows and results of operations, as well as the responsible analysis and monitoring of these risks, and the adoption of suitable countermeasures. To this end, it is necessary to establish guidelines, organisational structures and measuring and monitoring processes that are specifically geared to the Biofrontera Group's activities.

Correspondingly detailed risk prevention measures are a prerequisite for fully exploiting the opportunities that arise from the risks to Biofrontera's business activities. In the 2014 financial year, Biofrontera's existing risk management structures were developed further, within the framework of the quality management system required for pharmaceutical manufacturers and entrepreneurs and medical device manufacturers. This system incorporates sales and marketing activities, as well as the international responsibilities of a recipient of approval for the manufacture and sale of drugs, medical devices and cosmetics.

4.2. The management of opportunities and risks at Biofrontera

The Biofrontera Group's risk management system is incorporated into the group's corporate processes and decisions, so it is an integral part of the entire group's planning and controlling processes. Risk management and control mechanisms are harmonised with each other. They ensure that risks relevant to the company can

be identified and assessed at an early stage. At the same time, they enable the company to seize possible opportunities quickly.

Biofrontera's approach to risk management is both centralised and decentralised. Risks and opportunities are regularly identified, evaluated and analysed at every hierarchical level. All managers in the group are involved in the company-wide risk policy and the associated reporting tasks. This includes the Management Board, the general managers of the group affiliates, and the process and project managers.

The Risk Management Team, under the leadership of the Chief Executive Officer, is responsible for the centrally organised risk management system. It coordinates the individual governing bodies, and it ensures that they continually receive the information that they need in a timely manner. The Risk Management Team is also responsible for the continuous monitoring of risk profiles, for initiating risk prevention measures, and for the corresponding monitoring instruments. The Biofrontera Group management holds regular meetings in which the group's central and operational departments can exchange information relevant to risk management at all levels.

The Risk Manager is the contact person for the entire group, as well as being a member of the Risk Management Team. If unforeseen risks arise, he/she immediately adopts the necessary measures to counteract these risks.

It is his/her responsibility to develop the risk management system further, and to ensure that it is properly documented in the risk manual. Furthermore, the Risk Manager sets uniform standards and ensures that similar types of risk management processes are implemented throughout the Biofrontera Group. Regular analysis of key business performance figures helps to ensure that any possible discrepancies from expected performance levels can be identified and assessed at an early stage, and that necessary countermeasures can be adopted in good time. Sales activities for Ameluz®, including the PDT lamp, and Belixos® are subjected to comprehensive monitoring. In this context, risk planning and identification are implemented in cooperation with the relevant department managers. The structure and function of the early risk detection system are assessed by the auditor.

4.3. Risks and opportunities for future business performance

The Biofrontera Group is striving to achieve its strategic objectives - in particular, to sell its own products in a number of countries, to identify sales partners, and to obtain approval for its development projects. It has already obtained European approval for Ameluz®, which gives it the opportunity to grow rapidly and become highly profitable.

In addition to general risks, such as market developments and the competitive situation, the company is also exposed 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 greater 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 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, although these 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.

4.3.1. Patent protection

Patents guarantee the protection of our intellectual property. If our products are marketed successfully, the resulting profits can be used for sustainable ongoing investment in research and development activities. Because of the long intervening period between the patent application and the launch of a product, Biofrontera generally has only a few years to earn reasonable income reflecting its intellectual input. This makes it all the more important for the group to receive effective and secure patent protection. The majority of our products are subject to patent protection. If a patent expires, or we cannot successfully defend it, we generally face the prospect of increased competition and price pressure resulting from the market entry of generic drug suppliers. Moreover, third-party claims regarding Biofrontera's potential infringement of patents or other protective rights may hinder or completely prevent the development or manufacturing of certain products, and may obligate us to pay damages or royalties to third parties. Our patent department regularly reviews the current patent situation, in cooperation with the relevant operational departments, and monitors possible patent infringement attempts, so that it can take suitable legal steps if necessary. We consider it unlikely that patent risks will arise. Biofrontera is not aware of any patent infringement claims lodged by third parties.

4.3.2. Products and product stewardship

Biofrontera assesses potential environmental and health risks associated with a product along the entire value creation chain. This includes every stage from research and development to disposal, including production, marketing and customer use. Although comprehensive trials are carried out prior to approval, it is possible that some or all of our products will subsequently be withdrawn from the market for various reasons, including the occurrence of unexpected side effects. Sales may be stopped voluntarily or as a consequence of legal or official measures. Possible payments of damages associated with the risks described above could have a

considerable negative effect on the company's result. Because no previously unknown drug side effects have appeared, we consider it highly improbable that risks of this kind will arise.

4.3.3. Procurement

Commodity purchase prices may vary considerably, and they cannot always be passed on to our customers through price adjustments. The safety and tolerance of our products, and the protection of our employees and of the environment, are key priorities. Risks associated with the manufacturing, bottling, storage and transport of products may result in personal injury or material or environmental damage, and may give rise to an obligation to pay damages. In this regard, Biofrontera is dependent to some extent on individual suppliers. Using our own audit and monitoring system, we regularly ensure that the manufacturing conditions at our most important suppliers meet the required standard. This enables us to avoid such risks and damages. We have already found two new suppliers of the agent aminolevulinic acid, whose manufacturing processes have been approved by the EMA. Biofrontera is the owner of the Drug Master Files for one of the two manufacturers. This will ensure that the company continues to receive a reliable supply of aminolevulinic acid.

4.3.4. Staff

Qualified and dedicated staff are a key prerequisite for the company's success. To this end, competitive remuneration and extensive training and development opportunities are essential. Furthermore, we have adopted a diversity-orientated HR policy in order to tap the full potential of the labour market. To date, Biofrontera has always succeeded in acquiring the qualified staff necessary for the company, so the company also regards this area as having a low risk.

4.3.5. Information technology

The group's business processes and internal and external communication are increasingly based on global IT systems. A significant technical malfunction or total failure of IT systems could result in the severe impairment of our business processes. It is of fundamental importance to us that both internal and external data must be confidential. If the confidentiality, integrity or authenticity of data or information is lost, this could result in the manipulation and/or uncontrolled outflow of data and know-how. We have adopted appropriate measures to counteract this risk, e.g. a comprehensive rights concept. The measures adopted by the company have always proven to be adequate to date, so this risk must also be regarded as low.

4.3.6. Law and compliance

The group may be subjected to legal disputes or proceedings in the future. In particular, this includes risks arising from product liability, antitrust law, competition law, patent law, tax law or environmental protection. Inquiries and investigations on grounds of infringements of statutory or regulatory provisions may result in criminal and civil sanctions, including considerable fines or other financial disadvantages, and these may damage the company's reputation and ultimately have a negative effect on the company's success.

4.3.7. Liquidation risk

Liquidation risks arise from the possibility that the group will be unable to fulfil existing or future payment obligations on account of insufficient funds. We calculate and manage the liquidity risk in our weekly and medium-term liquidity planning sessions. Payment obligations arising from financial instruments are defined separately, based on their due dates, in the consolidated financial statement.

In order to ensure the ability to make payments, liquid funds are kept available so that all the group's scheduled payment obligations can be fulfilled on their respective due dates. The size of this liquidity reserve is regularly reviewed and, if necessary, adjusted in line with current circumstances.

To date, Biofrontera has always succeeded in providing the necessary financing for business operations through injections of equity. Thanks to the capital increase in 2014, the company currently has sufficient liquidity at its disposal. However, until the company has reached the break-even point, and particularly with regard to US approval, the company will continue to require further capital increases.

The value of the group's receivables and other financial assets may be impaired if transaction partners do not meet their payment obligations or other fulfilment obligations.

Because of the Management Board’s successful experiences with corporate capital actions, the Management Board acts on the assumption that the necessary liquidity for further business development is guaranteed for the forecasting horizon and beyond. In the case and against all expectations that this valid estimations could not be realized, this could lead to a fact endangering the going concern assumption.

4.4. Legal disputes

After the business relationship with the Swiss-based company, Biosynth AG, had been terminated, the latter asserted claims against Biofrontera AG. Biosynth used to supply the Biofrontera Group with the agent 5-aminolevulinic acid hydrochloride (ALA). In late 2011, as part of the approval process, the European Medicines Agency (EMA) formulated requirements for the ALA used in Ameluz®. These requirements referred to the GMP (Good Manufacturing Practice) standards required by the EMA for the ALA manufacturing process. The EMA sets deadlines for the implementation of the necessary manufacturing standards.

Even now, however, Biosynth has still not fulfilled these requirements.

Therefore, the Biofrontera Group was forced to rely on other suppliers, which are now GMP-certified suppliers of ALA. The changeover was accomplished without any problems, and there have been no supply shortages.

On 20 August 2014, the Management Board of Biofrontera AG filed an action for a declaration of non-infringement against Bioysnth. By filing this action, Biofrontera AG refuted Biosynth's claims that a joint enterprise had been established for the production and marketing of Ameluz®. Biosynth had asserted claims to this effect, albeit only after the business relationship had been terminated by Biofrontera in 2014, even though the terminated business relationship was based only on a supply agreement which did not subject the Biofrontera Group to any obligation to accept delivery. Hence, in the view of the Management Board of Biofrontera AG, Biosynth had tried to put pressure on Biofrontera AG by asserting groundless claims, in order to obtain excessive financial concessions. In order to provide the necessary protection for the interests

and assets of the company and its shareholders, Biofrontera had no choice but to resolutely oppose these claims.

After the action was filed, the two parties engaged in dialogue, which enabled them to reach an out-of-court settlement. Biosynth claimed that the requirements set by the European Medicines Agency (EMA), as included in the ad-hoc communication of 20 August 2014, were formally addressed to the Biofrontera Group as the applicant, and not to Biosynth. After its collaboration with the Biofrontera Group was terminated in February 2014, Biosynth did not follow up the EMA's requirements for the approval of Ameluz®. In Biosynth's view, the EMA's GMP restrictions affect the agent manufactured by Biosynth, 5-aminolevulinic acid hydrochloride (ALA), only insofar as it is used in Ameluz®, the Biofrontera Group's drug, because Biosynth holds a GMP certificate issued by the competent Swiss authority, Swissmedic, which also applies to the EU pursuant to agreements between the EU and Switzerland. As part of the resulting agreement, the Biofrontera Group and Biosynth renounced all claims against each other. The agreement does not subject either the Biofrontera Group or Biosynth to any mutual financial obligations. The previous business relationship was terminated by mutual agreement. Consequently, Biofrontera withdrew the non-infringement action filed against Biosynth.

4.5. Forecast report (outlook)

In order to support the further expansion of sales of Ameluz® in the European Union, Biofrontera is currently working towards the objective of extending the European approval to include broad area therapy and the indication basal cell carcinoma (BCC). To this end, the necessary phase III trial on field therapy has already been concluded, and it obtained very good results. In addition, the phase III trial on the treatment of basal cell carcinoma will probably be concluded before the end of the year. According to the current schedule, we expect to apply for the approval of the inclusion of field therapy by mid-2015, and for the approval of the inclusion of BCC in the first half of 2016.

We have already reached the first milestones on the path towards drug approval in the USA. The first consultation session with the American approval authority, the FDA, took place in 2012, and in October 2014 we had the final discussion before the submission of the approval application, i.e. the pre-NDA meeting. The approval application is currently being prepared and is scheduled for submission in the second quarter of 2015. As already discussed at length in subsection 1.4, Biofrontera will decide upon the business model to be adopted for the US market during 2015.

Forecast of key financial figures

For the 2015 financial year, Biofrontera expects to achieve turnover of approximately EUR 4 to 5 million, though this is still subject to significant planning uncertainties relating primarily to the speed of market penetration. In Germany, as in 2014, we envisage an increase in turnover of approximately 30% compared with the previous year. It is still very difficult to predict the increase in sales in other European countries, which means that the achievable revenue could be anywhere within a wide spread. The turnover forecast here does not include any additional licensing agreements with possible one-time payments. Moreover, the plans for 2015 do not take into consideration any down payment that may be made by a possible US sales partner, nor do they consider any additional costs that may be incurred if the company establishes its own sales division in the USA.

In order to extend the range of indications, and to receive approval for the USA, Biofrontera will continue to invest heavily in research and development and regulatory affairs in 2015. Therefore, we expect development expenses to remain at the same level, i.e. EUR 4 - 5 million.

Biofrontera does not plan to make any significant investments in tangible assets in 2015.

The financial result reflects the interest payments and compounding of interest using the effective interest method for the two warrant bonds. Therefore, this will not significantly change in 2015 compared with 2014.

With the above-mentioned conditions and forecasts, the company will achieve a net result of EUR -9 to -10 million in 2015. The achievement of this result depends heavily on progress in terms of turnover.

5. Remuneration report

The total remuneration paid to members of the Management Board in the 2014 financial year, and the total accumulated stock options issued to the Management Board, were as follows on 31 December 2014:

Professor Hermann Lübbert	- Salary / Bonus	EUR 405 thousand (31 December 2013: EUR 412 thousand)
	- Stock options	151,850 (fair value when granted: EUR 167,236 (previous year: 135,000; fair value when granted: EUR 153,250)), of which 16,850 options were granted in 2014 (2013: 30,000 options).
Thomas Schaffer	- Salary / Bonus	EUR 202 thousand (31 December 2013: EUR 100 thousand)
	- Stock options	35,000 (fair value when granted: EUR 32,650 (previous year: 15,000; fair value when granted: EUR 16,050)), of which 20,000 options were granted in 2014 (2013: 15,000 options).

The salaries / bonuses are classified as short-term employee benefits as defined in IAS 24.17 (a).

Company cars are also available to the directors for business and private use. The existing employment contracts stipulate that - depending on the achievement of targets to be mutually agreed - an annual bonus is payable. In the event of targets being exceeded, the maximum amount of the annual bonus payable is capped. In the event of up to 70% of the agreed target value being reached, the bonus payments are reduced linearly. If less than 70% of the target value is reached, no bonus is payable. The calculation factors are set at the end of each financial year for the following financial year in a mutually agreed target agreement.

Severance pay in the case of premature termination of Management Board duties without good reason is capped at twice the specified annual salary, and amounts to no more than the total remuneration due to the exiting member of the board for the remaining period of his or her contract (severance cap).

In order to further increase the long-term incentive effect of variable remuneration, and thus to gear it even more effectively to sustainable business development, the Management Board members have pledged to match the stock options granted as part of the 2010 stock option plan by holding ordinary shares of the company as private investors, thereby undertaking a personal commitment for a period of three years, starting one month after the date of issue of the options (restricted shares). Different levels of commitment are specified for the different Management Board members. If such restricted ordinary shares are sold prematurely, which is an occurrence which is to be reported to the Chairperson of the Supervisory Board without delay, the company can request a free-of-charge return transfer of an equivalent number of stock options within a month of receiving such notification, with the most recently granted options being those that must be returned first (last in, first out). A return transfer will not be required if the Management Board member can demonstrate that the sale of the restricted shares was necessary in order to meet urgent financial obligations. In 2010, the Chief Executive Officer was granted 35,000 options, and the other board member was granted 20,000 options. In 2011, the Chief Executive Officer was granted 30,000 options, and the other board member was granted 20,000 options on this basis. In 2012, a further 40,000 options were granted to the Chief Executive Officer, and an additional 25,000 options were granted to the other board member. In the 2013 financial year, the Chief Executive Officer was granted 30,000 options, and the other board member was granted 15,000 options. In the 2014 financial year, a further 16,850 options were granted to the Chief Executive Officer, and an additional 20,000 options were granted to the other board member.

All the Supervisory Board members held their positions throughout the entire 2014 financial year. In the financial year, the remuneration of the Supervisory Board members amounted to EUR 113 thousand (2013: EUR 113 thousand).

Other information pursuant to §§ 289 paragraph 4 and 315 paragraph 4 of the German Commercial Code (HGB)

Management Board members are appointed and removed pursuant to §§ 84 and 85 of the German Stock Corporation Act (AktG). The composition of the Management Board is specified in more detail in § 9 paragraph 3 of the Articles of Association. Pursuant to this, the Management Board must consist of one or more members. At the present time, it consists of two persons. The Supervisory Board appoints Management Board members and determines their number. The Supervisory Board may appoint a Chief Executive Officer.

The employment contract of the Chief Executive Officer includes a compensation agreement in the form of a special right of termination, for example in the case of a takeover bid as defined in the Securities Acquisition and Takeover Act (WpÜG). If the Chief Executive Officer's activity as CEO is terminated as a consequence of this special right of termination, the severance pay will amount to 150% of the severance cap.

Pursuant to §119 paragraph 1 number 5, §179 and §133 of the German Stock Corporation Act (AktG), amendments to the Articles of Association must be made by a resolution of the General Meeting. Where legally permissible, a simple majority of the share capital represented at the vote is sufficient for such a resolution, in accordance with § 179 paragraph 2 sentence 2 AktG inconjunction with § 22 paragraph 2 of the Articles of Association, instead of the majority of three-quarters of the represented share capital stipulated in § 179 paragraph 2 sentence 1 AktG. Pursuant to § 179 paragraph 1 sentence 2 AktG in conjunction with § 22 paragraph 2 of the Articles of Association, the Supervisory Board is authorised to make changes that affect only the wording of the Articles of Association.

With regard to the repurchasing of shares, the Management Board is not subject to any restrictions going beyond those specified in the German Stock Corporation Act.

During the period from 1 January to 31 December 2014, remuneration for the Management Board members consisted of a salary, a bonus and stock options. The total remuneration for Management Board members in the reporting period, including the value of stock options at the time when they were granted, amounted to EUR 807 thousand (2013: EUR 892 thousand).

6. Accounting risk management system and internal control system

Here, in addition to the risk management system already explained under subsection 4.1, the significant aspects of the internal control and risk management system relating to accounting processes for separate and consolidated financial statements, pursuant to § 289 paragraph 5 of the German Commercial Code (HGB), as amended by the German Accounting Law Modernisation Act (BilMoG), will be described.

The Biofrontera AG accounting process aims to ensure that the figures and information provided in external accounting instruments (bookkeeping, components of the annual and consolidated financial statements, and the consolidated management report) are accurate and complete, and to ensure compliance with the relevant legal requirements and provisions of the Articles of Association. The existing structures and processes for this also include the risk management system and the internal control measures relating to accounting processes. In line with the increasing sales activities, the internal accounting control system was extended to include processes that had been newly established from the 2012 financial year onwards, and it is subject to a permanent monitoring and improvement process.

The risk management system aims to identify, assess and manage all the risks that could prevent the regular preparation of the annual and consolidated financial statements. Risks that have been identified must be assessed in terms of their effects on the annual and consolidated financial statements. The purpose of the internal accounting control system is to ensure that the process of compiling financial statements complies with all the relevant laws and regulations, by implementing appropriate guidelines, processes and controls to this end.

The risk management system and the internal control system cover all the areas that are essential for the annual and consolidated financial statements and all the processes relevant to the preparation of the financial statements.

Significant aspects of accounting risk management and control include the clear assignment of responsibilities and controls for the compilation of financial statements, as well as transparent accounting standards. The two-person rule and the separation of roles are also important control principles in accounting processes.

The Management Board assumes overall responsibility with regard to the organisation of the internal control system. The coordinated subsystems of the internal control system are the responsibility of the quality management, controlling, risk management and accounting departments.

7. Information relevant to acquisition

7.1. Trading venue

Biofrontera shares are traded under stock abbreviation B8F and ISIN DE0006046113 in the Prime Standard segment of the Frankfurt Stock Exchange and on all other German stock exchanges. In addition, the shares are admitted to trading with the same stock ID number in the form of depositary interests (DI) on the AIM Market (AIM) of the London Stock Exchange.

7.2. Shareholders

The shares held by the shareholders as at 31 December 2014, based on the most recent compulsory disclosures by the shareholders, are as follows:

	31 December 2014 EUR	%
Maruho Deutschland Co., Ltd., Osaka Japan The total share of voting rights is assigned to Maruho Co., Ltd, Osaka, via the company Maruho Deutschland GmbH, Düsseldorf, which the former controls.	4,467,143	20.13
Dr. Carsten Maschmeyer, Germany Dr Maschmeyer is assigned all the voting rights of the companies which he controls, ALSTIN Family GmbH (former: Alternative Strategic Investments GmbH), Hanover, and MM Familien KG, Hanover.	2,282,177	10.28
Professor Ulrich Abshagen, Germany Professor Abshagen has a direct holding of 52,293 voting rights, and he is indirectly assigned 976,056 voting rights 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	4.63
Universal-Investment-Gesellschaft mbH, Frankfurt *Last voting rights notification on 10.02.2011. No threshold has been exceeded since then, so the actual stock as of 31 December 2014 may deviate significantly from this information.	981,438*	8.34*
Professor Hermann Lübbert, Leverkusen	685,512	3.09
Free float	12,751,951	57.45
	22,196,570	100%

7.3. Share capital

On 31 December 2014, the fully paid-up share capital of the parent company, Biofrontera AG, was EUR 22,196,570.00. It was divided into 22,196,570 registered shares, each with a nominal value of EUR 1.00.

A capital increase against cash contribution was implemented in the reporting period. 4,438,292 new shares were issued in this process, and the increase was registered in the commercial register on 06 February 2014. The capital increase was offered to all shareholders as a rights offering with the option to oversubscribe, and it was fully subscribed.

Furthermore, the share capital was increased by the issuing of 5,110 shares from the exercising of warrants from the 2011-2016 warrant bond.

7.4. Existing capital

The share capital is conditionally increased by up to EUR 845,945.00 through the issue of up to 845,945 new no-par value registered shares, each of which constitutes a share of EUR 1.00 in the share capital (Conditional Capital I). The conditional capital increase is implemented in order to grant ordinary shares to holders of convertible bonds for the fulfilment of the repayment price through the supply of shares, for the exercising of conversion rights, and for the fulfilment of conversion obligations arising from the convertible bonds, pursuant to the authorisation granted by the Management Board (with the Supervisory Board's consent) by resolution of the General Meeting of 06 July 2005. The new shares shall be issued at the conversion price set pursuant to the above-mentioned authorisation resolution.

The share capital is conditionally increased by up to EUR 500 thousand through the issue of up to 500 thousand new ordinary registered shares, each of which constitutes a share of EUR 1.00 in the share capital (no-par value shares) (Conditional Capital II). The conditional capital increase is implemented in order to enable the redemption of options, pursuant to the option conditions, to the benefit of the holders of warrants arising from warrant bonds issued pursuant to the authorisation resolution of the General Meeting of 17 March 2009. The new shares shall be issued at the warrant price set pursuant to the above-mentioned authorisation resolutions (issue amount pursuant to § 193 para. 2 no. 3 AktG).

The company's share capital is conditionally increased by EUR 839,500 by the issuing of up to 839,500 no-par value registered shares (no-par value shares) (Conditional Capital III). The sole purpose of the conditional capital increase is to fulfil options issued pursuant to the authorisation of the General Meeting of 02 July 2010 until 01 July 2015. The conditional capital increase is implemented only insofar as holders of the issued options exercise their right to purchase shares in the company, and insofar as the company does not grant any of its own shares or pay a cash settlement in order to fulfil the options.

The company's share capital is conditionally increased by up to EUR 2,494,890.00 through the issuing of up to 2,494,890 new ordinary registered shares (no-par value shares) (Conditional Capital IV). The conditional capital increase is implemented in order to ensure the granting of options and the fulfilment of warrant obligations, pursuant to the warrant bond conditions, for holders or creditors of warrants from warrant bonds, or to ensure the fulfilment of conversion rights and of conversion obligations, pursuant to the convertible bond conditions, for holders or creditors of convertible bonds issued pursuant to the authorisation of the company's General Meeting of 10 May 2011 in the period up to 09 May 2016. The conditional capital increase is implemented only in the event that warrant or convertible bonds are issued, and only insofar as the holders or creditors of warrants or convertible bonds issued by the company, pursuant to the authorisation of the General Meeting of 10 May 2011, exercise their warrant or conversion rights, or insofar as they fulfil their warrant or conversion obligations (including cases in which a relevant company voting right is exercised).

The Management Board is authorised, subject to the Supervisory Board's consent, to increase the company's share capital by up to EUR 4,438,292.00 by 17 June 2018, through the issue of up to 4,438,292 no-par value registered shares in exchange for cash contributions and/or investments in kind (Authorised Capital I).

8. Corporate governance statement pursuant to § 289a of the German Commercial Code (HGB), including the statement required by § 161 of the German Stock Corporation Act (AktG) on the German Corporate Governance Code

Pursuant to § 289a HGB, listed stock corporations must issue a corporate governance statement. This must either be included in the management report, or it must be published on the company's website. The current Biofrontera corporate governance statement and the corporate governance report are available on the company's website at www.biofrontera.com in the section "Investors", subsection "Corporate Governance".

Leverkusen, 9 April 2015

Biofrontera AG

Professor Hermann Lübbert
Chief Executive Officer

Thomas Schaffer
Chief Financial Officer

Balance Sheet Oath

Affirmation of the legal representatives pursuant to § 37y of the German Securities Trading Act (WpHG) in conjunction with § 37w para. 2 no.3 WpHG

We affirm that, to the best of our knowledge and in accordance with the applicable accounting principles, the consolidated financial statement gives a true and fair view of the financial position, cash flows and results from operations of the group, and that the consolidated management report presents the business performance, including the business results and the position of the Biofrontera Group and of Biofrontera AG, in such a way that a true and fair view is conveyed, and that the main opportunities and risks relating to the anticipated performance of the Biofrontera Group and Biofrontera AG are described.

Leverkusen, 9 April 2015

Biofrontera AG

Professor Hermann Lübbert
Chief Executive Officer

Thomas Schaffer
Chief Financial Officer

Consolidated balance sheet as at 31 December 2014

Annex 1

Assets

in EUR	Note	31 December 2014	31 December 2013
Non-current assets			
Tangible assets	(1)	339,532.00	467,323.63
Intangible assets	(1)	2,580,077.17	3,202,208.62
		2,919,609.17	3,669,532.25
Current assets			
Current financial assets			
Trade receivables	(3)	308,984.35	578,410.60
Other financial assets	(4)	726,790.94	767,224.80
Cash and cash equivalents	(7)	8,509,398.16	2,933,578.47
		9,545,173.45	4,279,213.87
Other current assets			
Inventories	(2)		
Raw materials and supplies		684,455.83	819,912.99
Unfinished products		107,784.39	141,723.44
Finished products and merchandise		601,281.83	623,559.71
Income tax reimbursement claims	(5)	62,072.99	22,280.71
Other assets	(4)	90,118.27	80,908.61
		1,545,713.31	1,688,385.46
		11,090,886.76	5,967,599.33
Total assets		14,010,495.93	9,637,131.58

Liabilities

in EUR	Note	31 December 2014	31 December 2013
Equity	(9)		
Subscribed capital		22,196,570.00	17,753,168.00
Capital reserve		76,402,715.36	65,598,778.57
Loss carried forward		(87,899,306.51)	(79,832,687.98)
Net loss for the year		(10,720,978.98)	(8,066,618.53)
		(21,000.13)	(4,547,359.94)
Long-term financial liabilities	(10)	10,774,298.38	12,030,950.38
Current liabilities			
Current financial liabilities			
Trade payables	(11)	967,437.66	713,098.17
Short-term financial debt	(9)	1,224,598.00	435,750.00
Other financial liabilities	(13)	27,012.10	22,608.18
		2,219,047.76	1,171,456.35
Other current liabilities			
Income tax provisions	(8)	0.00	11,863.00
Other provisions	(12)	951,944.41	879,226.67
Other current liabilities	(13)	86,205.51	90,995.12
		1,038,149.92	982,084.79
		3,257,197.68	2,153,541.14
Total liabilities (1)		14,010,495.93	9,637,131.58

(1) Please note that “total liabilities” in the meaning of this balance sheet include equity, long-term liabilities and current liabilities.

Consolidated statement of comprehensive income for 2014

Annex 2

in EUR	Note	1 Jan - 31 Dec 2014	1 Jan - 31 Dec 2013
Sales revenue	(15)	3,095,555.98	3,114,551.20
Cost of sales	(16)	(1,116,686.16)	(1,603,700.78)
Gross profit from sales		1,978,869.82	1,510,850.42
Operating expenses:			
Research and development costs	(17)	(4,534,181.97)	(3,186,223.66)
General administrative costs	(19)	(3,124,158.24)	(2,426,195.68)
of which financing costs		(869,733.43)	(182,134.06)
Sales costs	(18)	(3,847,487.94)	(3,036,171.70)
		(11,505,828.15)	(8,648,591.04)
Loss from operations		(9,526,958.33)	(7,137.740.62)
Financial result			
Interest expenses	(20)	(1,289,613.16)	(1,271,081.30)
Interest income	(20)	190,294.10	38,689.41
Other expenses	(21)	(280,282.13)	(90,572.22)
Other income	(21)	185,580.54	394,086.20
		(1,194,020.65)	(928,877.91)
Profit/loss before income tax	(23)	(10,720,978.98)	(8,066,618.53)
Income tax		0.00	0.00
Profit or loss for the period	(23)	(10,720,978.98)	(8,066,618.53)
Net loss for the year = Total comprehensive income for the period	(23)	(10,720,978.98)	(8,066,618.53)
Undiluted (= diluted) earnings per share	(22)	(0.49)	(0.47)

Consolidated statement of changes in equity for 2014

Annex 3

See note (9)	Ordinary shares Number	Subscribed capital in EUR	Capital reserve EUR	Accumulated loss EUR	Total EUR
Account balance on 1 January 2013	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
Costs of capital procurement	0	0.00	(90,936.75)	0.00	(90,936.75)
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 associated with the sale of own Warrant Bonds I and II	0	0.00	(518.00)	0.00	(518.00)
Increase in the capital reserve resulting from the stock option programme	0	0.00	88,376.00	0.00	88,376.00
Net loss for the year	0	0.00	0.00	(8,066,618.53)	(8,066,618.53)
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
Costs 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 resulting from the stock option programme	0	0.00	112,750.50	0.00	112,750.50
Net loss for the year	0	0.00	0.00	(10,720,978.98)	(10,720,978.98)
Account balance on 31 December 2014	22,196,570	22,196,570.00	76,402,715.36	(98,620,285.49)	(21,000.13)

Consolidated cash flow statement for 2014

Annex 4

See note (26)	01.01.-31.12.2014 EUR	01.01.-31.12.2013 EUR
Cash flows from operations		
Net loss for the year	(10,720,978.98)	(8,066,618.53)
Adjustments to reconcile the net loss for the year with cash flow into operational activity:		
Financial result	1,099,319.06	1,232,391.89
Depreciation	811,005.00	742,133.19
(Gains)/losses from disposal of assets	2,632.00	8,672.73
Non-cash expenses and income	302,084.17	(155,926.08)
Changes in operating assets and liabilities:		
Trade receivables	269,426.25	(326,632.43)
Other assets and income tax assets	(269,667.37)	(743,609.64)
Inventories	191,674.09	(372,949.98)
Trade payables	254,339.49	(36,271.67)
Provisions	132,619.86	488,336.24
Other liabilities	(385.69)	5,209.49
Net cash flow into operations:	(7,927,932.12)	(7,225,264.79)
Cash flows from (into) investment activities:		
Purchase of intangible and tangible assets	(164,082.80)	(341,980.16)
Interest received	142,588.26	19,033.42
Revenue from the sale of intangible and tangible assets	100,368.88	0.00
Net cash flow from (into) investment activities	78,874.34	(322,946.74)
Cash flows from financing activities:		
Proceeds from the issue of shares	15,333,626.29	7,443,863.25
Proceeds from the repurchase of own warrant bonds	0.00	501,875.00
Payouts from the repurchase of own warrant bonds	(1,500,750.00)	0.00
Interest paid	(454,489.62)	(830,180.83)
Increase / (decrease) in long-term financial debt	(742,357.20)	0.00
Increase / (decrease) in short-term financial debt	788,848.00	0.00
Net cash flow from financing activities	13,424,877.47	7,115,557.42
Net increase (decrease) in cash and cash equivalents	5,575,819.69	(432,654.11)
Cash and cash equivalents at beginning of period	2,933,578.47	3,366,232.58
Cash and cash equivalents at end of period	8,509,398.16	2,933,578.47
Composition of financial resources at end of period:		
Cash and bank balances and cheques	8,509,398.16	2,933,578.47

Explanatory Notes to the Consolidated Financial Statement of 31 December 2014

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 of the business 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 small German pharmaceutical 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 introduced in the spring of 2014 and a Belixos® gel skin care for rosacea and acne was launched at the beginning of December 2014. Belixos® Protect, a day cream with protective anti-aging properties designed especially for lightdamaged skin, will follow during 2015.

The product Ameluz® (development name BF-200 ALA), which was approved at the end of 2011, has been tested for the European approval in one phase II and two phase III clinical trials for the treatment of actinic keratosis. In order to prepare the approval in the US two more Phase I- and one more Phase III-Study were performed. 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®. In Europe physicians can choose between various lamps approved for PDT. In the US the approval of Ameluz® will be combined with the approval of the lamp.

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 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.

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 shareholder'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 company's 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.

Summary of main accounting and valuation methods

Basis for preparation of the consolidated financial statement

Biofrontera AG's consolidated financial statement for the financial year from 1 January 2014 to 31 December 2014 has been prepared in accordance with the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB) that were valid on the balance sheet date and which are recognised by the European Union (EU), and the interpretations of the International Financial Reporting Standards Interpretations Committee (IFRS IC). In addition, the law pursuant to § 315a paragraph 1 German Commercial Code (HGB) has been observed.

The assets and liabilities are defined and valued in accordance with the IFRS that were mandatory as of 31 December 2014.

Standards, interpretations and amendments to standards and interpretations used for the first time in the consolidated financial statement for 31 December 2014

Standard / Interpretation	First mandatory use according to IASB	First mandatory use in the EU
Revision of IAS 27 "Separate Financial Statements"	1 January 2013	1 January 2014
Revision of IAS 28 "Investments in Associates and Joint Ventures"	1 January 2013	1 January 2014
Amendments to IAS 32 "Financial Instruments – Presentation": Offsetting of financial assets and liabilities	1 January 2014	1 January 2014

Amendments to IAS 36 "Impairment of Assets": Recoverable Amount Disclosures for Non-financial Assets	1 January 2014	1 January 2014
IAS 39 "Financial Instruments – Recognition and Measurement": Novation of Derivatives and Continuation of Hedge Accounting	1 January 2014	1 January 2014
IFRS 10 “Consolidated Financial Statements”	1 January 2013	1 January 2014
IFRS 11 “Joint Arrangements”	1 January 2013	1 January 2014
IFRS 12 “Disclosure of Interests in Other Entities”	1 January 2013	1 January 2014
Amendments to IFRS 10 “Consolidated Financial Statements”, IFRS 11 "Joint Arrangements" and IFRS 12 "Disclosure of Interests in Other Entities": Transitional Provisions	1 January 2013	1 January 2014
Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities" and IAS 27 "Separate Financial Statements": Investment Companies	1 January 2014	1 January 2014

Unless further explained in the following, all standards and interpretations listed above, which had to be applied mandatorily for the first time, had no effect on the Biofrontera Group. IFRS 12 was published in May 2011 and has to be applied for the first time in the fiscal year beginning on or after 1 January 2014. This standard governs mandatory reporting duties for any Group Financial reporting in a uniform way and consolidates reporting duties for subsidiaries, which were governed by IAS 27, reporting duties for commonly controlled and associated entities, which were governed by IAS 31 and IAS 28 respectively, as well as structured entities. Since the new standard expresses new reporting requirements in addition to existing discussion duties, Group reporting to this company group has become more extensive.

The standards and interpretations listed above that have to be applied for the first time have no effect on the Biofrontera Group.

The IASB published the standards and interpretations listed below, which were already adopted in EU law through the endorsement process but which were not yet mandatory in the 2014 financial year. The group will not apply these standards and interpretations prematurely. We do not expect any of the optional standards and interpretations listed to have any effect on the Biofrontera Group, as the relevant circumstances do not apply.

Standard / Interpretation	First mandatory use according to IASB	First mandatory use in the EU
IFRIC 21 "Levies"	1 January 2014	17 June 2014
Annual improvement project cycle 2011-2013	1 July 2014	1 January 2015
Amendments to IAS 19 "Employee Benefits": Employee Contributions	1 July 2014	1 February 2015
Annual improvement project cycle 2010-2012	1 July 2014	1 February 2015

The IASB published the standards and interpretations listed below, which were not yet mandatory in the 2014 financial year. These standards and interpretations were not previously recognised by the EU and are not applied

by the group. The group currently believes that the standards and interpretations that do not yet have to be applied will have no effect.

Standard / Interpretation	First mandatory use according to IASB	First mandatory use in the EU
Amendments to IAS 1 “Presentation of Financial Statements”: Disclosure Initiative	1 January 2016	Not yet known
Amendments to IAS 16 "Property, Plant and Equipment" and to IAS 38 "Intangible Assets": Clarification of acceptable Depreciation Methods	1 January 2016	Not yet known
Amendments to IAS 16 "Property, Plant and Equipment" and to IAS 41 "Agriculture": Fruit-bearing Plants	1 January 2016	Not yet known
Amendments to IAS 27 “Separate Financial Statements”: Equity Methods in Separate Financial Statements	1 January 2016	Not yet known
Amendments to IAS 28 “Investments in Associates and Joint Ventures” and to IFRS 10 “Consolidated Financial Statements”: Sale or Contribution of Assets between an Investor and Associates or Joint Ventures	1 January 2016	Not yet known
IFRS 9 "Financial Instruments"	1 January 2018	Not yet known
Amendments to IFRS 10 “Consolidated Financial Statements”, IFRS 12 “Disclosure of Interests in Other Entities” and IAS 28 “Investments in Associates and Joint Ventures”: Investment Companies: Application of Consolidation Exception	1 January 2016	Not yet known
Amendments to IFRS 11 "Joint Arrangements": Accounting for Acquisitions of Interests in Joint Operations	1 January 2016	Not yet known
IFRS 14 "Regulatory Deferral Accounts"	1 January 2016	Not yet known
IFRS 15 "Revenue from Contracts with Customers"	1 January 2017	Not yet known
Annual improvement project cycle 2012-2014	1 January 2016	Not yet known

Unless explained in more detail in the following, the standards and interpretations listed that do not yet have to be applied have no effect on the Biofrontera Group, as the relevant circumstances do not apply.

The accounting and valuation principles applied are consistent with those applied on 31 December 2013, with the exception of the new and revised standards described above that were applied from the 2014 financial year for the first time.

In May 2014 the new standard IFRS 15 was published by the IASB. It is the aim of this new standard for revenue recognition to consolidate the large number of rules contained in various standards and interpretations. At the same time standardized principles were set, which are applicable for all branches and all types of revenue transactions. The questions, in which amount and at which point in time or over which time frame respectively revenue shall be recognised, shall be answered using the 5 steps model. In addition this standard includes a number of further provisions for detailed questions as well as an increase in required notes. The new standard has to be applied for fiscal years beginning on or after 1 January 2017. The first application shall always be retrospectively, however various simplification options are granted; an earlier adoption is permitted. The adoption of changes by the EU is still outstanding. The Group is currently still in the process of examining any possible implications of the first adoption of the standard, should it be adopted by the EU in this form.

The consolidated financial statement as of 31 December 2014 is presented in EUR or thousands of EUR.

In accordance with IAS 1.60, the Biofrontera Group represents current and non-current assets and current and non-current liabilities as separate classifications in the balance sheet, broken down in the notes to the consolidated financial statement of 31 December 2014 according to their respective maturities. The statement of profit/loss is prepared using the cost of sales method. In this reporting format, the net turnover is set against the expenses incurred in achieving it, broken down into cost of sales, research and development costs, distribution costs and general administration costs.

The consolidated financial statement of 31 December 2014 contains no separate segment-based reporting, as the activities of the Biofrontera Group are limited to a single business segment in terms of the definition in IFRS 8. All business operations focus on the product Ameluz®, including the supplementary products BF-RhodoLED® (PDT lamp) and Belixos®, and are internally monitored and managed accordingly.

Basis for consolidation

The consolidated financial statement of 31 December 2014 includes the financial statements of the parent company, Biofrontera AG, and the subsidiary companies in which the parent company has a direct majority of the voting rights or another possibility of exerting control. The following companies have been included in the consolidated financial statement:

6. Biofrontera Bioscience GmbH, Leverkusen, with a direct holding of 100% of the shares.
7. Biofrontera Pharma GmbH, Leverkusen, with a direct holding of 100% of the shares.
8. Biofrontera Development GmbH, Leverkusen, with a direct holding of 100% of the shares.
9. Biofrontera Neuroscience GmbH, Leverkusen, with a direct holding of 100% of the shares.

The basis for the consolidation of the companies included in the consolidated financial statement is the annual financial statements (or HBII pursuant to IFRS) of 31 December 2014 for these companies. The consolidated financial statement of 31 December 2014 was prepared on the basis of uniform accounting and valuation principles (IFRS).

The subsidiaries have been fully consolidated from the date of acquisition. The date of the acquisition is the date on which the parent company acquired the control of these group companies. The subsidiaries are included in the consolidated financial statement until such time as the control of these companies is no longer exerted.

All inter-company balances and income and expenses have been eliminated on consolidation. Interim results have not been realised.

Conversion of amounts in foreign currencies

The consolidated financial statement of 31 December 2014 is drawn up in euros (EUR) or thousand euros (kEUR), which is the operational currency of all the companies included in the consolidated financial statement and of the group, and it is the group's financial statement currency.

Transactions made in currencies other than EUR are recorded using the exchange rate on the date of the transaction. Assets and liabilities are revalued for each balance sheet date at the closing rate. Profits and losses arising from these conversions are recognised in the income statement.

Use of estimates

The preparation of the consolidated financial statement of 31 December 2014 pursuant to IFRS requires the use of estimates and assumptions by the management that affect the value of assets and liabilities - as well as contingent assets and liabilities - reported on the balance sheet date, and revenues and expenses occurring during the financial year. The main areas in which assumptions, estimates and the exercising of a degree of discretion are appropriate relate to the determination of the useful lifespans of long-term assets and the establishment of provisions, for example employee pensions and other benefits, as well as income taxes. Estimates are based on historical experience and other assumptions that are believed to be reasonable under the circumstances. They are continuously monitored, but may differ from the actual values.

Transactions with related parties

With regard to transactions with shareholders, particularly in connection with capital increases and the issue of Biofrontera AG bonds, please see our comments in the appendix note "Equity".

With respect to the issue of share options to employees of the Biofrontera Group, please see our comments on the "Share Option Plan" in the appendix note "Equity".

With regard to the remuneration of Management Board members, please see our comments in the appendix note "Members of the Management Board".

With regard to the remuneration of Supervisory Board members, please see our comments in the appendix note "Members of the Supervisory Board".

Fixtures and equipment

Pursuant to IAS 16, the value of fixtures and equipment is recorded in the balance sheet based on the historical purchase or production costs minus the scheduled depreciation.

Depreciation of fixtures and equipment is generally linear over the estimated useful lifespan of assets (generally 3 to 13 years). The main useful lifespans are unchanged:

- Computer equipment 3 years, linear
- Fixtures and equipment 4 years, linear
- Fixtures and equipment 10 years, linear
- Laboratory equipment 13 years, linear

Low value assets with acquisition costs between EUR 150 and EUR 1,000 are posted to the year of acquisition from 01.01.2008, as a single item for the relevant year, and are fully depreciated over five years.

Intangible assets

Software that is purchased is valued at cost and depreciated linearly over a useful lifespan of three years.

Intangible assets that are acquired consist of licenses and other rights. They are stated at purchase or production cost minus accumulated depreciation. Only intangible assets acquired from third parties have been capitalised, as the conditions have not been met for the capitalisation of self-created intangible assets. Intangible assets are capitalised and generally depreciated linearly over the estimated useful lifespan of 4 to 10 years.

Borrowing costs are not included as part of the procurement cost of the acquired assets but rather as an expense for the period in which they arise, because the group has no qualified assets in terms of the definition in IAS 23.5.

Depreciation of assets

The company reviews assets for depreciation when there are indications that the book value of an asset exceeds its recoverable amount. The recoverability of assets held for use is assessed by making a comparison of the book value of an asset with the future cash flow expected to be generated from the asset. If the value of such an asset is considered to have depreciated, the depreciation is valued at the amount by which the book value of the asset exceeds its fair value Assets to be sold are reported at the lower value from the book value or the fair value minus the selling costs.

Financial instruments

The financial instruments held by the Biofrontera Group on the balance sheet date consisted primarily of cash and cash equivalents, short-term financial investments, trade accounts receivable and trade accounts payable, and financial liabilities. Biofrontera does not currently use derivative financial instruments. Due to the short maturities of the short-term financial investments and the trade receivables and payables, the carrying amounts correspond to the market values. The short-term financial investments are allocated to the category "available for sale", and the other accounts receivable and payable are classified as "loans and receivables". The financial liabilities are measured using the effective interest method, minus treasury stock.

The Biofrontera Group was not exposed to any significant foreign currency risks at the balance sheet date. Financial investments have been transacted in euros. The liabilities for goods and services denominated in foreign currencies are of minor significance. Receivables from goods and services are regularly reviewed for any potential risk of default.

Various criteria are applied, in terms of ensuring security, for the selection of short-term investments (for example, rating, capital guarantee, and security through the Deposit Guarantee Fund) Based on the selection criteria and on the ongoing monitoring of investments, Biofrontera does not envisage any unidentified risks in this area. The amounts reported on the balance sheet generally represent the maximum risk of default.

The monitoring and management of liquidity is carried out on the basis of short and long-term business planning. Liquidity risks are detected at an early stage, using simulations of various scenarios. Current liquidity is measured and monitored on a daily basis.

To date, Biofrontera has always succeeded in providing the necessary financing for business operations through injections of equity.

Thanks to the capital increase in 2014, the company currently has sufficient liquidity at its disposal.

No further capital measures are needed until the break even has been reached and, in particular, approval has been obtained in the USA.

On 31 December 2014, Biofrontera held no financial positions that were exposed to interest rate risks.

Financial assets available for sale

The company classifies its short-term investment securities as “available for sale” pursuant to IAS 39.9. On the balance sheet dated 31 December 2014, Biofrontera had own warrant bonds I 2009/2017 with a nominal value of EUR 1,500 thousand. The warrant bonds held by Biofrontera were depreciated by EUR 167 thousand, to EUR 1,333 thousand, as of 31 December 2014, due to a decrease in the market price. The warrant bonds were reported net with the corresponding bonded debt pursuant to IAS 32.

Inventories

Raw materials and supplies are valued at the lower of the acquisition or production cost or the market price. Borrowing costs are not capitalised. The acquisition or production costs are calculated according to the first in first out method (FIFO). An inventory valuation adjustment is made on the balance sheet date if the fair value is lower than the book value.

Trade receivables

Receivables from goods and services are reported at their nominal value. In the case of value adjustments, these are booked directly against the relevant receivable. Receivables recorded in a foreign currency have been converted at the euro exchange rate on the balance sheet date and any exchange rate conversion differences are recorded in the profit and loss account.

Cash and cash equivalents

Cash and cash equivalents include cash-in-hand, cheques and bank deposits with a maturity of up to three months at the time of acquisition, as well as short-term financial assets. These are valued at amortised acquisition cost.

Liabilities from goods and services, overdrafts

Liabilities for goods and services, from overdrafts and from other payables are capitalised at their repayment amount. Due of their short-term nature, the reported book value reflects the fair value. Foreign currency liabilities are converted at the closing rate. Exchange rate losses and gains are shown in the profit and loss account.

Provisions

Provisions are formed if an obligation to third parties resulting from a past event exists and is likely to result in an outflow of assets in the future, and if the effect on assets can be reliably estimated.

Share options

Share options (share-based remuneration transactions settled via equity instruments) are valued at the market value on the date of granting. The market value of the obligation is capitalised as a personnel expense over the retention period. Obligations arising from share-based payment transactions with cash settlements are capitalised as a liability and valued at the market value on the balance sheet date. In the event that Biofrontera AG has the right to choose between payment in cash or payment using shares when a right is exercised, an increase in the capital reserve is initially carried out pursuant to IFRS 2.41 and IFRS 2.43. The costs are compiled over the retention period. The market value of share-based payment transactions with cash compensation and of those with equity compensation is normally determined by applying internationally recognised valuation methods, insofar as the fair value of these share-based payments can be reliably determined.

Warrant bonds

In accordance with IAS 32, convertible bonds and warrant bonds are classified as compound financial instruments that represent a debt instrument with an embedded conversion or call option. The issuer of a financial instrument such as this, which contains both a liability component and an equity component, is obliged in the balance sheet to state the liability components and the equity components separately from the financial instrument originally recorded. Initially, the market value of the liability component corresponds with the cash value of future contractual cash flows, discounted at the market interest rate valid at the time for financial instruments that have a comparable credit status and which under the same conditions lead essentially to the same cash flows, but where there is no exchange or call option available. The subsequent valuation is carried out using the effective interest rate method. The liability is removed from the accounts when the liability underlying the obligation is fulfilled, discharged or has expired. The equity instrument consists of the embedded option to convert the liability into equity of the issuer. The market value of the option comprises its current value and, where relevant, its intrinsic value. The intrinsic value of an option or of another derivative financial instrument is, if any, the difference between the market value of the underlying instrument and the contract price at which the underlying instrument is to be purchased, issued, sold or exchanged. The current value of a derivative financial instrument is its market value minus its intrinsic value.. The current value is determined by the length of the remaining period up until maturity or until the expiration of the derivative financial instrument.

If the warrant bonds are redeemed before maturity via early redemption or early repurchase, with the original conversion rights remaining unchanged, the fee paid and all transactions relating to the repurchase or redemption are allocated to the liability and equity components of the instrument at the time of the transaction. The method for the allocation of the fees and transaction costs to the two components is identical to that used in the original allocation applied to the revenue received when issuing the bond.

Income tax

Biofrontera books deferred taxes as defined in IAS 12 as valuation differences between commercial and financial valuations. Deferred tax liabilities are generally stated for all temporary differences that are taxable; claims for deferred tax are only stated to the extent that it is probable that taxable profits are available for use of the claims. The book value of deferred income tax assets is reviewed on each balance sheet date and reduced to the extent to which it is no longer probable that sufficient taxable profit will be available against which the deferred tax claim can be used at least in part. Deferred income tax assets that are not accounted for are reassessed on each balance sheet date and capitalised to the extent to which it has become probable that future taxable profits will allow the realisation of the deferred tax asset.

Deferred tax liabilities and deferred tax assets are offset if there is a right to offset and if they are being collected by the same tax authority.

Current taxes are calculated on the basis of taxable income of the company during the period. They are based on the tax rates in force on the balance sheet date of the relevant company.

Earnings per share

Earnings per share are calculated by dividing net consolidated income by the weighted average number of outstanding shares during the year in accordance with IAS 33 ("earnings per share").

Leasing

Concluded lease agreements are categorised as either "finance leases" or "operating leases". If as the lessor has passed all significant opportunities and risks onto the group as a lessee, the group is assigned beneficial ownership. The companies included in the consolidated financial statement have generally concluded contracts categorised as “operating lease" contracts. The ongoing lease payments are stated as expenses where incurred. Concluded leases classified as "finance leases" are capitalised at the lower of the present value of the minimum lease payments or the fair value of the leased asset at the beginning of the lease and are depreciated over the shorter of the periods, term of lease or useful lifespan, if the transfer of ownership to the lessee at the end of the contractual term is not sufficiently certain.

Revenue realisation

The company states earnings in accordance with IAS 18 if the earnings process is complete and if the property-related risks and opportunities have been transferred to the customer. The company realises its turnover primari-

ly through the sale of its products. Income from milestone and licensing agreements with third parties is realised once the underlying contractual conditions come into force. It is always possible for turnover to be received immediately and in full and to be recorded as income if the conditions of IAS 18 IE 20 are met in the version of a one-off contract start payment.

Research and development expenses

The costs relating to development are accounted for in accordance with IAS 38 "Intangible Assets", under certain circumstances. Research costs are booked as expenses when they are incurred. The development costs are capitalised under certain preconditions, depending on the possible result of the development activities.

The assessment of this possible result requires the management to make significant assumptions. In the management's opinion, due to uncertainties related to the development of new products, the criteria prescribed under IAS 38.57 "Intangible Assets" for capitalising development costs as assets are only fulfilled by the Biofrontera Group if the prerequisites for the expansion of the European approval and the approval in the USA are met, and if it is likely that the company will accrue a future economic benefit.

Both for the now approved drug "Ameluz®" and for the company's other research and development projects, the research and development costs are therefore recognised as expenses in the period in which they are incurred.

In 2014, the German Financial Reporting Enforcement Panel (Deutsche Prüfstelle für Rechnungslegung, DPR) audited the consolidated financial statement as of 31 December 2013 and the 2013 group management report (sample audit). The audit was concluded without any findings. Notes and suggestions for improvement from the DPR in terms of formulations and representations and breakdowns of items were still implemented in the consolidated financial statement and the group management report as of 31 December 2014 and for the previous year accordingly.

Notes on the balance sheet

1 Tangible and intangible assets

The development of fixed asset items in the 2014 financial year is shown in the asset analysis, together with an indication of the accumulated depreciation. Tangible fixed assets consist mainly of office and business equipment and laboratory facilities.

The increases in intangible assets and property and equipment in the reporting period resulted primarily from the acquisition of further rights of use in connection with the prototype of the PDT lamp (EUR 77 thousand, previous year EUR 1 thousand) as well as the activation of the expenses associated with the storage facility (EUR 22 thousand; previous year; EUR 0). The asset disposals of a total of EUR 128 thousand (previous year: EUR 537 thousand) primarily resulted from sales of the rental lamps, which gave rise to EUR 117 thousand (previous year: EUR 49 thousand).

The reported use rights, with a total net book value of EUR 2,443 thousand, relate in an amount of EUR 2,205 thousand to rights to use technology developed by the company ASAT Applied Science and Technology AG, Zug, Switzerland, in terms of the active ingredient ALA (aminolevulinic acid), including all patents and know how associated with this. The rights of use acquired are depreciated over their estimated remaining useful lifespan of 20 years, from their date of acquisition, due to their direct usability. This useful lifespan is derived from the term of the patents issued and acquired by Biofrontera AG and is reviewed annually pursuant to IAS 38.104. There are no indications for an unscheduled depreciation. In addition to this development expenses for prototypes of the lamp BF-RhodoLED were capitalized under this position.

Consolidated statement of changes in fixed assets in 2014

		Acquisition and production costs				Accumulated depreciation				Book values	
		01 Jan 2014 EUR	Additions EUR	Disposals EUR	31 Dec 2014 EUR	01 Jan 2014 EUR	Additions EUR	Disposals EUR	31 Dec 2014 EUR	31 Dec 2014 EUR	31 Dec 2013 EUR
I.	Tangible assets										
	Operating and business equipment	3,395,985.95	74,917.75	128,134.70	3,342,769.00	2,928,662.32	99,708.50	25,133.82	3,003,237.00	339,532.00	467,323.63
II.	Intangible assets										
1	Software and licenses	410,461.51	8,434.00	0.00	418,895.51	267,487.08	14,425.00	0.00	281,912.08	136,983.43	142,974.43
2	Usage rights	5,937,723.26	89,731.05	0.00	6,027,454.31	2,887,489.07	696,871.50	0.00	3,584,360.57	2,443,093.74	3,050,234.19
3.	Prepayments made	9,000.00	0.00	9,000.00	0.00	0.00	0.00	0.00	0.00	0.00	9,000.00
		6,357,184.77	98,165.05	9,000.00	6,446,349.82	3,154,976.15	711,296.50	0.00	3,866,272.65	2,580,077.17	3,202,208.62
		9,753,170.72	173,082.80	137,134.70	9,789,118.82	6,083,638.47	811,005.00	25,133.82	6,869,509.65	2,919,609.17	3,669,532.25

Consolidated statement of changes in fixed assets in 2013

		Acquisition and production costs				Accumulated depreciation				Book values	
		01 Jan 2013	Additions	Disposals	31 Dec 2013	01 Jan 2013	Additions	Disposals	31 Dec 2013	31 Dec 2013	31 Dec 2012
		EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
I.	Tangible assets										
	Operating and business equipment	3,666,407.74	266,547.60	536,969.39	3,395,985.95	3,378,257.18	78,701.80	528,296.66	2,928,662.32	467,323.63	288,150.56
II.	Intangible assets										
	1. Software and licenses	483,660.83	30,990.64	104,189.96	410,461.51	363,170.32	8,506.72	104,189.96	267,487.08	142,974.43	120,490.51
	2. Usage rights	5,902,281.34	35,441.92	0.00	5,937,723.26	2,232,564.40	654,924.67	0.00	2,887,489.07	3,050,234.19	3,669,716.94
	3. Prepayments made	0.00	9,000.00	0.00	9,000.00	0.00	0.00	0.00	0.00	9,000.00	0.00
		6,385,942.17	75,432.56	104,189.96	6,357,184.77	2,595,734.72	663,431.39	104,189.96	3,154,976.15	3,202,208.62	3,790,207.45
		10,052,349.91	341,980.16	641,159.35	9,753,170.72	5,973,991.90	742,133.19	632,486.62	6,083,638.47	3,669,532.25	4,078,358.01

2 Inventories

Inventories encompass finished products, unfinished products, and raw materials and supplies.

Inventories amounted to EUR 1,394 thousand (31 December 2013: EUR 1,585 thousand). In assessing the consumption of inventories, the sequence of consumption is assumed to be based on the first-in-first-out (FIFO) method.

3 Trade receivables

The receivables from goods and services relate mainly to the sale of Ameluz®, as well as sales of the BF-RhodoLED® PDT lamp and the medical cosmetic product Belixos®. It is expected that all such claims will be settled within twelve months from the balance sheet date. Allowances for doubtful receivables were not recorded (previous year: EUR 46 thousand). There were overdue receivables not previously written down amounting to EUR 30 thousand (31 December 2013: EUR 33 thousand) on the balance sheet date. Of these, EUR 25 thousand were up to 30 days overdue, and EUR 5 thousand were more than 30 days overdue. At the time of preparation of the consolidated financial statement, no overdue receivables were still unpaid.

4 Other financial and miscellaneous assets

Miscellaneous assets primarily include prepayments for trials (EUR 586 thousand; 31 December 2013: EUR 465 thousand), VAT reimbursement claims (EUR 87 thousand; 31 December 2012: EUR 77 thousand). In the reporting year, specific provision amounting to EUR 261 thousand was made relating to a loan made available by a development partner in the short term (31 December 2013: EUR 0).

5 Income tax reimbursement claims

These consist of claims for tax refunds relating to withheld capital gains tax plus solidarity surcharge (EUR 38 thousand; 31 December 2013: EUR 22 thousand) as well as claims from commercial tax prepayments (EUR 24 thousand; 31 December 2013: EUR 0).

6 Securities

The valuation of securities is based on prices quoted in an active market. On 31 December 2014, own warrant bonds I 2009/2017 with a par value of EUR 1,500 thousand (31 December 2013: EUR 0) were held. The warrant bonds held by Biofrontera were depreciated by EUR 167 thousand to EUR 1,333 thousand. The warrant bonds were reported net with the bonded debt in accordance with IAS 32.

7 Cash and cash equivalents

Cash and cash equivalents include cash-in-hand, cheques, bank deposits and money deposits with a maturity of up to three months at the time of acquisition amounting to EUR 8,509 thousand (31 December 2013: EUR 2,934 thousand). The book values of the cash and cash equivalents correspond to their fair value due to the short-term nature of these investments.

8 Deferred tax assets

The Biofrontera Group recorded a net loss before tax on 31 December 2014 and on 31 December 2013. Deferred tax assets are generally determined on the basis of the existing income tax rates in Germany. As a result of the Company Tax Reform Act 2008, corporation tax is set at 15%. When a solidarity surcharge of 5.5% is included, this results in a combined tax rate of 15.8% (previous year: 15.8%). Because of the tax rate of 3.5% for businesses and the lack of the possibility to deduct business tax as an operating expense, the resulting tax rate, taking into account the local business tax rate, is 16.6% (previous year 16.6%).

The following table provides details of the basic current deferred tax assets arising from tax loss carryforwards as they have developed within the group (the previous year's figures have been adjusted to the amounts determined for tax purposes):

	31 December 2014		31 December 2013	
	Loss carried forward Thousand EUR	Deferred tax assets Thousand EUR	Loss carried forward Thousand EUR	Deferred tax assets Thousand EUR
Corporation tax including solidarity surcharge	93,151	14,746	82,105	12,993
Business tax	84,306	14,020	74,035	12,308
Total		28,766		25,301

These losses carried forward have an unlimited carry forward period under current German law.

Due to the lack of predictability regarding future taxable profits, the full existing deferred tax assets from loss carryforwards (EUR 28,766 thousand; 31 December 2013: EUR 25,301 thousand) and active latent differences amounting to EUR 55 thousand (31 December 2013 EUR 136 thousand) were not entered in the balance sheet, in accordance with IAS 12.34.

The following provides a reconciliation between expected and actual reported income tax expense, with the output value being based on the rounded income tax rate of 32.5% currently applicable to the Biofrontera Group:

	31 Dec. 2014 Thousand EUR	31 Dec. 2013 Thousand EUR
Group income before income taxes	(10,721)	(8,067)
Expected income tax refund at the tax rate of the parent company	3,479	2,618
Differences resulting from differing tax rates	0	(42)
Tax decreases due to changes in permanent differences	70	0
Tax increases due to non-deductible expenses	(150)	(119)
Change in active deferred taxes not on balance sheet		
- from active temporary differences	55	(31)
- from losses carried forward	(3,456)	(2,477)
Other effects	2	51
Income taxes according to statement of overall profit/loss	0	0

9 Equity

On 31 December 2013, the fully paid-up share capital of the parent company, Biofrontera AG, is EUR 22,196,570.00. It is 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 this was increased during the course of the 2014 financial year by EUR 4,443,402.00, divided into 4,443,402 registered shares. 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 proceeds from the issue amounted to EUR 15.3 million.

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

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 Xetra computer trading system 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 AIM Market of the London Stock Exchange (AIM).

The shares held by the shareholders as at 31 December 2014, based on the most recent compulsory disclosures by the shareholders:

	31 December 2014 EUR	31 December 2013 EUR
Maruho Deutschland Co., Ltd., Osaka Japan The total share of voting rights is assigned to Maruho Co., Ltd, Osaka, via the company Maruho Deutschland GmbH, Düsseldorf, which is controlled by the former.	4,467,143	1,610,000
Dr. Carsten Maschmeyer, Germany Dr Maschmeyer is assigned all the voting rights of the company ALSTIN Family GmbH, which he controls (formerly: Alternative Strategic Investments GmbH), Hanover, and MM Familien KG, Hanover.	2,282,177	2,194,393
Professor Ulrich Abshagen, Germany Professor Abshagen has a direct holding of 52,293 voting rights, and he is indirectly assigned 976,056 voting rights 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	1,028,349
Universal-Investment-Gesellschaft mbH, Frankfurt *Last voting rights notification on 10.02.2011. Since then there was no reported threshold transgressions, thus the actual stock as of 31 December 2014 may deviate significantly from this information.	981,438*	981,438*
Professor Hermann Lübbert, Leverkusen	685,512	664,512
Free float	12,751,951	11,274,476
Total	22,196,570	17,753,168

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.

For more details of the development of the company's equity capital, see the equity reconciliation statement.

As a result of the repurchase of 15,000 warrant bonds I (2009/2017) of Biofrontera AG at a price of EUR 100.00 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.

In connection with the already issued 2009/2017 warrant bond and the 2011/2016 warrant bond issued in July 2011 (first tranche) and December 2011 (second tranche), the following items were reported on 31 December 2014:

	31 December 2014 EUR	31 December 2013 EUR
Long-term financial debt		
(at amortised cost of acquisition)	10,774,299.63	12,030,950.38
Short-term financial debt		
(accrued interest from nominal interest rate)	1,224,598.00	435,750.00
Capital reserve		

(equity component 2009/2017 warrant bond)	1,485,294.99	1.684,233.99
Capital reserve		
(equity component 2011/2016 warrant bond)	1,226,747.16	1,226,747.16

The interest effects of the warrant bonds on the long-term borrowings were initially calculated using an effective annual interest rate of 14.35% for the 2009/2017 warrant bond, of 9.8% for the first tranche of the 2011/2016 warrant bond and of 5.8% for the second tranche of the 2011/2016 warrant bond.

In accordance with IAS 32.37, the costs of raising equity were reduced in order to book any related income tax benefits as deductions from equity. As, in the opinion of the company management, the realisation of the losses carried forward is associated with a high degree of uncertainty, the costs of raising equity were deducted in full from equity. In the 2014 financial year, costs of raising equity totaling EUR 216 thousand (31 December 2013: EUR 91 thousand) were recognised in connection with the capital increase that was carried out.

In the event of the company achieving an annual surplus, the Management Board and the Supervisory Board are authorised to place all or part of the annual surplus that remains, after deduction of the sums to be placed in the legal reserves and of a loss carryforward, in the surplus reserves. It is not permissible to place more than half of the annual surplus in the surplus reserves if, after such placement, the other surplus reserves would exceed half of the share capital. The shareholders' dividends are calculated based on the size of their holding of the share capital.

2010 Share Option Programme

At the Annual General Meeting on 2 July 2010, the Management Board and Supervisory Board proposed a share option programme for employees to the Annual General Meeting, which approved the initiative. In accordance with this, the Management Board, or the Supervisory Board if the beneficiaries are Management Board members, are entitled to issue up to 839,500 share options, the exercising of which is linked to specific targets.

The programme has a total nominal value of EUR 840 thousand and a term of six years from the issue date, i.e. until 24 November 2016. To this end, conditional capital of EUR 839,500 was enacted as a result of the issuing of up to 839,500 registered shares without par value (no-par value shares) and with a stake in the share capital of EUR 1.00 per share pursuant to § 192 paragraph 1 No. 3 German Stock Corporation Act (AktG). The conditional capital was registered on 30 July 2010 in the Commercial Register of Cologne District Court as HRB 49717. Eligibility for the 2010 Share Option Programme 2010 was granted to members of the Management Board and employees of the company as well as to members of management bodies and employees of affiliates of Biofrontera AG.

The date of issue was 24 November 2010. The granting of options is made without any payment being provided in return. On 24 November 2010, 106,400 options (first tranche) were issued with an exercise price per share of EUR 1.91. On 30 September and on 7 October 2011 (second tranche) a further 96,400 options were issued with an exercise price of EUR 2.48 each. On 23 March 2012 and 11 May 2012 (third tranche), 65,000 options were issued with an exercise price of EUR 3.30 each, and 51,500 options were issued with an exercise price of EUR 4.09 each. On 2 September 2013, 179,500 options were issued (fourth tranche) with an exercise price of EUR 3.373 each. On 2 April 2014 159,350 options were issued at an exercise price of EUR 3.43 each. All in all, 115,750 option rights were forfeited by employees leaving the company. There were therefore still 181,350 options outstanding on 31 December 2014.

In accordance with the associated conditions, each subscription right that is granted entitles the beneficiary to acquire one new registered share without par value (no-par value share) in the company. The exercise price is equal to the arithmetical average (unweighted) of the closing prices ascertained on the Frankfurt Stock Exchange via floor and Xetra trading for the Company's shares on the ten trading days prior to the issuing of the share. However, the minimum exercise price amounts to the proportionate share of the company's share capital allocated to each individual no-par value share, pursuant to § 9, paragraph 1 of the German Stock Corporation Act.

The options granted may only be exercised after expiry of a retention period. The retention period is four years from the respective date of issue. A prerequisite for the whole or partial exercising of the options is that the following performance target is achieved:

Exercising the options from a tranche is possible if at the beginning of the respective exercise period, the price (hereinafter referred to as the "reference price") of a share in Biofrontera Aktiengesellschaft exceeds the exercise price by at least 20%, and a minimum reference price of at least EUR 5.00 is achieved (hereinafter referred to as "minimum reference price"). The reference price is equal to the arithmetical average (unweighted) of the closing prices ascertained on the Frankfurt Stock Exchange via floor and Xetra trading for the Company's shares between the 15th and the 5th trading day (inclusive in each case) prior to the respective exercise window. The minimum reference price is adjusted in the following cases in order to bring the stated performance target into line with changed circumstances:

- In the event of a capital increase from company funds being carried out by issuing shares, the minimum reference price is reduced by the same proportion as new shares issued compared to existing shares. If the capital increase is carried out from company funds without the issuing of new shares (§ 207 paragraph 2 clause 2 German Stock Corporation Act (AktG)), the minimum reference price remains unchanged.

- In the event of a capital reduction taking place, no adjustment is made to the minimum reference price, provided that the total number of shares is not affected by the reduction of capital, or if the capital reduction is associated with a return of capital or an acquisition of own shares in return for payment. In the event of a capital reduction achieved by consolidation of shares without repayment of capital or in the event of an increase in the number of shares without a change in capital (share split), the minimum reference price is increased in proportion to the reduction of capital or to the share split.

There are no other cases in which adjustments are made to the minimum reference price.

The exercising of options is limited to the following time periods (hereinafter "exercise windows"), i.e. only declarations of exercising of rights submitted to the company within an exercise window will be considered:

a) on the 6th and the next 14 banking days after the date of the Annual General Meeting (exclusive),

b) on the 6th and on the next 14 banking days after the date of issue of a half-yearly or quarterly report or an interim announcement by Biofrontera Aktiengesellschaft (exclusive),

c) in the period between the 15th and the 5th banking day before expiration of the options for each respective expiry date (exclusive).

After expiry of the relevant retention period, the options can be exercised up until the expiry of six years from the date of issue (exclusive).

The right to exercise the options expires no later than six years after the first issue date (exclusive). The right to exercise the options expires no later than six years after the first day of issue, i.e. on 24 November 2016. Any options not exercised by that date are forfeited without compensation. We assume an average holding period of 5 years in assessing the employee options.

Any claim by the beneficiary to receive a cash settlement in the event of non-exercise of the options is invalid, notwithstanding the existence of the above exercise prerequisites. An option right may only be exercised if the holder has a current service or employment contract with the company or another company affiliated with the company or if the holder is a member of the Management Board or the management team of another company affiliated with the company.

In the event of the exercising of a subscription right, the company is generally and in specific cases permitted to choose between granting the registered share in exchange for payment of the exercise price, or fulfilling its debt by paying a cash settlement to the holder of the subscription right. The cash settlement per subscription right is equal to the difference between the exercise price per share and the share price on the exercise date, minus due taxes and fees.

As this share option scheme involves share-based remuneration with a choice of settlement at the discretion of the company, the company has decided, in accordance with IFRS 2:41 and IFRS 2:43, to book the transactions pursuant to the provisions for share-based remuneration settled with equity instruments (IFRS 2.10-29). Therefore, the fair value of a share from this share option programme with a granting date of 24 November 2010 was determined, on the basis of a binomial model, to have a value of EUR 0.57 / share option. For share options issued on 31 December 2010, this resulted in a total value of the options of EUR 60,648.00. For the additional share options granted in 2011, a fair value of EUR 119,536 was determined. For the two tranches of options granted in 2012, fair values of EUR 104,000.00 and EUR 106,090.00 were calculated, respectively. For the additional share options granted in 2013, a fair value of EUR 192,065 was determined. For the additional share options granted in the 2014 reporting period, a fair value of EUR 132,260.50 was determined. The booking of the pro-rata amounts is carried out proportionately as personnel expenses and as increases in the capital reserves over the period of accumulation, until the end of the retention period. Share price volatility factors of 45.78% and 51.3% were used in assessing the fair value of the options granted in 2010 and 2011, factors of 53.5% and 65% were used for the options granted in 2012, a factor of 39.2% was used for the options granted in 2013 and 32.3% for the options granted in 2013 (based on valuation date volatility). A dividend yield of 0% was used in all cases, as well as respective risk-free interest rates of 1.75%, 1.21%, 0.9% and 0.82% in 2012 as well as 0.71% in 2013 and 0.68% in 2014, and a uniform annual fluctuation of beneficiaries of 20%.

The expenditure booked in the reporting period was EUR 113 thousand (31 December 2013: EUR 88 thousand).

10 Financial liabilities

Biofrontera announced on 26 June 2009 the placement of a warrant bond with a term lasting until 31 December 2017. As part of this corporate financing measure, an option bond was placed in 2009 ("Warrant Bond I"). The warrant bond II has a total nominal value of EUR 10,000,000.00 and is divided up into 100,000 warrant bonds with a nominal value of EUR 100.00 each. Redemption on maturity is 106% of the nominal value of the bond. The warrant bonds bear interest on the following scale:

- from 1 September 2009 to 30 December 2010: annual rate of 4%;

- from 31 December 2010 to 30 December 2011: annual rate 6%;

- from 31 December 2011 to 31 December 2017: annual rate 8%.

Interest payments on warrant bonds end on the day before they are due for repayment. Interest is payable on the last business day of the calendar year, but for the first time on 31 December 2010, i.e. interest payable for 2009 was not due until then. Normal notice of termination on the part of the bondholders is not possible. Biofrontera has the right, upon provision of written notice to the bondholders, to repay Warrant Bond I at any time at 106% of the nominal amount (plus accrued interest). In accordance with the bond and option conditions, each bond holder has, for each individual bond held, five detachable warrants which each grant an irrevocable right to acquire a registered share without par value in Biofrontera AG, with associated voting rights and with a stake in the share capital of EUR 1.00 each, at an option price of EUR 5.00. The warrant expires on 30 December 2017. Each share resulting from the exercising of an option carries dividend rights from the beginning of the financial year in which it was created through the exercise of the option and payment of the contribution. Conditional capital of the company of up to EUR 500,000.00 is allocated in order to secure these options, as resolved at the Extraordinary General Meeting held on 17 March 2009.

Of these warrant bonds, partial bonds were issued with a nominal value of EUR 4,930,300 in total.

The liability from this warrant bond was valued at the time of issue and was attributed a cash value of EUR 3,238,744.00 , and the book value of the long-term financial debts amounted to EUR 2,671 thousand on 31 December 2014 (previous year: EUR 4,195 thousand). The short-term portion of the financial liability, i.e. debts payable within one year, amounts to EUR 789 thousand (31 December 2013: EUR 394 thousand). The nominal interest rates were paid in the following financial year on 01 January 2015 and are reported under the short-term financial liabilities, along with the interest payment for the nominal interest rates that will be due on 31 December 2015. See para. 6 for details of the warrant bonds held by Biofrontera.

On 7 June 2011, the Management Board decided, with the approval of the Supervisory Board and based on the authorisation granted by the Annual General Meeting, to issue a warrant bond 2011/2016 (hereinafter referred to as "Warrant Bond II").

The warrant bond II has a total nominal value of EUR 25,000,000.00 and is divided up into 250,000 warrant bonds with a nominal value of EUR 100.00 each. Each individual warrant bond is associated with ten detachable warrants issued by the company; each warrant entitles the holder to acquire a registered share without par value in the company, with associated voting rights and with a stake in the share capital of EUR 1.00 each, at an option price of EUR 3.00. If all the option rights were to be issued and exercised, this would result in a calculated total exercise price of EUR 7,500,000.00. The issue price for each warrant bond is EUR 100.

The term of the warrant bonds begins on 20 July 2011 and ends on 31 December 2016. The company will repay the bonds on 01 January 2017 at 100% of the nominal amount. The company has the right to repay the Warrant Bond II at any time at 100% of the nominal amount (plus accrued interest). Bondholders may terminate Warrant Bond II for good reason in certain cases; normal termination on the part of the bondholders is not possible. In order to provide financing for the option rights, conditional capital of up to EUR 2,500,000.00 was approved at the company’s General Meeting on 10 May 2011 and entered in the commercial register on 18 May 2011. The warrant bond II bears annual interest of 5%. Interest payments on all bonds expire on 31 December 2016. Inter-

est is paid annually on 1 January for the previous year, commencing on 1 January 2012 with a payment of EUR 195 thousand for the period 20 July 2011 until 31 December 2011.

A nominal total of EUR 8,715 thousand of individual warrant bonds of Warrant Bond II was issued as a result of the two transactions that exchanged the convertible bonds for Warrant Bond II in July and December 2011 and the direct acquisition from the initial issue. The resulting interest payments payable for the period from 1 January 2014 to 31 December 2014 were paid on the interest due date of 2 January 2014; these payments amounted to EUR 436 thousand (31 December 2013: EUR 436 thousand). On 31 December 2014, the interest debt payable for the period from 1 January 2014 to 31 December 2014, amounting to EUR 436 thousand (previous year: EUR 436 thousand), was reported as short-term liabilities.

The contractual interest and repayment obligations relating to warrant bonds are broken down on the balance sheet date as follows:

Thousand EUR	31 December 2014					
	2015	2016	2017	2018	2019	Total
Warrant bond 2009/2017:						
Repayment				5,226		5,226
Interest payment	788	394	394			1,576
Warrant bond 2011/2016:						
Repayment			8,715			8,715
Interest payment	436	436	436			1,308

The situation was as follows in the previous year:

Thousand EUR	31 December 2013					
	2014	2015	2016	2017	2018	Total
Warrant bond 2009/2017:						
Repayment					5,226	5,226
Interest payment	394	394	394	394		1,576
Warrant bond 2011/2016:						
Repayment				8,715		8,715
Interest payment	436	436	436	436		1,744

11 Trade payables

Liabilities for goods and services (EUR 967 thousand; 31 December 2013: EUR 713 thousand) have increased by EUR 254 thousand compared with the previous year. The increase is due to the goods and services and the underlying terms and conditions of payment billed at the end of the year.

12 Other provisions

The development of the other provisions is as follows:

Biofrontera Group	Euro 01 January 2014	Utilisation	Liquidated	Allocated	EUR 31 December 2014
- Bonuses for employees	77,990.33	55,990.33	22,000.00	106,622.00	106,622.00
- Outstanding holiday	62,181.78	62,181.78	0.00	72,262.67	72,262.67
- Outstanding invoices	605,668.38	495,442.47	42,164.82	567,703.58	635,764.67
- Financial statement and audit costs	93,484.00	85,883.70	7,600.30	93,884.00	93,884.00
- Other provisions	39,902.18	4,057.46	0.00	7,566.35	43,411.07
Total provisions	879,226.67	703,555.74	71,765.12	848,038.60	951,944.41

The remaining provisions concern various individually identifiable risks and uncertain obligations. The use of provisions classified as current is anticipated within the subsequent financial year.

13 Miscellaneous financial and other liabilities

	31 December 2014 thousand EUR	31 December 2013 Thousand EUR
Payroll tax	66	61
Financial leasing	20	30
Other	27	23
	113	114

14 Reporting on financial instruments

In the ordinary course of business, the group faces market price and credit risks as well as liquidity risks which may have an effect on the financial position, cash flows and results of operations.

Market price risk: the risk associated with interest changes is considered insignificant because, as a rule, the existing interest modalities for the relevant financing of the Biofrontera Group can be adjusted to market conditions in the short and medium term. There is no Cash Flow risk related to the option bonds with fixed yield. Due to the fixed yield no detrimental changes related to the interest payments can occur. As these liabilities are capitalized at carried forward acquisition cost and not at fair value, a fair value risk doesn't exist either.

Credit risk: A credit risk exists for the group if transaction partners cannot fulfil their obligations within normal payment deadlines. On the balance sheet, the maximum non-payment risk is represented by the book value of the relevant financial asset. The situation regarding receivables is monitored so that any possible non-payment risks

can be identified at an early stage and appropriate steps taken. In the reporting year, individual value adjustments amounting to EUR 261 thousand were made for other financial assets (31 December 2013: EUR 0); No individual value adjustments were made on goods and services in the reporting year (31 December 2013: EUR 46 thousand).

Financial instruments evaluated at fair value in the consolidated balance sheet can be classified according to the following valuation hierarchy, which reflects the extent to which the fair value is observable:

Level 1: fair value evaluations using prices listed on active markets (not adjusted) of identical assets or liabilities.

Level 2: fair value evaluations using input data for the asset or liability that are either directly observable (as prices) or indirectly observable (derived from prices), but which do not constitute listed prices pursuant to Level 1.

Level 3: fair value evaluations using input data for the asset or liability that are not based on observable market data (unobservable input data).

Biofrontera only has financial instruments at levels 1 and 2. No reclassifications between level 1 and level 2 were carried out during the 2014 financial year. All the financial assets assessed at fair value and listed in the following are classified as level 1. With regard to financial liabilities, the full amount (EUR 11,999 thousand; 31 December 2013: EUR 12,467 thousand) is allocated to level 2. This involves financial debt arising from the two warrant bonds.

Biofrontera records value adjustments on trade receivables and on the other financial assets that are assigned to the category "credits and receivables", under the other expenses. Losses from currency conversion within the valuation category “loans and receivables” mainly result from liabilities for goods and services. Net income and losses include individual value adjustments and effects from currency conversion effects.

The financial assets and liabilities can be broken down into assessment categories with the following book values and the net profits and losses:

Financial Assets on 31 December 2014 (EUR)	Fair value	Book values					Net profits (+) or losses (-)
		Cash and cash equiva-lents	Credits and receivables	Financial instruments recognised at fair value in profit or loss (ex-cluding "held for trading")	Financial assets available for sale	TOTAL BOOK VALUES	
- Financial in-vestments							
- Liquid assets	8,509,398	8,509,398				8,509,398	61
- Receivables from goods and services	308,984		308,984			308,984	(38)
- Other short-term financial receivables and assets	726,791		726,791			726,791	(261,099)
TOTAL	9,545,173	8,509,398	1,035,775	0	0	9,545,173	(261,076)

Financial Liabilities on 31 December 2014 (EUR)	Fair value	Book values					Net profits (+) or losses (-)
		Other liabilities	Financial instruments recognised at fair value in profit or loss (excluding "held for trading")			TOTAL BOOK VALUES	
- Financial liabilities (short-term)	1,224,598	1,224,598				1,224,598	
- Liabilities from goods and services	967,438	967,438				967,438	(9,600)
- Other financial liabilities (short-term)	27,012	27,012				27,012	
- Other financial liabilities (long-term)	10,774,298	10,774,298				10,774,298	
TOTAL	12,993,346	12,993,346	0	0	0	12,993,346	(9,600)

Financial Assets on 31 December 2013 (EUR)	Fair value	Book values					Net profits (+) or losses (-)
		Cash and cash equiva-lents	Credits and receivables	Financial instruments recognised at fair value in profit or loss (ex-cluding "held for trading")	Financial assets available for sale	TOTAL BOOK VALUES	
- Financial in-vestments							
- Liquid assets	2,933,578	2,933,578				2,933,578	(25,000)
- Receivables from from goods and services	578,411		578,411			578,411	(45,521)
- Other short-term financial receivables and assets	767,225		767,225			767,225	0
TOTAL	4,279,214	2,933,578	1,345,636	0	0	4,279,214	(45,546)

Financial liabilities Liabilities on 31 December 2013 (EUR)	Fair value	Book values					Net profits (+) or losses (-)
		Other liabilities	Financial instruments recognised at fair value in profit or loss (excluding "held for trading")			TOTAL BOOK VALUES	
- Financial liabilities (short-term)	435,750	435,750				435,750	
- Liabilities from goods and services	713,098	713,098				713,098	(2,824)
- Other financial liabilities (short-term)	22,608	22,608				22,608	
- Other Financial liabilities (long-term)	12,030,950	12,030,950				12,030,950	
TOTAL	13,202,406	13,202,406	0	0	0	13,202,406	(2,824)

Liquidity risk: refinancing of the Biofrontera group companies is generally carried out on a central basis by Biofrontera AG. There is a risk in this regard that the liquidity reserves may be insufficient to fulfil the financial obligations on the due date. As of 31 December 2013, liquid assets and cash equivalents amounting to EUR 8,509 thousand (31 December 2013: EUR 2,934 thousand) were available. See the relevant balance sheet notes on (undiscounted) payments from financial debts due in the next few years.

Notes on the consolidated statement of comprehensive income of 31 December 2014

15 Sales revenue

The Biofrontera Group achieved turnover of EUR 3,096 thousand in the 2014 financial year (previous year: EUR 3,115 thousand). A down payment of EUR 70 thousand (previous year: 0) is included in this. The revenues from the sale of our products (without the above mentioned upfront payments) amounted to EUR 2,379 thousand in

Germany and revenues abroad amounted to EUR 647 thousand. Sales revenue outside Germany grew only modestly in 2014, as many of our distribution partners had not fully sold off their production lots purchased in 2013 and we therefore received hardly any new orders. Although significant progress was made in nearly all countries, and the necessary reimbursement agreements and other agreements were concluded there, the development in turnover was below expectations in 2014. We do, however, expect the performance to significantly improve in 2015.

16 Cost of sales

The cost of sales amounted to EUR 1,117 thousand and thus to 36% of sales revenue (previous year: EUR 1,604 thousand or 51% of sales revenue). A significant part of the cost of sales is the external material and production costs, which amount to EUR 841 thousand (previous year: EUR 884 thousand).

The structural improvement is primarily attributable to cost savings in the production area. In addition, start-up costs for the fulfillment of requirements for the EMA and the qualification of new suppliers were incurred in 2013, which were still incurred again in 2014 but at a lower level.

17 Research and Development costs

Research and development costs increased by 42%, from EUR 3,186 thousand in the previous year to EUR 4,534 thousand in the 2014 financial year. In line with its strategy, Biofrontera has increased its investment in research and development in order to enable both the above mentioned expansion of indications and the approval for Ameluz® in the USA.

18 Sales costs

The sales costs amounted to EUR 3,847 thousand in 2014 (previous year: EUR 3,036 thousand). Increases in costs arose from investments in the market access for other European countries and for marketing preparation in the USA.

19 General Administration costs

The General Administration costs increased to EUR 3,124 thousand, compared to EUR 698 thousand in the previous year, primarily due to the financing costs.

20 Financial result

The financial result consists primarily of the interest payable for the 2009/2017 warrant bond (EUR 446 thousand, 31 December 2013: EUR 575 thousand) and for the 2011/2016 warrant bond placed in 2011 (EUR 702 thousand, 31 December 2013: EUR 695 thousand), calculated using the effective interest method. The above mentioned interest expenses of EUR 447 thousand for the warrant bonds 2009/2017 includes the opposite effect (amounting to EUR 156 thousand) resulting from the repurchase on 28 February 2014. The interest payment for

the 2013 calendar year from the warrant bond II occurred in January 2014. Interest payments for the 2014 financial year for the warrant bonds I and II occurred in January 2015.

21 Other income (expenses), net

In the 2014 financial year, other operational income decreased by EUR 208 thousand to EUR 186 thousand. This is largely attributable to the reversal of provisions amounting to EUR 72 thousand (31 December 2013: EUR 263 thousand). The other operational expenses increased from EUR 91 thousand to EUR 280 thousand compared to the previous year. This increase is largely attributable to the individual value adjustments amounting to EUR 261 thousand on a loan made available by a development partner in the short term.

22 Earnings per share (EPS)

Earnings per share are calculated on the basis of the net loss of the Biofrontera Group and the average outstanding ordinary shares in circulation in the financial year, in accordance with IAS 33.

	31 December 2014	31 December 2013
Number of weighted ordinary shares in circulation (on average)	21,757,826.65	17,342,948.82
Net loss in EUR	(10,720,979)	(8,066,619)
Undiluted earnings per share in EUR	(0.49)	(0.47)

When calculating diluted earnings per share for the 2013 and 2014 financial years, the warrant bonds already issued in 2009 (2009/2017), with a total nominal value of EUR 4,930 thousand and giving bondholders the right to acquire 246,515 shares at a price of EUR 5.00 each, as well as the warrant bonds issued in 2011 (2011/2016), with a total nominal value of EUR 8,715 thousand and giving bondholders the right to acquire 871,500 shares at a price of EUR 3.00 each, generally have be taken into account. Because the group achieved negative annual results in the 2013 and 2014 financial years, no diluted earnings per share were reported, as the conversion or subscription rights for the periods shown counteracted any dilution.

23 Additional information regarding the consolidated statement of comprehensive income

Under the profit and loss account on 31 December 2013 and on 31 December 2014, there was no "other comprehensive income (OCI)" to report, in the absence of any relevant facts or circumstances. Therefore, the net loss equates to the total profit or loss for the period.

Material costs

The material costs included in the turnover expenses amounted to EUR 841 thousand (31 December 2013: EUR 884 thousand) for the 2014 financial year.

Depreciation

The depreciation of tangible and intangible assets of EUR 811 thousand on 31 December 2014 and of EUR 742 thousand on 31 December 2013 is included in the following items in the statement of comprehensive income:

	31 December 2014 Thousand EUR	31 December 2013 Thousand EUR
Research and development costs	702	670
General administrative costs	105	72
Cost of sales	4	0
Depreciation of tangible and intangible assets	811	742

Personnel costs

	31 December 2014 Thousand EUR	31 December 2013 Thousand EUR
Salaries and wages	3,024	2,840
Social security charges	401	356
Total	3,425	3,196

The personnel costs include contribution-related expenses for pension schemes amounting to EUR 41 thousand (previous year: EUR 33 thousand).

The Net Income before Taxes is equal to the Total result for the period. There are no other comprehensive income or losses.

24 Staff

On average, the Biofrontera Group employed 37 employees in the 2014 financial year (2013: 35 employees).

25 Other information

Operating and financial leases

The group companies lease administrative and research facilities, as well as vehicles and equipment, under operating lease contracts. Future minimum obligations relating to leasing contracts are as follows:

	2014	2013	2014	2013	2014	2013
	≤ 1 year		1 year to 5 years		> 5 years	
Operating lease relationships						
Leases for business premises	142,981.44	141,400.44	512,482.38	655,463.82	0.00	0.00
Leases for cars	147,703.40	149,826.09	150,316.72	100,791.16	0.00	0.00
Leases for operating and business equipment	16,019.04	15,809.29	46,774.92	58,530.96	0.00	0.00
Consultancy contracts	71,511.48	135,666.67	0.00	0.00	0.00	0.00

Lease-related expenses for the reporting period amounted to EUR 191 thousand (previous year: EUR 175 thousand).

On the balance sheet date, there was a financial lease for a server leased by Biofrontera AG with a book value of EUR 20 thousand (previous year: EUR 30 thousand). The contract has a minimum term of 60 months to 31 July 2017. Biofrontera AG is obliged to purchase the leased asset from the lessor for a fixed residual value of EUR 2 thousand if the lessor exercises its option to sell. In the reporting year, minimum lease payments of EUR 11 thousand were recorded as expenses (previous year: EUR 11 thousand).

On the balance sheet date of 31 December 2014, the present value of the sum of future minimum lease payments was as follows:

All figures stated in thousand EUR	Minimum lease payments	Discount	Cash value
Up to 1 year:	11	2	9
Between 2 and 5 years:	16	5	11
Longer than 5 years	0	0	0

26 Notes on the cash flow statement

The cash flow statement is presented pursuant to IAS 7. The net loss is adjusted for effects of non-cash transactions, deferrals or accruals of past or future operational deposits or disbursements, and income and expense items attributable to investment or financing activities.

In the consolidated cash flow statement, cash and cash equivalents include cash-in-hand, cheques, bank deposits and money deposits with a maturity of up to three months. Current account liabilities are incorporated into the cash fund where applicable.

The interest payments made amounted to EUR 454 thousand (2013: EUR 830 thousand). The change resulted from the interest payments for the warrant bonds I on 01January 2015 compared to the interest payment paid in the previous year that was alreadymade in December 2013. The interest payments made amounted to EUR 143 thousand (2013: EUR 19 thousand). Of the increase of EUR 124 thousand, a total of EUR 120 thousand resulted from the interest payments received for warrant bonds I held by Biofrontera in particular.

27 Members of the Management Board

The members of the Management Board are:

Professor Hermann Lübbert was Chief Executive Officer in the reporting period. The Chief Executive Officer holds a professorship at the University of Bochum in Germany. His management contract was renewed for five years in March 2010.

Mr Thomas Schaffer is the company's Chief Financial Officer. His contract runs from 03 June 2013 to 30 November 2015.

The remuneration of the Management Board members consists of a fixed salary that is paid in twelve equal monthly instalments. In addition, there is an annual, performance-based bonus for the directors, as well as a long-term remuneration component consisting of participation in the company's share option programme. Company cars are also available to the directors for business and private use.

During the period from 1 January to 31 December 2014, remuneration for the Management Board members consisted of a salary, a bonus and share options. The total remuneration for Management Board members in the reporting period, including the value of share options at the time when they were granted, amounted to EUR 807 thousand (2013: EUR 892 thousand). Of this amount,

Professor Hermann Lübbert	- Salary / Bonus	EUR 405 thousand (31 December 2013: EUR 412 thousand)
	- Share options	151,850 (fair value when granted: EUR 167,236 (previous year: 135,000, fair value when granted: EUR 153,250), *of which 16,850 options were granted in 2014 (previous year: 30,000).*
Thomas Schaffer	- Salary / Bonus	EUR 202 thousand (31 December 2013: EUR 100 thousand)
	- Share options	35,000 (fair value when granted: EUR 32,650 (previous year: 15,000, fair value when granted: EUR 16,050), *of which 20,000 options were granted in 2014 (previous year: 15,000).*

In the previous year, Mr Werner Pehlemann, whose contract ended on 03 June 2013, received a salary/bonus amounting to EUR 211 thousand.

The salaries/bonuses are classified as short-term employee benefits as defined in IAS 24.17 (a).

28 Supervisory Board members

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 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 2014 financial year, the remuneration of the Supervisory Board members amounted to EUR 113 thousand (2012: EUR 113 thousand). The remuneration is classified as short-term employee benefits as defined in IAS 24.17 (a).

During the period under review, the company availed itself of additional advisory services from two members of the Supervisory Board, Dr Ulrich Granzer and Ms Ulrike Kluge. These services went beyond the scope of normal Supervisory Board activities. 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 half of the 2014 financial year, advisory services amounting to EUR 98,000 (previous year: EUR 32,300) were provided by Granzer Regulatory Consulting & Services. Accounts payable to Granzer Regulatory Consulting & Services amounted to EUR 5,800 on 31 December 2014 (31 December 2013: EUR 6,100). Ms Kluge advises the company in the area of business development. In the 2014 financial year, the advisory services provided by her amounted to EUR 6,600 (previous year: EUR 2,100), and liabilities to klugeconcepts GmbH amounted to EUR 3,800 on 31 December 2014 (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.

29 Statement regarding relationships with related companies and persons

In the 2014 financial year, there were no transactions or relationships with related persons that were subject to mandatory reporting, beyond the facts and circumstances stated in subsections 27 and 28. The group of related persons and companies is limited to those referred to therein.

In the context of the underlying holding structure, Biofrontera is responsible for the administrative and management tasks. Biofrontera AG is also responsible for the financing of the currently still loss-making areas of business, as it is a listed company and therefore has the best access to the capital markets.

The funds made available to the subsidiaries as loans bear interest at market rates and are, if necessary, furnished with a subordination clause.

In light of the close cooperation between the subsidiaries, internal offsetting is applied, which is reviewed and adjusted to requirements on an annual basis.

30 Corporate governance statement pursuant to § 289a of the German Commercial Code (HGB), including the statement required by § 161 of the German Stock Corporation Act (AktG) on the German Corporate Governance Code

The Management Board and Supervisory Board of Biofrontera AG have provided the corporate governance statement as required pursuant to § 289a HGB, including the statement required pursuant to § 161 AktG, and have made these available to shareholders on the Biofrontera AG website.

31 Fees and services of the auditor

The total fee invoiced by the auditor Warth & Klein Grant Thornton AG for the 2014 financial year consists of the following:

	2014	2013
	Thousand EUR	Thousand EUR
Audit services	105	156
of which for the previous year	14	51
Other certification services	33	50
Tax advisory services	0	0
Other services	7	0
	145	206

32 Events occurring after the balance sheet date

On 17 March 2015, the rights to sell Biofrontera products in Spain were transferred back to Biofrontera by Allergan. Since then, Biofrontera has sold its products in Spain through its own branch, Biofrontera Pharma GmbH, sucursal en España.

March 2015 also saw the establishment of a subsidiary in America, Biofrontera Inc., which is based in Wilmington, DE.

Following a decision of the Supervisory Board on 27 March 2015 the service contract with the CEO Prof Hermann Lübbert was extended by five years until 31 October 2020.

No further events subject to mandatory reporting occurred after the balance sheet date.

Leverkusen, 09 April 2015

Professor Hermann Lübbert — Chief Executive Officer

Thomas Schaffer — Chief Financial Officer

Auditor's opinion:

We have audited the consolidated financial statements prepared by Biofrontera AG – comprising a consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income for the period, consolidated statement of changes in equity, consolidated statement of cash flows and notes to the consolidated financial statements – and the combined management report of Biofrontera AG and the group for the financial year from January 1, 2014 to December 31, 2014. The preparation of the consolidated financial statements and the combined management report in accordance with IFRS, as adopted by the EU, and with the additional requirements of the German commercial law pursuant to section 315a paragraph 1 HGB are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and the combined management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with paragraph 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 the consolidated financial statements in accordance with the applicable financial reporting framework 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 annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, 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 of Biofrontera AG for the financial year from January 1, 2014 to December 31, 2014 comply with IFRS, as adopted by the EU, and the additional requirements of the German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The combined management report of Biofrontera AG and the group is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitable presents the opportunities and risks of future development.

Without qualifying this opinion we refer to the explanations in the combined management report. The Management Board clarifies under section "Opportunities and risks relating to future business performance", "Liquidity risk" that further capital measures are necessary until the Break Even and admission of Ameluz in the US is reached. Because of the Management boards successful experiences with corporate capital actions, the Management board acts on the assumption that the necessary liquidity for further business development is guaranteed for the forecasting horizon and beyond. In the case and against all expectations that these valid estimations could not be realized, this could lead to a fact endangering the going concern assumption.

Düsseldorf, April 9, 2015

Warth & Klein Grant Thornton AG
Wirtschaftsprüfungsgesellschaft

Dr. Jens Brune	Renate Hermsdorf
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

Half-yearly financial report as at June 30, 2016

Consolidated interim management report for the first half of the 2016 financial year

Group strategy

The strategic objective of Biofrontera Group is to establish the company as a pharmaceutical company specializing in the dermatological sector at a global level. In addition to further expanding the current sale of our products, the main priorities are to increase the range of indications for Ameluz® and to expand international sales activities, particularly in the USA.

Biofrontera was the first small German company to receive centralized European drug approval for a completely independently developed drug, Ameluz®. Biofrontera has been selling Ameluz® to dermatologists in Germany via its own field sales team since the product was launched in February 2012, and in Spain since March 2015. Ameluz® is available in the UK, but is not to be actively promoted by Biofrontera until after approval has been extended to basal cell carcinoma. The drug is sold in other countries of the European Union, as well as in Israel and Switzerland, via licensing partners.

Biofrontera has thus established itself as a specialist pharmaceutical company with an unusually high level of research and development expertise compared with other companies in this sector. The focus of the Group's short-term strategy is to further expand its business in Europe, achieve market entry of Ameluz® in the USA and extend the indications to include basal cell carcinoma, firstly in the EU followed by the USA at a later stage.

In May 2016, the US Food and Drug Administration (FDA) granted approval for Ameluz® in combination with the BF-RhodoLED® lamp in the USA. The company had submitted the approval application (NDA = New Drug Application) to the FDA in early July 2015. Ameluz® and BF-RhodoLED® have to be approved as a combination of a drug and a medical device in the USA, making the approval application unusually complex. The FDA performed extensive review and inspections in the months following the application. Unconditional approval was subsequently granted for the lesion-directed and field-directed treatment of mild to moderate actinic keratoses on the face and scalp. This means that Biofrontera has access to the largest healthcare market in the world, and preparations for the planned market launch in September 2016 are still well underway.

The extension of the indications for Ameluz® to include the treatment of basal cell carcinoma (BCC) was initiated in 2014. Phase III clinical testing was conducted in direct comparison with the competitor product Metvix®. Patient recruitment was completed in May 2015 and the last patient completed the clinical part of the trial in November 2015. There is then a five-year follow-up period for all patients. The results of the trial have been available since January 2016 and prove that Ameluz® is highly clinically effective for the indication of BCC. In comparison with the competitor product Metvix®, it demonstrated higher healing rates, especially for thicker and nodular carcinomas. Despite its statistically significant inferiority for the treatment of mild and moderate actinic keratosis on the face and scalp and the approval restriction as a second-choice therapy, Metvix® has had a major competitive advantage over Ameluz® until now due to its approval for the treatment of basal cell carcinoma. Particularly in other European countries, where dermatologists are based mainly in hospitals and there are fewer independent practices, the market opportunities for Ameluz® are significantly reduced by the lack of approval for BCC. The label extension that is currently being sought is therefore expected to put Biofrontera in a significantly improved market position. The application to extend the indications of Ameluz® to include basal cell carcinoma was submitted to the EMA in July 2016. The processing and inspection of the application by the European agency is expected to take six months.

In July 2016, the EMA Committee for Medicinal Products for Human Use (CHMP) also issued a positive assessment for the extension of the indications of Ameluz® to include field cancerization, i.e. the treatment of larger cancerous areas. The European Commission is expected to issue formal approval in the near future.

2016 is therefore a crucial year as Biofrontera sets its course for a successful future. In light of this and the related challenges facing Biofrontera, the company has also strengthened its workforce. The Management Board was expanded to include a Chief Commercial Officer back in November 2015. In recent weeks, Biofrontera has also started to intensively appoint suitable employees in the USA, where it has also filled key posts.

Products

Ameluz®

Ameluz® 78 mg/g Gel ("for people who love the light", development name: BF-200 ALA) received an initial centralized European approval for the treatment of mild and moderate actinic keratoses on the face and scalp in December 2011. During the phase III development, its superiority compared to its direct competitor product Metvix® was proven for this indication. 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 Medicines Agency (EMA) explicitly mentions the significant superiority of Ameluz® for removing all of a patient's keratoses compared to its direct competitor product.

In the phase III approval trials, Ameluz® showed excellent healing rates and demonstrated significant superiority compared to the approved comparator product, which was tested in parallel. In the first phase III trial in which the drug was combined with an LED lamp, all keratoses were completely removed in 87% of patients treated with Ameluz®, and in terms of the number of individual keratosis lesions, as many as 96% were completely eradicated (all values stated are ITT *(intent to treat)* values). In the second phase III approval trial, the effectiveness of Ameluz® was tested in comparison with the approved standard medication. The results of the trial provided evidence that Ameluz® was clearly superior to the competitor product already available in Europe at the time. Based on the average for all lamps used in the treatment, Ameluz® resulted in the complete healing of actinic keratoses in 78% of patients, whereas the competitor product already approved at the time achieved a healing rate of only 64%. With LED lamps, the healing rates increased to 85% for Ameluz® and 68% for the competitor product. The side-effect profile was comparable for both products.

As approval in the USA requires a combination of drug and lamp, Biofrontera has developed its own PDT lamp, BF-RhodoLED®, and has had it CE-certified in the EU, which requires the company to be certified in line with the ISO 9001 and ISO 13485 standards. In preparation for approval in the USA, a phase III trial was conducted with a combination of Ameluz® and BF-RhodoLED®. With this combination, keratoses were completely eradicated in 91% of patients, and in terms of the number of individual lesions, 94% were completely removed after treatment (99.1% of mild lesions and 91.7% of moderate lesions). As it has been widely reported in the literature that PDT has pronounced skin-rejuvenating properties, particularly in the case of sun-damaged skin, in this trial the drug was applied over large surface areas (field therapy) for the first time in a phase III trial of PDT anywhere in the world, and the cosmetic result was established without reference to the disappearance of the keratotic lesions. All the parameters that were tested improved significantly as a result of the treatment. The proportion of patients without rough, dry and scaly skin increased from 14.8% to 63.0% after treatment with Ameluz®. The group of patients without hyperpigmentation or hypopigmentation increased from 40.7% to 57.4% and from 53.7% to 70.4% respectively. The proportion of patients with mottled pigmentation who had both hyperpigmentation and hypopigmentation in the treated area decreased from 48.1% to 29.6%. Before treatment, 22.2% of the patients had mild scarring; this decreased to 14.8% of patients after treatment. Atrophic skin was diagnosed in 31.5% of patients before treatment but in only 16.7% of patients after the treatment.

The patients treated in the field therapy trial were observed by the trial doctors over the course of a year after the final treatment. The long-term nature of the pharmaceutical effect of Ameluz® was analyzed in terms of effectiveness, safety and the cosmetic result. 63.3% of the patients who were initially completely asymptomatic were still asymptomatic one year later. The long-term effectiveness achieved using field therapy is thus in the region of that already observed in previous long-term studies on lesion-directed PDT with Ameluz®. The improvement in the skin appearance of patients treated with Ameluz® that was observed immediately after PDT continued to develop during the follow-up period. Before PDT, only 14.8% of patients had no impairments to the surface of the skin. Whereas 63% of patients were already free of such cosmetic damage twelve weeks after the last PDT, this percentage rose to 72.2% after a year. Similar results were also observed for pigment disorders. Before PDT, hyperpigmentation occurred in 59.3% and hypopigmentation in 46.3% of patients, with 48.1% exhibiting irregular pigmentation. Twelve weeks after Ameluz® PDT, these percentages initially fell to 42.6%, 29.6% and 29.6%, decreasing over the course of a year to 24.1%, 11.1% and 18.5%. These results clearly show that the skin rejuvenation effect achieved using photodynamic therapy with Ameluz® is long-lasting and the repair processes triggered by the therapy remain active for at least twelve months.

It is the first time that data on the aesthetic effect of PDT has been collected within the scope of a phase III approval trial. The results underline the significance of PDT with Ameluz® and BF-RhodoLED® and show that the therapy stands out clearly from many other treatment options.

Both of the phase I trials required by the American approval authority, the FDA, were already completed in 2015. These clinical trials were initiated with a total of approximately 240 patients or subjects in order to add the safety data required for registration in the USA to the European approval package for Ameluz®. Specifically, one of the trials was a sensitization study, which determines the potential of Ameluz® to trigger allergies, and the other was a maximal use trial, which tests the absorption in the blood of the active ingredient in Ameluz®, aminolevulinic acid, and the light-activated metabolite protoporphyrin IX in cases of treatment with the maximum quantity, i.e. the application of a complete tube onto the defective skin. No safety concerns were identified in either of the trials.

Actinic keratosis is classified as a tumor that requires treatment, and the international treatment guidelines list photodynamic therapy as the gold standard for the removal of actinic keratoses, particularly for patients with large keratotic areas. The latest statistics show that actinic keratosis is becoming a widespread disease, with eight million people affected in Germany alone, and that there is a marked upward trend in cases. In particular, subclinical and mild actinic keratoses 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 therefore taking actinic keratosis increasingly seriously is illustrated by the fact that actinic keratosis has been recognized as an occupational disease since summer 2013. Since then, occupational insurance associations have been obliged to cover the treatment costs of patients who have worked predominantly outdoors for a long time and who fulfil certain criteria for the duration of these patients' lives. Reimbursement was determined in March 2016. Photodynamic therapy (PDT) is taken into account and can be used and invoiced for the treatment of occupational AK.

At present, actinic keratoses are treated using a wide range of methods. Lesions are treated, sometimes for weeks, with topical creams, which are often ineffective, or the diseased skin may be removed by mechanical intervention (curettage) or freezing (cryotherapy), which very often leads to scar formation or permanent pigment disorders.

The market for topical creams continues to show constant growth, and medicinally and legally questionable PDT formulations continue to be used in Germany. Because Ameluz® is the market leader among independent dermatologists in Germany in the PDT proprietary medicinal product market, a significant increase in sales can and must result from the aforementioned sectors.

The overall advantages of Ameluz® in terms of effectiveness, handling, user-friendliness and skin rejuvenation effect, as well as the high healing rates of PDT in the treatment of actinic keratoses, will increasingly bring this

treatment option to the attention of dermatologists over the next few years. This will be helped by the expansion of the range of indications to include basal cell carcinoma, which the company is currently working on, as the vast majority of PDT treatments involve this indication, particularly in the UK and Spain.

Biofrontera has conducted a phase III trial for the extension of the European approval to include the indication basal cell carcinoma (BCC). BCCs are the most common invasive tumors affecting humans, accounting for approximately 80% of all invasive white skin cancers. Around 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, gives rise to excellent cosmetic results. In the pivotal phase III trial, a total of 278 patients were treated. The trial was conducted under the clinical supervision of Prof. Colin Morton (UK) and Prof. Markus Szeimies (Germany) and was carried out at 27 clinical trial centers in the UK and Germany. Patient recruitment for the trial, which was conducted in direct comparison with the competitor product Metvix®, was completed in May 2015 and the last patient completed the trial in November 2015. The results of the trial have been available since January 2016. The results confirm the company's positive expectations. In the clinical trial, the effectiveness and safety of Ameluz® were compared with that of Metvix®, a drug already approved in the EU for the treatment of BCC. Non-aggressive (superficial and nodular) BCCs with a thickness of up to 2 mm were included in the trial. Ameluz® achieved the complete elimination of all BCCs from the patient in 93.4% of cases compared to 91.8% with Metvix®. There were greater differences in the case of thicker BCCs. With Ameluz®, 89.3% of the nodular carcinomas were completely removed, compared to only 78.6% with Metvix®.

Based on the results of this phase III trial, Biofrontera applied to the European Medicines Agency for approval for the treatment of BCC with Ameluz® in July 2016. The inspection of the application by the agency is expected to take around six months.

In June 2016, the first patient was treated in a phase III clinical trial to evaluate the safety and efficacy of Ameluz® in combination with daylight photodynamic therapy (PDT) in comparison with Metvix® for the treatment of mild to moderate actinic keratosis. The head-to-head, randomized, observer-blinded, multi-center trial encompassing around 50 patients is being carried out at eight trial centers in Spain and Germany. All of the participants have between three and nine mild to moderate actinic keratoses (Olsen grade 1 and 2) in each of two comparable treatment areas on the face and/or scalp. The drug for each treatment site will be selected at random. The last patient is expected to conclude treatment by the end of 2016. Daylight PDT offers a convenient and painless alternative to PDT with a specialized lamp. The topical medication is activated by exposure to natural or artificial daylight. Among the many benefits, this saves physician office visit time for the patient. A label extension to include daylight PDT would allow Biofrontera to compete directly with patient-administered topical drugs as well as cryotherapy. We are excited to begin this clinical trial to determine additional methods of effectively treating patients with superficial skin cancer. The primary endpoint of the trial is the total clearance rate for all lesions at each treatment site twelve weeks after treatment. The secondary clinical endpoint includes evaluating the safety of the drug and supplementary efficacy parameters. The trial is being co-led by Dr. Susana Puig, Research Director at the Biomedical Research Institute August Pi I Sunyer and a professor at the University of Barcelona, as the coordinating investigator in Spain and Prof. Thomas Dirschka, founder of the private dermatology practice Centro Derm, as the coordinating investigator in Germany.

BF-RhodoLED®

BF-RhodoLED® is a lamp designed for photodynamic therapy (PDT). It uses LEDs emitting red light at a wavelength of approx. 635 nm. Light at this wavelength, which is ideally suited for PDT illumination with drugs containing ALA or methyl ALA, is red but is still below 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 energy and fan power settings can be adjusted during a PDT treatment session in order to reduce any discomfort caused by 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. For the purpose of sales operations in the USA, the final assembly of the PDT lamp has been transferred to Biofrontera's facilities and performed by the company itself since July 2016, meaning that Biofrontera is the responsible manufacturer from the FDA's perspective.

Belixos®

belixos® is a modern active cosmetic product specially developed for sensitive and irritated skin. The biocolloid technology patented by Biofrontera, which optimizes epidermal penetration, makes the products unique: pure plant biocolloids are combined with medicinal plant extracts to form an extraordinary combination of active substances with proven depth penetration, bringing together the best of nature and science.

belixos® Cream rapidly and reliably soothes itching and is the ideal basic treatment for inflamed, reddened and flaky skin. It soothes the skin, reduces scratching, and allows the skin to regenerate naturally. belixos® Cream, which has been available since 2009, has thus proved particularly useful as an effective basic treatment for atopic dermatitis and psoriasis.

Over the past two years, other specialist regenerative cosmetic products for skin problems have been developed. The typical deep yellow color is the unmistakable mark of quality. This is derived from the traditional medicinal plant extract obtained from the roots of *mahonia aquifolium*. belixos® products use only natural active substance extracts with clinically proven effects.

belixos® Liquid is an innovative scalp tonic with a practical pipette for dosing, which soothes scalps irritated by psoriasis or eczema, for example, and restores their balance. For itchy and flaky scalps, a combination of anti-inflammatory mahonia, moisturizing oats, irritation-relieving panthenol, and a special zinc PCA complex is used.

belixos® Gel is specially formulated for skin that is inflamed, reddened and prone to skin blemishes, providing an effective treatment for rosacea and acne. The gel texture is formulated to be extra grease-free, has a complex of active substances consisting of anti-inflammatory mahonia and Sepicontrol A5, is antibacterial, removes hardened skin, and regulates sebum.

belixos® Protect is a modern daily skincare product specially developed for sun-damaged skin with an exceptional lipid matrix formulation and skin-regenerating properties. Highly concentrated niacinamide smooths the skin and helps repair skin damage. It also contains UVA and UVB broad spectrum protection with SPF15 to protect against further light-induced skin aging and hyperpigmentation.

A handy and practical on-the-go solution: belixos® to go, the new acute care roll-on with a specially developed stainless steel ball, has been available since July 2016, providing effective and targeted relief for itchiness, insect bites, and minor skin irritation. Inflammation and redness subside more quickly thanks to anti-inflammatory mahonia, calming sea mayweed, and the anti-irritative Sepicalm S Complex.

Irritated skin requires the highest level of care. belixos® products are manufactured in accordance with strict quality and environmental requirements. They are free of paraffins, parabens, ethyl alcohol, animal products, dyes, and fragrances that may have negative dermatological effects. Their skin-compatibility was dermatologically tested without the use of animal testing and was assessed as "very good" by the independent institute 'Dermatest'. belixos® is available at selected pharmacies, dermatological institutes, and on Amazon.

With its central European approval, Ameluz® can be sold and distributed in all EU countries as well as in Norway, Iceland, and Liechtenstein. In many European countries, however, the price and the reimbursement status have to be defined prior to market launch, which can be an extremely lengthy process. To date, the company has commenced sales in Germany, the UK, Spain, Austria, the Netherlands, Luxembourg, Belgium, Denmark, Sweden, Norway, Switzerland, and Slovenia. The drug is available in these countries at a pharmacy retail price of between just under EUR 200 and approx. EUR 270 per 2g tube.

Ameluz® is marketed in Germany and, since March 2015, also in Spain by Biofrontera's own field sales force, and in other European countries using marketing partners. In the UK, Biofrontera is currently preparing its own sales operation, and the contract with a local marketing company was terminated in mid-2015. Biofrontera is also taking over the sales operation in Slovenia, but its marketing there is supported by a local company.

Distribution to public pharmacies generally takes place via pharmaceutical wholesalers, whereas hospital pharmacies are supplied directly. In addition to regular visits by the field sales force to dermatologists, Biofrontera has presented Ameluz® at the major dermatological conferences both in Germany and in other European countries since it was introduced onto the market. The response from dermatologists has been extraordinarily positive. The market share of Ameluz® in the segment of PDT drugs dispensed by German public pharmacies is consistently over 70%. In spite of this, Ameluz® still only has a small share of the overall market for preparations used to treat actinic keratosis, because only approximately 5% of patients are treated with proprietary medicinal products for photodynamic therapy (PDT). 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 in the statutory health insurance sector. In this sector in Germany, doctors do not usually receive any compensation from statutory health insurance for performing PDT. A film about PDT is available to view on YouTube (http://www.youtube.com/watch?v=aK4a3R5kqMA), and in English (http://www.youtube.com/watch?v=2xEO8DWCO8o).

The treatment of actinic keratosis using daylight therapy will play an increasingly important role in Europe in future. The competitor drug Metvix® has already obtained approval and has recently begun to be specifically marketed for daylight application under the brand name Luxerm®. As this removes the need for additional PDT treatment at the physician's office and the drug can be administered by the patient, daylight PDT can be expected to be prescribed far more frequently in future as an alternative to purely topical creams. Biofrontera is currently conducting a phase III clinical trial of daylight PDT and also expects to obtain approval in the first half of 2017.

Approval for basal cell carcinoma is a prerequisite for the widespread use of Ameluz® in hospitals, as basal cell carcinoma is mainly treated there, whereas this is only very rarely the case for actinic keratosis. This indication plays an essential role for the breakthrough of Ameluz®, particularly elsewhere in Europe, where dermatologists are predominantly based in hospitals. BCCs are the most common invasive tumors that affect humans and account for 50-80% of all invasive white skin cancers. Around 30% of all Caucasians develop at least one BCC in their lifetime, and this is a rapidly growing trend around the world due to increased exposure to UV light. BCCs are normally removed surgically, often resulting in substantial scarring. Treatment with photodynamic therapy (PDT) is a highly effective alternative which also leads to excellent cosmetic results. According to a market study published in 2014 by Technavio, the international market for actinic keratosis medications is expected to grow by approx. 8% annually, from approx. USD 546 million to USD 942 million in 2020. During the same period, however, the market for basal cell carcinoma medications is expected to grow at a phenomenal rate, from approx. USD 236 million today to nearly USD 5 billion, because the availability of new drugs (Ameluz® is mentioned in this context) will mean that fewer and fewer patients undergo operations.

In Denmark, Sweden, and Norway, Ameluz® is marketed by Desitin Arzneimittel GmbH, in Benelux by Bipharma N.V., and in Austria by Pelpharma Handels GmbH. Biofrontera carries out its own sales activities in Slovenia and is supported in its marketing activities by PHA Farmed. The cooperation with Spirit Healthcare in the UK was terminated by Biofrontera as at July 31, 2015, and Biofrontera is currently preparing to set up its own sales operation in the UK. Sales in Spain were initially handled by Allergan SA, but Biofrontera has mar-

keted its products itself in Spain via its own branch, Biofrontera Pharma GmbH sucursal en España, since March 2015. Louis Widmer SA has been granted the Ameluz® distribution license for Switzerland and Liechtenstein, and the Ameluz® distribution license for Israel has been allocated to Perrigo Israel Agencies LTD. In these countries, it was necessary to undergo an independent approval process, which was carried out by the aforementioned sales partners in collaboration with Biofrontera. In Switzerland, both the approval and the reimbursement approval were issued in December 2015. Market launch took place at the beginning of 2016. In Israel, approval for Ameluz® was granted by the Israeli health agency in April 2016 and marketing is expected to start in the next few months.

The contracts with the respective sales partners 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 linked to their own sales price. Biofrontera's share of the sales price varies considerably depending on the market conditions in each country, ranging from 35% to 60% of net revenue.

Biofrontera has already started preparations for its sales operation in the USA. With the help of a consulting firm specializing in market access and a team of medical advisors, Biofrontera started to analyze the actinic keratosis drug market and the reimbursement mechanisms in the US healthcare system last year. Biofrontera was also able to draw on the experience of DUSA Pharmaceuticals Inc. with a competitor product already sold and distributed in the USA, Levulan Kerastick®. Sales in the USA will be handled via a wholly-owned subsidiary, Biofrontera Inc., which was established for this purpose back in March 2015. Key posts in the USA have already been filled with highly qualified and experienced local employees, with further appointments to follow in the near future. After approval was granted by the FDA on May 10, 2016, the plan is to launch Ameluz® on the US market in September 2016. As the drug and lamp are approved as a combined product in the USA, the speed of market penetration in the USA will depend in particular on how quickly the BF-RhodoLED® PDT lamp is positioned on the market.

Patent and trademark developments since December 31, 2015:

Nanoemulsion

A further official communication regarding the "Nanoemulsion" patent (PCT/EP2007/011404) was issued in the USA, with a response being sent by the relevant deadline.

In Europe, the official notification in accordance with Article 71 (3) EPC on the intention to grant the patent has been received.

National validations in Europe have been commissioned for Austria, Switzerland, Germany, Spain, France, the United Kingdom, and Italy.

The patent fees and maintenance fees for the Chilean portion of the patent have been paid. The patent application will be granted under patent number CL 51771.

The patent fee has also been paid for the Israeli portion of the application, meaning that the publication of the granted patent application can be expected in the near future.

Belixos®

The patent "Pharmaceutical and/or cosmetic composition for treating the skin" (US Patent Application No. 13/081,737) is not being pursued any further.

Brand development

The European Community Trademark "Daylight-PDT" (No. 014943518) is not being pursued any further.

Economic report
For the Biofrontera Group for the first half of the 2016 financial year:

- 9% overall revenue growth compared with the first half of the previous year, with a downturn in Germany but significant revenue growth in other European countries
- Consolidated earnings before tax: EUR -3.5 million (previous year: EUR -7.3 million)
- Cash and cash equivalents as at June 30: EUR 10.2 million (previous year: EUR 4.1 million)
- Basic earnings per share of EUR -0.12 (previous year: EUR -0.33)

Target attainment in the first half of 2016:

Approval of Ameluz® in the USA: On May 10, the FDA granted approval for the marketing of Ameluz® in combination with BF-RhodoLED® in the USA. No conditions to be fulfilled after approval were imposed.

Clinical trials: The phase III clinical trial on the treatment of basal cell carcinomas was completed in the first quarter with extremely good results. The application for approval to extend the indications was submitted in July 2016 and is expected to be processed by the European agency in around six months.

A phase III clinical trial on daylight therapy began in June 2016. This trial is being conducted at clinical centers in Germany and Spain. The trial is expected to be completed by the end of 2016, meaning that approval could be granted in the first half of 2017.

International marketing: Further progress was also achieved in the international marketing of Ameluz® and BF-RhodoLED®. In Switzerland, Ameluz® was approved by Swissmedic and made reimbursable. Biofrontera's partner Louis Widmer commenced marketing of the products in Switzerland in the first quarter.

Approval for Ameluz® was also granted in Israel in April 2016. Biofrontera's partner Perrigo is currently preparing for market launch.

Net assets, financial position and results of operations of the Biofrontera Group

Biofrontera Group profit/loss account (summary)

	6M 2016 in EUR thousand	6M 2015 in EUR thousand	Change in %
Revenue	1,708.6	1,568.1	9
Cost of sales	763.7	533.8	43
Research and development costs	1,852.0	4,497.9	-59
Marketing costs	2,832.3	2,037.7	39
General administrative costs	1,372.4	1,347.5	2
Other operating income and expenses	2,232.2	86.0	2,496
EBIT	-2,879.5	-6,762.9	-57
Financial result	-592.8	-560.0	6
Earnings before income tax	-3,472.3	-7,322.9	-53
Earnings after tax	-3,472.3	-7,322.9	-53

Revenue

Revenue totaled EUR 1,709 thousand in the first half of 2016, up around 9% on the same period of the previous year. At EUR 1,034 thousand, revenue in Germany was lower than we expected, falling EUR 153 thousand short of the figure for the first half of the previous year. Despite this development, pharmacist sales of Ameluz® to patients grew by 5% in the first half of the year, which suggests destocking on the part of some pharmaceutical wholesalers. Following the approval of daylight PDT for Metvix (Luxerm), we are also seeing that further market growth is currently likely to favor daylight PDT rather than lamp treatment. Although this is not currently beneficial to Biofrontera, our long-term interest is moving in this direction, as competition with patient-administered topical drugs is the only way to significantly expand the actinic keratosis market for Ameluz. As such, every success enjoyed by daylight PDT is a welcome development. Revenue outside Germany performed extremely well in the first half of the year, rising by 66% to EUR 635 thousand. The sales trend in Spain was particularly positive. License income (one-off payments) amounted to EUR 40 thousand in the first half of 2016 (previous year: 0).

Cost of sales

The gross profit from sales declined from EUR 1,034 thousand in the first half of 2015 to EUR 945 thousand in the first half of 2016. The gross margin fell from 66% in the previous year to 55% in the period under review; this was due in particular to a change in the revenue mix with proportionately lower revenue in Germany, where margins are higher than the international revenue for which Biofrontera receives only around 50% of the retail price.

The cost of sales amounted to EUR 764 thousand, or 45% of revenue, thereby increasing as against the previous year relative to revenue (first half of 2015: EUR 534 thousand, 34%).

Operating costs

Biofrontera has continued to invest in research and development and the enhancement of its products. Research and development costs totaled EUR 1,852 thousand in the first half of 2016, down EUR 2,646 thousand or 59% year-on-year. This was due primarily to the payment of a submission fee ("PDUFA fee") of EUR 2,072 thousand for the submission of the approval application to the FDA in the first half of 2015. This fee is usually waived for small companies making their initial submission. In consultation with the FDA, an application for remission of the fee was lodged by Biofrontera, but this could not be processed on the filing date as the American approval authority FDA did not yet have a process for handling such applications. This fee was refunded by the FDA in March 2016 and is reported in other income.

Sales costs amounted to EUR 2,832 thousand, an increase of EUR 795 thousand or 39% on the first half of the previous year. This increase is attributable mainly to the start of sales activities and the establishment of sales structures in the USA.

Administrative costs amounted to EUR 1,372 thousand in the first half of 2016 (previous year: EUR 1,348 thousand). The increase of EUR 25 thousand or 2% compared with the previous year is mainly due to higher financing costs as a result of the capital increases conducted in the first quarter of 2016.

Financial result

The interest expenses included in the financial result, which amount to EUR 594 thousand, are almost entirely due to interest payments for the two warrant bonds and the compounding of interest on the two warrant bonds using the effective interest method. The interest payment for warrant bond I for the 2015 financial year was made at the end of December 2015, while the interest payment for warrant bond III was made at the beginning of January 2016.

Other income and expenses

The submission fee (PDUFA fee) paid to the FDA in 2015 was refunded in March 2016 in the amount of EUR 2.140 million after a small business waiver was granted. The fee was reported in the income statement for 2015 under research and development costs. The refund was reported in other income.

Net earnings before tax

Net earnings before tax for the first half of 2016 totaled EUR -3,472 thousand, an improvement of EUR 3,851 thousand on the first half of the previous year; this was due mainly to the repayment of the submission fee by the FDA.

Liquidity

The liquidity situation improved significantly in the first half of 2016. Net cash in hand amounted to EUR 10.2 million as at June 30, 2016, up EUR 6.2 million on December 31, 2015.

Share capital, capital measures

The fully paid-up share capital of the parent company, Biofrontera AG, amounted to EUR 30,347,813.00 as at June 30, 2016. It was divided into 30,347,813 bearer shares each with a notional interest in the share capital of EUR 1.00. The share capital amounted to EUR 25,490,430.00 as at December 31, 2015. It was increased by a total of EUR 4,857,383.00, divided into 4,857,383 bearer shares, by way of two capital increases conducted during the first half of the 2016 financial year.

In the context of the capital increase conducted in February 2016, the company's share capital was increased by EUR 2,357,384.00 from authorized capital in exchange for cash contributions through the issue of 2,357,384 new no-par value bearer shares. Shareholders' subscription rights were disapplied. The new shares were offered to selected institutional investors for an issue amount of EUR 1.90 per new share, i.e. for a total issue amount of EUR 4,479,029.60, and placed in full. The net issue proceeds amounted to EUR 4.4 million.

In the context of a capital increase conducted in April 2016, the company's share capital was increased by EUR 2,499,999.00 from authorized capital in exchange for cash contributions through the issue of 2,499,999 new no-par value bearer shares. Statutory subscription rights were granted to the shareholders. In addition, an “additional subscription” was offered, i.e. shareholders executing subscription rights were allowed to subscribe for unsubscribed new shares at the subscription price. The subscription price per new share was EUR 2.00, and the capital increase was placed in full. The net issue proceeds amounted to EUR 4.9 million.

Based on the most recent compulsory disclosures by the shareholders, the shares held as at June 30, 2016 were as follows:

	June 30, 2016 in %
Maruho Deutschland Co., Ltd., Osaka, Japan The total share of voting rights is assigned to Maruho Co., Ltd, Osaka, via the company Maruho Deutschland GmbH, Düsseldorf, which is controlled by the former	14.72
Wilhelm Konrad Thomas Zours Of this figure, 8.28% of the voting rights are assigned via the company Deutsche Balaton Aktiengesellschaft	11.21
Prof. Ulrich Abshagen Prof. Abshagen has a direct holding of 68,314 voting rights; he is indirectly assigned 976,056 voting rights by Heidelberg Innovation BioScience Venture II GmbH & Co.KG (in liquidation) via Heidelberg Innovation Asset Management GmbH & Co. KG, of which he is one of the managing partners	3.84
Universal-Investment-Gesellschaft mbH, Frankfurt am Main, Germany The share of voting rights is assigned to Universal-Investment GmbH via the company FEHO Vermögensverwaltungsgesellschaft	3.14
Free float	67,09
	100,00

Financial position

The company’s capital management body regularly reviews the equity ratio of the Group and its subsidiaries. The management's objective is to ensure an appropriate equity base within the framework of the expectations of the capital markets, as well as 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. The statement of changes in equity provides further information about the development of equity.

Cash flow from operating activities improved from EUR -6,536 thousand as at June 30, 2015 to EUR -2,511 thousand as at June 30, 2016.

Cash flow from interest revenue fell by EUR 62 thousand to EUR 2 thousand. Investments in fixed assets increased slightly by EUR 75 thousand. These factors led to a decrease in cash flow from investment activities of EUR 136 thousand, from EUR -7 thousand to EUR -143 thousand.

Cash flow from financing activities improved by EUR 6,707 thousand compared with the same period of the previous year, from EUR 2,160 thousand to EUR 8,867 thousand. This change is attributable primarily to proceeds from the issuance of shares in the amount of EUR 4.4 million in February 2016 and EUR 4.9 million in April 2016 compared with the smaller capital increase in the same period of the previous year.

The company was able to meet its payment obligations at all times but will continue to depend on additional financing measures in the future. To date, Biofrontera has always succeeded in providing the necessary financing for its business operations through injections of equity. The capital increases conducted in 2016 mean that the company currently has sufficient liquidity at its disposal. The planned investments in marketing in the USA and to meet obligation from the issued option bond II, payable with amount EUR 8.715 thousand as per January 1, 2017 and the interest obligations from the issued option bond I and II with EUR 394 thousand as per December 31, 2016 and for the last time EUR 436 thousand as per January 1, 2017 further capital measures during the fiscal year 2016 will be necessary.

On the basis of its previous, invariably successful experience with capital measures, the Management Board assumes that the liquidity required for business activities can be further ensured. If, contrary to expectations, these valid estimates are not realized, this could constitute a threat to the company's continued existence.

Personnel details

Management Board

The Management Board comprises Prof. Hermann Lübbert (Chief Executive Officer), Mr. Thomas Schaffer (Chief Financial Officer) and Mr. Christoph Dünwald (Chief Commercial Officer).

The remuneration of the Management Board members consists of a fixed salary that is paid in twelve equal monthly instalments. In addition, there is an annual, performance-based bonus for the directors, as well as a long-term remuneration component consisting of participation in the company’s share option program. Company cars are also available to the directors for business and private use.

Employees

As at June 30, 2016, a total of 59 employees worked for the Biofrontera Group (December 31, 2015: 58). Of this figure, 17 were employed at Biofrontera AG (December 31, 2015: 17), six at Biofrontera Bioscience GmbH (December 31, 2015: six) and 35 at Biofrontera Pharma GmbH, including the Spanish office (December 31, 2015: 34). No staff are employed at Biofrontera Development GmbH or Biofrontera Neuroscience GmbH. As at June 30, 2016, one member of staff was employed by Biofrontera Inc.

Supplementary report

Significant events occurring since June 30, 2016

In July, the company announced the signature of an agreement with Maruho Co., Ltd. ("Maruho"), a Japanese pharmaceutical company specializing in dermatology, to explore opportunities to co-develop new pharmaceutical products based on Biofrontera's proprietary nanoemulsion technology. Ameluz®, Biofrontera's lead product which recently gained US FDA approval, was developed using a similar strategy based on the company's patented nanoemulsion technology. This technology stabilized the active ingredient and enhanced skin penetration, thereby increasing clinical efficacy. Under the terms of the agreement, Maruho will finance all costs associated with the exploratory research of new product candidates. It is planned that Maruho will own any successfully developed new products, with Biofrontera being granted a license to market them in Europe.

With effect from July 1, 2016, Biofrontera Inc. made appointments to key sales positions in the USA ahead of the product launch of Ameluz®. With the appointment of regional sales managers and field sales representatives, the company remains on target to initiate marketing and sales activities in the USA in September 2016. At the same time, Biofrontera Inc. made key appointments in the areas of medical affairs, finance, and operations that will help to establish the necessary structure for an efficient product launch and the expansion of business in the USA.

In July 2016, the company also announced that the European Medicines Agency (EMA) had issued a positive assessment regarding label extension for the treatment of field cancerization. The European Commission is expected to issue formal approval in the near future.

In August 2016, the Cologne Regional Court served the company with an action brought by a shareholder on June 30, 2016, claiming the invalidity of or alternatively contesting some of the resolutions adopted by the Annual General Meeting of the company on May 31, 2016. Further information can be found in the "Legal disputes" section of the following risk, opportunity, and forecast report.

Risk, opportunity and forecast report

The risks existing in the Group are described in detail in the risk report included in the published consolidated management report of December 31, 2015. No other significant changes in the risks described there with exception of the following legal disputes have occurred as at June 30, 2016.

Risk management system

The risk and opportunity management system for the Biofrontera Group applies equally to Biofrontera AG. By virtue of its holding function, Biofrontera AG controls all of the legally independent entities within the Biofrontera Group. Therefore, it is necessary to assess the risks and opportunities on a uniform basis throughout the entire Group.

The primary objective of the Biofrontera Group is to achieve long-term growth and hence increase the company's value on a consistent basis. Risk management plays a major role in achieving this objective. At Biofrontera, risk management involves the identification of risks that could have a lasting or significant adverse impact on the company's net assets, financial position, and results of operations, as well as the responsible analysis and monitoring of these risks and the adoption of suitable countermeasures. To this end, it is necessary to establish guidelines, organizational structures, and measuring and monitoring processes that are specifically geared to the Biofrontera Group's activities.

Correspondingly detailed risk prevention measures are essential in order to fully exploit the opportunities arising from Biofrontera's business activities. In the 2015 financial year, Biofrontera's existing risk management structures were enhanced within the scope of the quality management system required for pharmaceutical manufacturers and entrepreneurs and medical device manufacturers. This system incorporates sales and marketing activities, as well as the international responsibilities of license holders with regard to the manufacture and sale of drugs, medical devices and cosmetics.

Legal disputes

In August 2016, the Cologne Regional Court served the company with an action brought by a shareholder on June 30, 2016, claiming the invalidity of or alternatively contesting some of the resolutions adopted by the Annual General Meeting of the company on May 31, 2016. In particular, the election of Mr. John Borer, Mr. Jürgen Baumann, and Mr. Kevin Weber to the Supervisory Board of the company is disputed. The Cologne Regional Court has set September 16, 2016 as the date for an oral hearing. The company considers the action and the justification given for the action to be unfounded and expects the action to be rejected.

Forecast of key financial figures (report on forecast changes if applicable)

Biofrontera still expects to generate revenue of EUR 6 to 7 million in the 2016 financial year. Compared with the original forecast, however, revenue in Germany will be lower than expected due to destocking on the part of wholesalers as well as competition resulting from the launch of Luxerm® for daylight PDT. This will be offset by additional income from the development partnership with Maruho and higher revenue outside Germany.

Development and approval costs will increase from EUR 4-5 million to EUR 5-6 million as a result of the additional activities in cooperation with Maruho. Sales costs will amount to around EUR 9-10 million as opposed to the previous forecast of EUR 10-11 million.

The forecasts for the financial result and other income remain unchanged.

Accordingly, Biofrontera still expects to generate net earnings of EUR -11 to -12 million.

Leverkusen, August 31, 2016

signed Prof. Hermann Lübbert	signed Christoph Dünwald	signed Thomas Schaffer
Chief Executive Officer	Chief Commercial Officer	Chief Financial Officer

Declaration in accordance with section 37y in conjunction with section 37w (2) no. 3 of the German Securities Trading Act (WpHG) – Responsibility statement

"We affirm that, to the best of our knowledge and in accordance with the applicable accounting principles for interim financial reporting, the consolidated interim financial statements give a true and fair view of the net assets, financial position, and results of operations of the Group in accordance with the principles of proper accounting, and that the consolidated interim management report presents the business performance, including the business results, and the position of the Group, in such a way that a true and fair view is conveyed and the main opportunities and risks relating to the anticipated performance of the Group in the remaining months of the financial year are described."

Leverkusen, August 31, 2016

signed Prof. Hermann Lübbert	signed Christoph Dünwald	signed Thomas Schaffer
Chief Executive Officer	Chief Commercial Officer	Chief Financial Officer

Consolidated balance sheet as at June 30, 2016

Assets

in EUR	June 30, 2016	December 31, 2015
Non-current assets		
Tangible assets	448,217.28	372,834.23
Intangible assets	1,562,364.99	1,901,927.93
	2,010,582.27	2,274,762.16
Current assets		
Current financial assets		
Trade receivables	512,436.90	894,558.96
Other financial assets	942,684.03	730,440.34
Cash and cash equivalents	10,172,643.85	3,959,207.16
	11,627,764.78	5,584,206.46
Other current assets		
Inventories		
Raw materials and supplies	706,569.69	590,420.47
Unfinished products	110,145.93	42,723.50
Finished products and goods	859,223.44	900,505.05
Income tax reimbursement claims	32,668.04	32,220.80
Other assets	198,785.47	72,879.33
	1,907,392.57	1,638,749.15
	13,535,157.35	7,222,955.61
Total assets	15,545,739.62	9,497,717.77

Liabilities

in EUR	June 30, 2016	December 31, 2015
Equity		
Subscribed capital	30,347,813.00	25,490,430.00
Capital reserve	84,024,977.56	79,525,292.28
Capital reserve from currency translation adjustments	(555.10)	(1,188.65)
Loss carried forward	(109,823,695.69)	(98,620,285.49)
Net loss for the year	(3,472,266.81)	(11,203,410.20)
	1,076,272.96	(4,809,162.06)
Non-current liabilities		
Non-current financial liabilities	3,059,864.92	11,229,946.00
Current liabilities		
Current financial liabilities		
Trade payables	998,133.52	1,043,425.65
Short-term financial debt	9,157,273.08	830,174.00
Other financial liabilities	30,275.81	37,622.28
	10,185,682.41	1,911,221.93
Other current liabilities		
Other provisions	1,118,445.33	1,041,860.80
Other current liabilities	105,474.00	123,851.10
	1,223,919.33	1,165,711.90
	11,409,601.74	3,076,933.83
Total liabilities (1)	15,545,739.62	9,497,717.77

(1) Please note that “total liabilities” in the meaning of this balance sheet include equity, long-term liabilities and current liabilities.

Consolidated statement of comprehensive income for the first half of the 2016 and 2015 financial year

in EUR	6M 2016	6M 2015
Revenue	1,708,605.05	1,568,102.67
Cost of sales	-763,667.35	-533,797.53
Gross profit from sales	944,937.70	1,034,305.14
Operating expenses:		
Research and development costs	-1,852,008.74	-4,497,894.88
General administrative costs	-1,372,391.58	-1,347,526.21
of which financing costs	-372,366.06	-150,746.32
Marketing costs	-2,832,269.11	-2,037,748.00
Loss from operations	-5,111,731.73	-6,848,863.95
Financial result		
Interest and similar expenses	-594,479.40	-568,810.49
Interest and similar income	1,708.31	8,822.28
Other income and expenses		
Other expenses	-14,020.10	-19,929.14
Other income	2,246,256.11	105,900.86
Earnings before income tax	-3,472,266.81	-7,322,880.44
Income tax	0.00	0.00
Earnings for the period	-3,472,266.81	-7,322,880.44
Expenses and income not recognized in income		
Subsequent measurement of financial assets available for sale	0	0
Other expenses and income not recognized in income	0	0
Total earnings for the period	-3,472,266.81	-7,322,880.44
Basic (=diluted) earnings per share	-0.12	-0.33

Consolidated cash flow statement for the first half of the 2016 and 2015 financial year

	6M 2016	6M 2015
	EUR	EUR
Cash flows from operations:		
Total earnings for the period	-3,472,266.81	-7,322,880.44
Adjustments to reconcile total earnings for the period to cash flow into operations		
Financial result	592,771.09	559,988.21
Depreciation	404,278.21	404,814.52
(Gains)/losses from disposal of assets	4,836.33	115.00
Non-cash expenses and income	46,370.75	23,814.20
Changes in operating assets and liabilities:		
Trade receivables	382,122.06	21,215.11
Other assets and income tax claims	-338,600.42	-118,539.74
Inventories	-142,290.04	-215,307.00
Trade payables	-45,292.13	-155,011.31
Provisions	83,086.09	249,467.31
Other liabilities	-25,723.57	16,555.56
Net cash flow into operations:	-2,510,708.44	-6,535,768.58
Cash flows from investment activities:		
Purchase of intangible and tangible assets	-154,606.02	-79,808.74
Interest received	1,708.30	63,574.77
Revenue from the sale of intangible and tangible assets	9,671.37	9,320.71
Net cash flow from (into) investment activities	-143,226.35	-6,913.26
Cash flows from financing activities:		
Proceeds from the issuance of shares	9,303,174.28	2,990,076.90
Interest paid	-435,802.80	-830,174.00
Increase/(decrease) in long-term financial debt	-8,170,081.08	-20,663.14
Increase/(decrease) in short-term financial debt	8,170,081.08	20,663.14
Net cash flow from financing activities	8,867,371.48	2,159,902.90
Net increase (decrease) in cash and cash equivalents	6,213,436.69	-4,382,778.94
Cash and cash equivalents at beginning of period	3,959,207.16	8,509,398.16
Cash and cash equivalents at end of period	10,172,643.85	4,126,619.22
Composition of cash and cash equivalents at end of period:		
Cash and bank balances and checks	10,172,643.85	4,126,619.22

Consolidated statement of changes in equity for the first half of the 2016 and 2015 financial year

	Ordinary shares	Subscribed capital	Capital reserve	Currency translation adjustments	Accumulated loss	Total
	Number	EUR	EUR	EUR	EUR	EUR
Balance as at January 1, 2015	22,196,570	22,196,570.00	76,402,715.36	0	-98,620,285.49	-21,000.13
Capital increase	1,377,272	1,377,272.00	1,790,453.60	0	0	3,167,725.60
Cost of equity procurement	0	0	-177,648.70	0	0	-177,648.70
Increase in capital reserves from the stock option program	0	0	54,834.00	0	0	54,834.00
Net loss for the year	0	0	0	0	-7,322,880.44	-7,322,880.44
Balance as at June 30, 2015	23,573,842	23,573,842.00	78,070,354.26	0	-105,943,165.93	-4,298,969.67
Capital increase	1,916,588	1,916,588.00	1,724,929.20	0	0	3,641,517.20
Cost of equity procurement	0	0	-318,121.18	0	0	-318,121.18
Currency translation adjustments	0	0	0	-1,188.65	0	-1,188.65
Increase in capital reserves from the stock option program	0	0	48,130.00	0	0	48,130.00
Net loss for the year	0	0	0	0	-3,880,529.76	-3,880,529.76
Balance as at December 31, 2015	25,490,430	25,490,430.00	79,525,292.28	-1,188.65	-109,823,695.69	-4,809,162.06
Capital increase	4,857,383	4,857,383.00	4,621,644.60	0	0	9,479,027.60
Cost of equity procurement	0	0	-175,853.32	0	0	-175,853.32
Currency translation adjustments	0	0	0	633.55	0	633.55
Increase in capital reserves from the stock option program	0	0	53,894.00	0	0	53,894.00
Net loss for the year	0	0	0	0	-3,472,266.81	-3,472,266.81
Balance as at June 30, 2016	30,347,813	30,347,813.00	84,024,977.56	-555.10	-113,295,962.50	1,076,272.96

Selected notes to the consolidated interim financial statements as at June 30, 2016

Information about the company

Biofrontera AG (www.biofrontera.com), which is domiciled at Hemmelrather Weg 201, 51377 Leverkusen, Germany and registered with 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, Biofrontera Neuroscience GmbH and Biofrontera Inc., which is based in Wilmington, Delaware, USA, 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 small German pharmaceutical company to receive centralized European and US drug approval for an independently developed drug, Ameluz®. Ameluz® was approved for the treatment of mild and moderate actinic keratoses in Europe in December 2011, with US approval granted in May 2016. In addition, a range of cosmetic products is to be expanded; the first product in this range, Belixos® Cream, was launched in the autumn of 2009. A hair tonic, Belixos® LIQUID, was introduced in the spring of 2014 and a Belixos® gel skin care for rosacea and acne was launched at the beginning of December 2014. This was followed by Belixos® Protect, a day cream with protective anti-aging properties designed especially for photodamaged skin, in July 2015 and Belixos® to go, a practical 5ml roll-on applicator with a stainless steel ball that offers simple and hygienic application while creating an immediate cooling effect on the affected skin, in July 2016. Two further clinical development projects, a dermatological project and a project for the prevention of migraines, have been hived off into dedicated subsidiaries and are not being actively pursued at the present time.

The product Ameluz® (development name BF-200 ALA), which was approved in Europe at the end of 2011, has been tested for the European approval in one phase II and two phase III clinical trials for the treatment of actinic keratosis. In preparation for approval in the USA, two further phase I trials and a phase III trial have been conducted. Ameluz® is a combination of the drug aminolevulinic acid (ALA) and a nanoemulsion (BF-200), with the latter providing chemical stabilization of the ALA and enhancing its skin penetration. 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 centralized European approval was submitted on September 1, 2010, and this approval was granted by the European Commission on December 16, 2011. Ameluz® has been sold in Germany since February 2012 and in several other European countries since autumn 2012. US approval was granted on May 10, 2016, meaning that Biofrontera now has access to the world's largest healthcare market. The launch date is scheduled for September 2016, with the first sales expected to be recorded from the start of October. In addition, Biofrontera has conducted another phase III trial for the treatment of basal cell carcinoma. This trial forms the basis for the application for an extension of the existing European approval to include this indication, which was submitted in July 2016.

In November 2012, Biofrontera's BF-RhodoLED® PDT lamp received pan-European approval for use as a medical device and has since been sold together with Ameluz®. In Europe, doctors can choose to use any of the lamps approved for PDT, whereas in the USA the approval of Ameluz® will be intrinsically linked to that of the BF-RhodoLED. This has therefore been approved along with the drug as a combination product.

The BF-Derm1 project, which is not currently being actively pursued, was 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 BF-1 project 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 for administration in tablet form.

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, the two projects were acquired by Biofrontera AG and incorporated into to the two subsidiaries Biofrontera Development GmbH and Biofrontera Neuroscience GmbH, which were both formed in December 2012, as shareholder contributions. 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 normal Group financing. This means that the company's 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.

Accounting principles

In accordance with the provisions of section 37y of the German Securities Trading Act (WpHG) in conjunction with section 37w WpHG, the half-yearly financial report as at June 30, 2016 consists of condensed consolidated interim financial statements, a consolidated interim management report, and a responsibility statement in accordance with the provisions of section 297 (2) sentence 3 and section 315 (1) sentence 6 of the German Commercial Code (HGB).

The half-yearly financial report of Biofrontera AG for the period from January 1 to June 30, 2016 has been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and the interpretations of the International Financial Reporting Standards Interpretations Committee (IFRS IC) for "Interim Financial Reporting" in accordance with IAS 34 as required to be applied in the European Union. In the opinion of the Management Board, these half-yearly financial statements contain all of the business transactions that are necessary for the presentation of the net assets, financial position, and results of operations for the periods ending June 30, 2016 and 2015.

These interim financial statements do not include all of the information and data required to prepare annual financial statements. The interim financial statements should therefore be read in conjunction with the consolidated financial statements for 2015.

In the context of the preparation of the consolidated interim financial statements, the Management Board is required to make estimates and assumptions that influence the application of accounting principles within the Group as well as the reported amounts of the assets and liabilities and the income and expenses. The actual amounts may deviate from these estimates. The results achieved in the first half of the 2016 financial year do not allow for any forecasts to be made concerning future business performance.

With regard to the accounting and consolidation principles applied in preparing the consolidated interim financial statements of Biofrontera AG, which are essentially unchanged, and the information on the companies included in consolidation, please refer to the notes to the consolidated financial statements for the year ended December 31, 2015. Biofrontera AG formed the wholly-owned subsidiary Biofrontera Inc. in the first half of 2015 in order to prepare for the commencement of business operations in the USA. Costs of capital procurement offset against equity are presented in the consolidated statement of changes in equity.

The consolidated financial statements for the year ended December 31, 2015 contain no separate segment reporting, as the activities of the Biofrontera Group are limited to a single business segment within the meaning of IFRS 8. All busi-

ness operations focus on the product Ameluz®, including the supplementary products BF-RhodoLED® (PDT lamp) and Belixos®, and are internally monitored and managed accordingly.

The income statement is prepared using the cost of sales method. In this reporting format, net revenue is compared with the expenses incurred in achieving this revenue, broken down into cost of sales, research and development costs, distribution costs, and general administrative costs.

This half-yearly financial report of Biofrontera AG was approved for publication by resolution of the Management Board as at August 31, 2016.

Deferred taxes

The company had considerable tax loss carryforwards as at June 30, 2016.

Under the current tax regulations in Germany these tax losses have no expiry date and can be offset against the future taxable profit 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 recognized in the balance sheet. This decision has been taken as, from a current perspective, the Management Board still does not regard it as certain that the deferred tax assets will be realized in the coming years.

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

Employee stock option program 2010

So as not to be at a disadvantage regarding future 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 on the Appropriateness of Management Board Remuneration, such schemes must be linked to the long-term success of the company. As the stock option program resolved by the company's Annual General Meeting on May 24, 2007 could not be utilized, the Annual General Meeting on July 2, 2010 granted the Management Board and the Supervisory Board the authorization to issue up to 839,500 options to directors and employees over the next five years. Further provisions concerning this action were specified in the invitation to the Annual General Meeting and are available on the company's website. The issue of the first tranche of these options is described in the consolidated financial statements for the year ended December 31, 2010. The second tranche was issued in the 2011 calendar year and is reported in the consolidated financial statements for the year ended December 31, 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 September 2, 2013, 179,500 options (fourth tranche) were issued at an exercise price of EUR 3,373. A further tranche (fifth tranche) of 159,350 option rights was issued on April 2, 2014 at an exercise price of EUR 3.43 each. A total of 123,750 options were forfeited by employees leaving the company. The amount expensed in the period under review was EUR 38 thousand (June 30, 2015: EUR 55 thousand).

The authorization to issue options under the 2010 share option program ended on July 1, 2015. By resolution of the Annual General Meeting on August 28, 2015, the conditional capital III provided to service options under this program was reduced to EUR 542,400.00.

Employee stock option program 2015

Following the end of the employee stock option program 2010, the Annual General Meeting of the company on August 28, 2015 authorized the Management Board and the Supervisory Board to issue up to 1,814,984 options for no-par value bearer shares of the company worth up to EUR 1,814,984 to directors and employees in the period until August 27, 2020 in accordance with the detailed provisions of the authorization resolution. Further provisions concerning this action were specified in the invitation to the Annual General Meeting and are available on the company's website ("Stock option program 2015").

The first 425,000 of the potential 1,814,984 options were issued in the first half of 2016 (at an exercise price of EUR 2.49 per option). Due to the vesting period, no options were exercised or expired, meaning that there were still 1,389,984 options outstanding as at June 30, 2016. The amount expensed in the first half of 2016 was EUR 16 thousand (previous year: EUR 0 thousand). There are no prior-period amounts as the stock option program was not initiated until the 2015 financial year.

Shares / earnings per share

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 number of ordinary shares in circulation during the relevant periods in 2016 and 2015.

	June 30, 2016	30. June 2015
Number of weighted ordinary shares in circulation (on average)	29,194,770.96	22,424,847.13
Net loss for the year in EUR	(3,472,266.81)	(7,322,880.44)
Earnings per share in EUR based on the net loss for the year	(0.12)	(0.33)

Reporting on financial instruments

In the ordinary course of business, the Group faces market price and credit risks as well as liquidity risks that could have an effect on its net assets, financial position, and results of operations.

Market price risk: The risk associated with interest rate changes is considered to be insignificant because, as a rule, the existing interest modalities for the relevant financing of the Biofrontera Group can be adjusted to reflect market conditions in the short to medium term. There is no cash flow risk for the fixed-rate warrant bonds. The fixed interest rate means there can be no adverse changes in interest payments. Since the liabilities are not accounted for at fair value, but at amortized cost, there is also no fair value risk.

Credit risk: A credit risk arises for the Group if transaction partners are unable to meet their obligations within the normal payment deadlines. On the balance sheet, the maximum default risk is represented by the carrying amount of the relevant financial asset. The situation regarding receivables is monitored so that any possible default risks can be identified at an early stage and appropriate steps taken. In the first half of 2016, no specific valuation allowances were recog-

nized for other financial assets (June 30, 2015: EUR 0); similarly, no specific valuation allowances were recognized for trade receivables in the first half of 2016 (June 30, 2015: EUR 0).

Financial instruments measured at fair value in the consolidated balance sheet can be classified according to the following valuation hierarchy, which reflects the extent to which the fair value is observable:

Level 1: Fair value valuations using prices listed on active markets (not adjusted) for identical assets or liabilities.

Level 2: Fair value valuations using input data for the asset or liability that is either directly observable (as prices) or indirectly observable (derived from prices), but that does not constitute listed prices as defined for Level 1.

Level 3: Fair value valuations using input data for the asset or liability that is not based on observable market data (unobservable input data).

Biofrontera has financial instruments at levels 1 and 2 only. There were no reclassifications between level 1 and level 2 during the first half of 2016. All of the financial assets measured at fair value and listed below are classified as level 1. With regard to financial liabilities, the full amount of long-term and short-term financial debt (EUR 12,217 thousand; December 31, 2015: EUR 12,060 thousand) is allocated to level 2. This relates to financial debt arising from the two warrant bonds.

Biofrontera reports specific valuation allowances on trade receivables and other financial liabilities classified as "loans and receivables" in other operating expenses. The losses from currency translation from the "loans and receivables" assessment category are attributable mainly to trade payables. The net gains and losses include specific valuation allowances and currency translation effects.

The financial assets and liabilities can be broken down into valuation categories with the following carrying amounts and net gains and losses:

Financial assets as at June 30, 2016 (EUR)	Fair value	Carrying amounts					Net gains (+) or losses (-)
		Cash and cash equiv-alents	Loans and receivables	Financial instruments recognized at fair value through profit or loss (ex-cluding "held for trading")	Financial assets available for sale	TOTAL CARRYIN G AMOUNTS	
- Financial assets							0
- Cash and cash equivalents	10,172,644	10,172,644				10,172,644	(66)
- Trade receivables	512,437		512,437			512,437	0
- Other short-term financial receiva-bles and assets	942,684		942,684			942,684	0
TOTAL	11,627,765	10,172,644	1,455,121	0	0	11,627,765	(66)

Financial liabilities as at June 30, 2016 (EUR)	Fair value	Carrying amounts					Net gains (+) or losses (-)
		Other liabil-ities	Financial instruments recognized at fair value through profit or loss (ex-cluding "held for trading")			TOTAL CARRYIN G AMOUNTS	
- Short-term finan-cial debt	9,157,273	9,157,273				9,157,273	0
- Trade payables	998,134	998,134				998,134	3,878
- Other short-term financial liabilities	30,276	30,276				30,276	0
- Other long-term financial debt	3,059,865	3,059,865				3,059,865	0
TOTAL	13,245,548	13,245,548				13,245,548	3,878

Financial assets as at December 31, 2015 (EUR)	Fair value	Carrying amounts					Net gains (+) or losses (-)
		Cash and cash equiva-lents	Loans and receivables	Financial instruments recognized at fair value through profit or loss (ex-cluding "held for trading")	Financial assets avail-able for sale	TOTAL CARRYING AMOUNTS	
- Financial assets						0	0
- Cash and cash equivalents	3,959,207	3,959,207				3,959,207	104
- Trade receivables	894,559		894,559			894,559	0
- Other short-term financial receivables and Assets	730,440		730,440			730,440	0
TOTAL	5,584,206	3,959,207	1,624,999	0	0	5,584,206	104

Financial liabilities as at December 31, 2015	Fair value	Carrying amounts					Net gains (+) or losses (-)
		Other liabili-ties	Financial instruments recognized at fair value through profit or loss (ex-cluding "held for trading")			TOTAL CARRYING AMOUNTS	
- Short-term financial debt	830,174	830,174				830,174	0
- Trade Payables	1,043,426	1,043,426				1,043,426	(21,594)
- Other short-term financial Liabilities	37,622	37,622				37,622	0
- Other long-term financial debt	11,229,946	11,229,946				11,229,946	0
TOTAL	13,141,168	13,141,168	0	0	0	13,141,168	(21,594)

Members of the Management Board

The members of the Management Board are:

- Prof. Hermann Lübbert, Chairman of the Management Board (Chief Executive Officer)
- Christoph Dünwald, member of the Management Board (Chief Commercial Officer)
- Thomas Schaffer, member of the Management Board (Chief Financial Officer)

In the first half of the 2016 financial year, the remuneration of the members of the Management Board amounted to EUR 543 thousand (previous year: EUR 343 thousand).

Members of the Supervisory Board

By resolution of the Annual General Meeting on May 31, 2016, the Supervisory Board has consisted of the following members since May 31, 2016, with these members acting as representatives of the shareholders:

Dr. Ulrich Granzer	Chairman of the Supervisory Board, owner and managing director of Granzer Regulatory Consulting & Services, resident in Munich, Germany
Jürgen Baumann	Deputy Chairman of the Supervisory Board, corporate consultant, resident in Monheim, Germany
John Borer	Head of Investment Banking at The Benchmark Company LLC, New York, USA, resident in Montclair, NJ, USA
Hansjörg Plaggemars	Member of the Management Board of Deutsche Balaton Aktiengesellschaft, Heidelberg, resident in Stuttgart, Germany
Mark Reeth	Lawyer, resident in Maryland in Frederick, MD, USA
Kevin Weber	CEO of Paraffin International Inc., Phoenix, AZ, USA, resident in Scottsdale, AZ, USA

In the first half of the 2016 financial year, the remuneration of the members of the Supervisory Board amounted to EUR 56 thousand (previous year: EUR 56 thousand).

Related party disclosures

During the period under review, the company availed itself of additional advisory services from one member of the Supervisory Board, Dr. Ulrich Granzer. These services went beyond the scope of normal Supervisory Board activities. Dr. Granzer assisted the company with key issues relating to the preparation of the applications for approval submitted to the regulatory authorities in Europe and the USA. Advisory services amounting to EUR 2 thousand (previous year: EUR 56 thousand) were provided by Granzer Regulatory Consulting & Services in the first half of 2016. Liabilities to Granzer Regulatory Consulting & Services amounted to EUR 0 thousand as at June 30, 2016 (December 31, 2015: EUR 0 thousand). The amounts reported do not include statutory VAT at the current rate of 19%. The underlying consultancy contract was approved in consideration of the statutory provisions.

Significant events after the interim reporting date

In July, the company announced the signature of an agreement with Maruho Co., Ltd. ("Maruho"), a Japanese pharmaceutical company specializing in dermatology, to explore opportunities to co-develop new pharmaceutical products based on Biofrontera's proprietary nanoemulsion technology. Ameluz®, Biofrontera's lead product which recently gained US FDA approval, was developed using a similar strategy based on the company's patented nanoemulsion technology. This technology stabilized the active ingredient and enhanced skin penetration, thereby increasing clinical efficacy. Under the terms of the agreement, Maruho will finance all costs associated with the exploratory research of new product candidates. It is planned that Maruho will own any successfully developed new products, with Biofrontera being granted a license to market them in Europe.

With effect from July 1, 2016, Biofrontera Inc. made appointments to key sales positions in the USA ahead of the product launch of Ameluz®. With the appointment of regional sales managers and field sales representatives, the company remains on target to initiate marketing and sales activities in the USA in September 2016. At the same time, Biofrontera Inc. made key appointments in the areas of medical affairs, finance, and operations that will help to establish the necessary structure for an efficient product launch and the expansion of business in the USA.

In July 2016, the company also announced that the European Medicines Agency (EMA) had issued a positive assessment regarding label extension for the treatment of field cancerization. The European Commission is expected to issue formal approval in the near future.

In August 2016, the Cologne Regional Court served the company with an action brought by a shareholder dated June 30, 2016, claiming the invalidity of or alternatively contesting some of the resolutions adopted by the Annual General Meeting of the company on May 31, 2016. In particular, the election of Mr. John Borer, Mr. Jürgen Baumann, and Mr. Kevin Weber to the Supervisory Board of the company is disputed. The Cologne Regional Court has set September 16, 2016 as the date for an oral hearing. The company considers the action and the justification given for the action to be unfounded and expects the action to be rejected.

Leverkusen, August 31, 2016

signed Prof. Hermann Lübbert	signed Christoph Dünwald	signed Thomas Schaffer
Chief Executive Officer	Chief Commercial Officer	Chief Financial Officer

Quarterly report as at March 31, 2016

Report on the first quarter of the 2016 financial year

Group strategy

The strategic objective of the Biofrontera Group is to establish the company at global level as a pharmaceutical company specializing in the dermatological sector. In addition to further expansion of the sale of our products, the main priorities are to increase the range of indications for Ameluz® and to expand international sales activities, particularly in the USA.

Biofrontera was the first small German company to receive centralized European drug approval for a completely independently developed drug, Ameluz®. Biofrontera has been selling Ameluz® via its own field sales team to dermatologists in Germany since the product was launched in February 2012, and in Spain since March 2015. Ameluz® is available in the UK, but is not to be actively promoted until after approval has been extended to basal cell carcinoma. The drug is sold in other countries of the European Union, as well as in Israel and Switzerland, via licensing partners.

Biofrontera has thus established itself as a specialist pharmaceutical company with an unusually high level of research and development expertise in comparison to other companies in this sector. The focus of the Group's short-term strategy is to further expand its business in Europe, achieve market entry of Ameluz® in the USA and extend the indications to include basal cell carcinoma, first in the EU and at a later stage in the USA.

Further preparatory work was carried out for the approval of Ameluz® in the USA in the reporting period. In early July 2015, the approval application (NDA = New Drug Application) was submitted to the FDA (Food and Drug Administration). Ameluz® and BF-RhodoLED® have to be approved as a combination of a drug and a medical device in the USA, and therefore the approval application is unusually complex. In accordance with the guidelines, the FDA made a decision on the formal "acceptance to file" after a period of 60 days, and this was granted on September 11, 2015. In the subsequent "74-day letter", the company was informed on October 2, 2015 that no significant verification issues had been identified in the preliminary review process. In this letter, the FDA also gave the date for the detailed interim report including the proposed labeling as March 30, 2016, and gave an estimated date for issuing the final approval (PDUFA date) of May 10, 2016, provided that no significant problems arise. In a further communication on January 20, 2016, the FDA informed the company that the midcycle review had been completed and the FDA had no further questions arising from this regarding the approval application. The proposed labeling was provided to the company by the FDA at the end of March 2016. After the end of the reporting period, the FDA granted approval for unconditional marketing of Ameluz in combination with the PDT lamp in the USA, as announced on May 10. Approval relates to the treatment of individual tumorous lesions as well as larger areas. No conditions to be fulfilled after approval were imposed here. Consequently, Biofrontera is open to the largest healthcare market in the world, and preparations for the planned market launch in September 2016 are well underway.

The extension of the indications for Ameluz® to include the treatment of basal cell carcinoma (BCC) was initiated in 2014. The phase III clinical testing was carried out in direct comparison with the competitor product Metvix®. Patient recruitment was completed in May 2015 and the last patient completed the clinical part of the trial in November 2015. There is then a 5-year follow-up period for all the patients. The results of the trial have been available since January 2016 and prove that Ameluz® is highly clinically effective for the indication of BCC. In comparison with the competitor product Metvix®, it demonstrated higher healing rates, especially with thicker and nodular carcinomas. Despite its statistically significant inferiority for the treatment of mild and moderate actinic keratosis on the face and scalp and the approval restriction as a second-choice therapy, Metvix® has had a major competitive advantage over Ameluz® up to now due to its approval for the treatment of basal cell carcinoma. Particularly in those European countries, where dermatologists are based mainly in hospitals and there are fewer independent practices, the market opportunities of Ameluz® are significantly reduced by the lack of approval for BCC. The extension of the indications currently being sought is therefore expected to put Biofrontera in a significantly improved market position. The application to extend

the indications of Ameluz® to include basal cell carcinoma is due to be made once the trial report has been completed in the 2nd quarter of 2016, and the approval of the European Medicines Agency is then expected in the 4th quarter of 2016.

2016 is therefore a crucial year for Biofrontera in the course is likely to be set for a successful future on several fronts. In light of this and the related challenges facing Biofrontera, the company has also strengthened its staff. The Management Board was expanded to include a Chief Commercial Officer back in November 2015. In recent weeks, Biofrontera has also started to advertise for suitable employees in the USA in order to fill key posts with highly qualified staff there as soon as possible.

Products

Ameluz®

Ameluz® 78 mg/g Gel ("for people who love the light", development name: BF-200 ALA) received a first centralized European approval for the treatment of mild and moderate actinic keratoses on the face and scalp in December 2011. During the phase III development, its superiority compared to its direct competitor product Metvix® was proven for this indication. 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 Medicines Agency (EMA) explicitly mentions the significant superiority of Ameluz® for removing all of a patient's keratoses compared to its direct competitor product.

In the phase III approval trials, Ameluz® showed excellent healing rates and demonstrated significant superiority compared to the approved comparator product, which was tested in parallel. In the first phase III trial in which the drug was combined with an LED lamp, in 87% of patients treated with Ameluz®, all keratoses were completely removed, and in terms of the number of individual keratosis lesions, as many as 96% were completely eradicated (all the values stated are ITT *(intent to treat)* values). In the second phase III approval trial, the effectiveness of Ameluz® was tested in comparison with the approved standard medication. The results of the trial provided evidence that Ameluz® was clearly superior to the competitor product already available in Europe at the time. Based on the average for all lamps used in the treatment, Ameluz® resulted in the complete healing of actinic keratoses in 78% of patients, whereas the competitor product already approved at the time achieved a healing rate of only 64%. With LED lamps, the healing rates increased to 85% for Ameluz® and 68% for the competitor product. The side-effect profile was comparable for both products.

As approval in the USA requires a combination of drug and lamp, Biofrontera has developed its own PDT lamp, BF-RhodoLED®, and has had it CE-certified in the EU, which requires the company to be certified pursuant to the ISO 9001 and ISO 13485 standards. In preparation for approval in the USA, a phase III trial was carried out with a combination of Ameluz® and BF-RhodoLED®. With this combination, keratoses were completely eradicated from 91% of patients, and in terms of the number of individual lesions, 94% were completely removed after treatment (99.1% of mild and 91.7% of moderate lesions). As it has been widely reported in the literature that PDT has pronounced skin-rejuvenating properties, particularly in the case of sun-damaged skin, in this trial, for the first time in a phase III trial of PDT anywhere in the world, the drug was applied over large surface areas (field therapy) and the cosmetic result was established, without taking into account the disappearance or not of the keratotic lesions. All the parameters that were tested improved significantly as a result of the treatment. The proportion of patients without rough, dry and scaly skin increased from 14.8% to 63.0% after treatment with Ameluz®. The group of patients without hyperpigmentation or hypopigmentation increased from 40.7% to 57.4% and from 53.7% to 70.4%, respectively. The proportion of patients with mottled pigmentation who had both hyperpigmentation and hypopigmentation in the treated area decreased from 48.1% to 29.6%. Before treatment, 22.2% of the patients had mild scarring, which dropped to 14.8% of patients after treatment. Atrophic skin was diagnosed in 31.5% of patients before treatment but in only 16.7% of patients after the treatment.

The patients treated in the field therapy trial were observed by the trial doctors over the course of a year after the final treatment. Here, the long-term nature of the pharmaceutical effect of Ameluz® was analyzed in terms of effectiveness, safety and the cosmetic result. 63.3% of the patients who were initially completely asymptomatic were still asymptomatic one year later. The long-term effectiveness achieved using field therapy is thus in the region of that already observed in previous long-term studies on lesion-directed PDT with Ameluz®. The improvement in the skin appearance of patients treated with Ameluz® that was observed immediately after PDT continued to develop during the follow-up period. Before PDT, only 14.8% of patients had no impairments to the surface of the skin. Whereas twelve weeks after the last PDT, 63% of patients were already free of such cosmetic damage, this percentage rose after a year to 72.2%. Similar results were also observed for pigment disorders. Before PDT, hyperpigmentation occurred in 59.3% and hypopigmentation in 46.3% of patients, with 48.1% exhibiting irregular pigmentation. Twelve weeks after Ameluz® PDT, these percentages initially fell to 42.6%, 29.6% and 29.6% and decreased over the course of a year to 24.1%, 11.1% and 18.5%. These results clearly show that the skin rejuvenation effect achieved using photodynamic therapy with Ameluz® is long-lasting and the repair processes triggered by the therapy remain active for at least 12 months.

It is the first time that data on the aesthetic effect of PDT has been collected within the scope of a phase III approval trial. The results underline the significance of PDT with Ameluz® and BF-RhodoLED® and show that the therapy stands out clearly from many other treatment options.

Both the phase I trials required by the American approval authority, the FDA, were already completed in 2015. These clinical trials were initiated with a total of approximately 240 patients or subjects in order to add the safety data required for registration in the USA to the European approval package for Ameluz®. Specifically, one of the trials was a sensitization study, which determines the potential of Ameluz® to trigger allergies, and the other was a maximal use trial, which tests the absorption in the blood of the active ingredient in Ameluz®, aminolevulinic acid, and the light-activated metabolite protoporphyrin IX in cases of treatment with the maximum quantity, i.e. the application of a complete tube onto the defective skin. No safety concerns were identified in either of the studies.

Actinic keratosis is classified as a tumor that requires treatment, and the international treatment guidelines list photodynamic therapy as the gold standard for the removal of actinic keratoses, particularly for patients with large keratotic areas. The latest statistics show that actinic keratosis is becoming a widespread disease, with up to 8 million people affected in Germany alone, and that there is a marked upward trend in cases. In particular, subclinical and mild actinic keratoses 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 therefore taking actinic keratosis increasingly seriously is illustrated by the fact that actinic keratosis has been recognized as an occupational disease since summer 2013. Since then, occupational insurance associations have been obliged to cover the treatment costs of patients who have worked predominantly outdoors for a long time and who fulfill certain criteria for the duration of these patients' lives. Reimbursement was determined in March 2016. Photodynamic therapy (PDT) is taken into account here, and can be used and invoiced for the treatment of occupational AK.

At present, actinic keratoses are treated using a wide range of methods. Lesions are treated, sometimes for weeks, with topical creams, which are often ineffective, or the diseased skin may be removed by mechanical intervention (curettage) or freezing (cryotherapy), which very often leads to scar formation or permanent pigment disorders.

The market for topical creams continues to show constant growth, and medicinally and legally questionable PDT formulations continue to be used in Germany. Because Ameluz® is the market leader among independent dermatologists in Germany in the PDT proprietary medicinal product market, with a market share of over 70%, a significant increase in revenue can and must result from the above-mentioned sectors.

The overall advantages of Ameluz® in terms of effectiveness, handling, user-friendliness and skin rejuvenation effect, as well as the high healing rates of PDT in the treatment of actinic keratoses, will increasingly bring this treatment option to the attention of dermatologists over the next few years. This will be helped by the expansion of the range of indications to include basal cell carcinoma, which the company is currently working on, as the vast majority of PDT treatments are carried out for this indication, particularly in the UK and Spain.

Biofrontera has carried out a phase III trial for the extension of the European approval to include the indication basal cell carcinoma (BCC). BCCs are the most common invasive tumors that affect humans and account for approximately 80% of all invasive white skin cancers. Around 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, gives rise to excellent cosmetic results. In the pivotal phase III trial, a total of 278 patients were treated. The trial was conducted under the clinical supervision of Prof. Dr. Colin Morton (UK) and Prof. Dr. Markus Szeimies (Germany) and was carried out at 27 clinical trial centers in the UK and Germany. Patient recruitment for the trial, which was carried out in direct comparison with the competitor product Metvix®, was completed in May 2015 and the last patient completed the trial in November 2015. The results of the trial have been available since January 2016. The results confirm the company's positive expectations. In the clinical trial, the effectiveness and safety of Ameluz® were compared with that of Metvix®, a drug already approved in the EU for the treatment of BCC. Non-aggressive (superficial and nodular) BCCs with a thickness of up to 2 mm were included in the trial. Ameluz® achieved complete elimination of all BCCs from the patient in 93.4% of cases compared to 91.8% with Metvix®. There were greater differences in the case of thicker BCCs. With Ameluz®, 89.3% of the nodular carcinomas were completely removed, compared to only 78.6% with Metvix®.

Based on the results of this phase III trial, Biofrontera will shortly apply to the European Medicines Agency for approval for the treatment of BCC with Ameluz®. As the existing Ameluz® approval has to be extended for this only, the extended approval should be issued as early as this year.

BF-RhodoLED®

BF-RhodoLED® is a lamp designed for photodynamic therapy (PDT), and uses LEDs emitting red light at a wavelength of approx. 635 nm. Light at this wavelength, which is ideally suited for PDT illumination with drugs containing ALA or methyl ALA, is red but is still below 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 energy and fan power settings can be adjusted during a PDT treatment session in order to reduce any discomfort caused by 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®

Belixos® is a modern active cosmetic product specially developed for sensitive and irritated skin. The biocolloid technology patented by Biofrontera, which optimizes epidermal penetration, makes the products unique: pure plant biocolloids are combined with medicinal plant extracts to form an extraordinary combination of active substances with proven depth penetration, bringing together the best of nature and science.

Belixos® Cream rapidly and reliably soothes itching and is the ideal basic treatment for inflamed, reddened, and flaky skin. It soothes the skin, reduces scratching, and allows the skin to regenerate naturally. Belixos® Cream, which has been available since 2009, has thus proved particularly useful as an effective basic treatment for atopic dermatitis and psoriasis.

Over the past two years, other specialist regenerative cosmetic products for skin problems have been developed. The typical deep yellow color is the unmistakable mark of quality. This is derived from the traditional medicinal plant extract obtained from the roots of Mahonia aquifolium. Belixos® products use only natural active substance extracts with clinically proven effects.

Belixos® Liquid is an innovative scalp tonic with a practical pipette for dosing, which soothes scalps irritated by psoriasis or eczema, for example, and restores their balance. For itchy and flaky scalps, a combination of anti-inflammatory mahonia, moisturizing oats, irritation-relieving panthenol, and a special zinc PCA complex is used.

Belixos® Gel is specially formulated for skin that is inflamed, reddened and prone to skin blemishes, providing an effective support for rosacea and acne. The gel texture is formulated to be extra grease-free, has a complex of active substances consisting of anti-inflammatory mahonia and Sepicontrol A5, is antibacterial, removes hardened skin, and regulates sebum.

Belixos® Protect is a modern daily skincare product specially developed for sun-damaged skin with an exceptional lipid matrix formulation and skin-regenerating properties. Highly concentrated niacinamide smooths the skin and helps repair skin damage. It also contains UVA and UVB broad spectrum protection with SPF15 to protect against further light-induced skin aging and hyperpigmentation.

Irritate skin requires the highest level of care. Belixos® products are manufactured in accordance with strict quality and environmental requirements. They are free of paraffins, parabens, ethyl alcohol, animal products, dyes and fragrances that may have negative dermatological effects. Their skin-compatibility was dermatologically tested without the use of animal testing and was assessed as "very good" by the independent institute 'Dermatest'. Belixos® is available at selected pharmacies, dermatological institutes and on Amazon

A further product launch is planned for 2016.

4. Sales and markets

With its central European approval, Ameluz® can be sold and distributed in all EU countries as well as in Norway, Iceland and Liechtenstein. However, in many European countries, the price and the reimbursement status have to be defined prior to market launch, which can be a very lengthy process. To date, the company has commenced sales in Germany, the UK, Spain, Austria, the Netherlands, Luxembourg, Belgium, Denmark, Sweden, Norway, Switzerland and Slovenia. The drug is available in these countries at a pharmacy retail price of between just under EUR 200 and approx. EUR 270 per 2g tube.

Ameluz® is marketed in Germany and, since March 2015, also in Spain by Biofrontera's own field sales force, and in other European countries using marketing partners. In the UK, Biofrontera is currently preparing its own sales operation, and the contract with a local marketing company was terminated on July 31, 2015. Biofrontera is also taking over the sales operation in Slovenia, but its marketing there is supported by a local company.

Distribution to public pharmacies generally takes place via pharmaceutical wholesalers, whereas hospital pharmacies are supplied directly. In addition to regular visits by the field sales force to dermatologists, Biofrontera has presented Ameluz® at the major dermatological conferences both in Germany and in other European countries since it was introduced onto the market. The response from dermatologists has been extraordinarily positive. The market share of Ameluz® in the segment of PDT drugs dispensed by German public pharmacies is consistently over 70%. In spite of this, Ameluz® has only a small share of the overall market for preparations used to treat actinic keratosis, because only approximately 5% of patients are treated with proprietary medicinal products for photodynamic therapy (PDT). 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 in the statutory health insurance sector. In this sector in Germany, doctors do not usually receive any compensation from statutory health insurance for performing PDT. A film about PDT is available to view on YouTube (http://www.youtube.com/watch?v=aK4a3R5kqMA, and in English http://www.youtube.com/watch?v=2xEO8DWCO8o).

Approval for basal cell carcinoma is a prerequisite for the widespread use of Ameluz® in hospitals, as most basal cell carcinoma is treated there, whereas this is only very rarely the case for actinic keratosis. This indication plays an essen-

tial role for the breakthrough of Ameluz®, particularly elsewhere in Europe, where dermatologists are predominantly based in hospitals. BCCs are the most common invasive tumors that affect humans and account for 50-80% of all invasive white skin cancers. Around 30% of all Caucasians develop at least one BCC in their lifetime, and this is a rapidly growing trend worldwide due to increased exposure to UV light. BCCs are normally removed surgically, often resulting in substantial scarring. Treatment with photodynamic therapy (PDT) is a highly effective alternative which also leads to excellent cosmetic results. According to a market study published in 2014 by Technavio, the international market for actinic keratosis medications is expected to grow by approx. 8% annually, from approx. USD 546 million to USD 942 million in 2020. However, during the same period, the market for basal cell carcinoma medications is expected to grow at a phenomenal rate, from approx. USD 236 million today to nearly USD 5 billion, because the availability of new drugs (Ameluz® is mentioned in this context) will mean that fewer and fewer patients undergo operations.

In Denmark, Sweden and Norway, Ameluz® is marketed by Desitin Arzneimittel GmbH, in Benelux by Bipharma N.V. and in Austria, by Pelpharma Handels GmbH. Biofrontera carries out its own sales activities in Slovenia and is supported in its marketing activities by PHA Farmed. The cooperation with Spirit Healthcare in the UK was terminated by Biofrontera as of July 31, 2015, and Biofrontera is currently preparing to set up its own sales operation in the UK. Sales in Spain were initially handled by Allergan SA, but since March 2015 Biofrontera has marketed its products itself in Spain via its own branch, Biofrontera Pharma GmbH sucursal en España. Louis Widmer SA has been granted the Ameluz® distribution license for Switzerland and Liechtenstein, and the Ameluz® distribution license for Israel has been allocated to Perrigo Israel Agencies LTD. In these countries, it was necessary to undergo an independent approval process, which was carried out by the above-mentioned sales partners in collaboration with Biofrontera. In Switzerland, both the approval and the reimbursement approval were issued in December 2015. Market launch took place at the beginning of 2016. In Israel, Ameluz® has been included in the National Health Basket and thus accepted for reimbursement. Approval was also granted by the Israeli health authorities in April 2016. Consequently, marketing is expected to start in the next few months.

The contracts with the respective sales partners 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 linked to their own sales price. Biofrontera's share of the sales price varies considerably depending on the market conditions in each country, ranging from 35% to 60% of net revenue.

Biofrontera has already started preparations for its sales operation in the USA. With the help of a consulting firm specializing in market access and a team of medical advisors, Biofrontera has started to analyze the actinic keratosis drug market and the reimbursement systems in the American healthcare system. For this, Biofrontera can draw on the experience of DUSA Pharmaceuticals Inc. with a competitor product already sold and distributed in the USA, Levulan Kerastick®. Sales in the USA will be handled via a wholly-owned subsidiary, Biofrontera Inc., which was established for this purpose back in March 2015 and has already recruited its first staff. After approval was granted by the FDA on May 10, 2016, the plan is to launch Ameluz® on the US market on September 1, 2016. As the drug and lamp are approved as a combined product in the USA, the speed of market penetration in the USA will depend in particular on how quickly the BF-RhodoLED® PDT lamp are positioned on the market.

Operational progress in the 1st quarter of 2016

Approval of Ameluz® in the USA: Further progress was made with the approval process in the USA in the 1st quarter. In January, the FDA announced that the midcycle review had been completed with no reservations. The proposed labeling was provided as planned at the end of March. After the end of the 1st quarter, the FDA granted approval for marketing of Ameluz in combination with BF-RhodoLED® in the USA on May 10. No conditions to be fulfilled after approval were imposed.

Clinical trials: The phase III clinical trial on the treatment of basal cell carcinomas was completed in the 1st quarter with outstanding results. Biofrontera will apply for approval to extend the indications in the 2nd quarter, and expects to obtain approval towards the end of the financial year.

Preparations for a phase III clinical trial on daylight therapy were started in the 1st quarter. This trial is to be conducted at clinical centers in Germany and Spain. The study is likely to be completed in fall 2016, so approval could be granted in the 1st half of 2017.

International marketing: Further progress was also achieved in the international marketing of Ameluz® and BF-RhodoLED®. In Switzerland, Ameluz® was approved by Swissmedic and made reimbursable. Biofrontera's partner Louis Widmer commenced marketing of the products in Switzerland in the 1st quarter.

Approval for Ameluz® was also granted in Israel in April 2016. Biofrontera's partner Perrigo is currently preparing for market launch.

Key financial figures in the 1st quarter of 2016:

Revenue: Revenue totaled EUR 1,017 thousand in the first quarter, down by approx. 1% on the previous year. At EUR 633 thousand, revenue in Germany was lower than we expected, falling EUR 150 thousand short of the figure for the 1st quarter of the previous year. This was mainly due to destocking by some pharmaceutical wholesalers. Sales figures of pharmacists grew by 3% in the first quarter. Revenue outside Germany progressed very pleasingly in the 1st quarter, rising by 31% to EUR 324 thousand. The sales trend in Spain was particularly positive. License income (one-off payments) amounted to EUR 60 thousand in the first quarter of 2016 (same period in the previous year: 0).

The company continues to expect total revenue of EUR 6-7 million for 2016.

Operating costs: Biofrontera has continued to invest in research & development and enhancement of its products. Research & development costs totaled EUR 1,005 thousand in the 1st quarter, down EUR 235 thousand or 19% year-on-year.

Sales costs came to EUR 1,196 thousand, an increase of EUR 251 thousand or 27% on the 1st quarter of the previous year. This increase is mainly attributable to the start of sales activities in the USA.

Administrative costs in the 1st quarter of 2016 amounted to EUR 789 thousand. The increase of EUR 156 thousand or 25% compared to the previous year is mainly due to higher financing costs as a result of the capital increase performed in Q1.

Other income: The submission fee (PDUFA fee) of the EUR 2.072 million paid to the FDA in 2015 was refunded in March 2016 after a small business waiver was granted. The fee was reported in the income statement for 2015 under research & development costs. The refund was reported under other income.

Net earnings before tax: Net earnings before tax for the 1st quarter of 2016 totaled EUR -448 thousand, an improvement of EUR 1,915 thousand on the 1st quarter of the previous, mainly as a result of the repayment of the submission fee by the FDA.

Liquidity: The liquidity situation was improved significantly in the 1st quarter of 2016. Net cash in hand amounted to EUR 8.0 million as at March 31, 2016, EUR 4.1 million higher than on December 31, 2015.

Share capital, capital measures

As at March 31, 2016, the fully paid-up share capital of the parent company, Biofrontera AG, amounted to EUR 27,847,814.00. It was divided into 27,847,814 registered shares with a nominal value of EUR 1.00 each. On December 31, 2015, the share capital amounted to EUR 25,490,430.00 and was increased by EUR 2,357,384.00, divided into 2,357,384 registered shares, during the course of the 1st quarter of the 2016 financial year by means of a capital increase.

In the context of the capital increase carried out in February 2016, the company's share capital was increased from authorized capital against cash contributions by EUR 2,357,384.00 through the issue of 2,357,384 new registered shares. The subscription right of the shareholders was excluded. The new shares were offered to selected institutional investors for an issue amount of EUR 1.90 per new share, i.e. for a total issue amount of EUR 4,479,029.60, and placed in full. The net issue proceeds amounted to EUR 4.4 million.

Financial position

The company’s capital management body regularly reviews the equity ratio of the group and 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. The statement of changes in equity provides further information about the development of equity.

Cash flow from operating activities increased compared to the previous year, from EUR -1,818 thousand to EUR 183.6 thousand as at March 31, 2016.

Cash flow from interest revenue fell by EUR 55 thousand to EUR 1 thousand. Investments in fixed assets increased slightly by EUR 63 thousand. These factors led to a decrease in cash flow from investment activities of EUR 115 thousand from EUR 23 thousand to EUR -92 thousand.

Cash flow from financing activities improved by EUR 4,829 thousand compared to the same period in the previous year, from EUR -830 thousand to EUR 3,999 thousand. This change primarily results from proceeds from the issuance of shares with issue proceeds of EUR 4.4 million; no capital increase was carried out in the same period of the previous year.

The company was able to meet its payment obligations at any time, but will continue to depend on additional financing measures in the future. To date, Biofrontera has always succeeded in providing the necessary financing for its business operations through injections of equity. Following the capital increases in 2015 and a further two capital increases in February and April 2016, the company currently has sufficient liquidity at its disposal. However, approval in the USA, the planned investments in marketing in the US and compliance with obligations from the issued option bond particularly constitute a necessity for further capital measures during the 2016 financial year.

On the basis of its previous, invariably successful experience with capital measures, the Management Board assumes that the liquidity required for business activities can be further ensured. If these valid estimates are, contrary to expectations, not realized, this could constitute a threat to the company's continued existence.

Supplementary report

Events of special significance occurring since March 31, 2016

On May 10, 2016, the US approval authority, FDA, granted approval for unlimited marketing of Ameluz® in combination with the PDT lamp BF-RhodoLED® in the USA. No conditions to be fulfilled after approval were imposed here. This approval covers lesion-directed and field-directed treatment.

In the context of a capital increase carried out in April 2016, the company's share capital was increased from authorized capital against cash contributions by EUR 2,499,999.00 through the issue of 2,499,999 new registered shares. The statutory subscription right was granted to the shareholders. In addition, an "additional subscription" was offered, i.e. shareholders executing subscription rights were allowed to apply to subscribe to unsubscribed new shares at the subscription price. The subscription price per new share was EUR 2.00, and the capital increase was placed in full. The net issue proceeds amounted to EUR 4.9 million.

In April 2016, the Israeli Ministry of Health (IMOH) granted Biofrontera's partner Perrigo Israel Agencies LTD drug approval for Ameluz for the treatment of actinic keratosis (AK) with photodynamic therapy in Israel.

In addition, subscription prices arising from option rights were adjusted in April 2016. The subscription price of option rights arising from the warrant bond from 2011/2016 was reduced for each share by EUR 0.04 to EUR 2.96. The subscription price of option rights arising from the warrant bond from 2009/2017 was reduced for each share by EUR 0.04 to EUR 4.96.

Risk, opportunity and forecast report

The risks existing in the group are described in detail in the risk report included in the published consolidated management report of December 31, 2015. No other significant changes in the risks described there have occurred as at March 31, 2016.

Forecast of key financial figures (report on forecast changes if applicable)

The current outlook for the 2016 financial year is unchanged from the forecast contained in the 2015 Annual Report.

Leverkusen, May 25, 2016

Signed by Prof. Hermann Lübbert	Signed by Christoph Dünwald	Signed by Thomas Schaffer
Chief Executive Officer	Chief Commercial Officer	Chief Financial Officer

Consolidated balance sheet as at March 31, 2016

Assets

in EUR	March 31, 2016 Unaudited	December 31, 2015
Non-current assets		
Tangible assets	434,389.33	372,834.23
Intangible assets	1,730,913.93	1,901,927.93
	2,165,303.26	2,274,762.16
Current assets		
Current financial assets		
Trade receivables	650,469.28	894,558.96
Other financial assets	1,006,219.94	730,440.34
Cash and cash equivalents	8,049,580.74	3,959,207.16
	9,706,269.96	5,584,206.46
Other current assets		
Inventories		
Raw materials and supplies	627,559.08	590,420.47
Unfinished products	79,072.87	42,723.50
Finished products and goods	763,317.85	900,505.05
Income tax reimbursement claims	32,365.57	32,220.80
Other assets	131,551.25	72,879.33
	1,633,866.62	1,638,749.15
	11,340,136.58	7,222,955.61
Total assets	13,505,439.84	9,497,717.77

Liabilities

in EUR	March 31, 2016 Unaudited	December 31, 2015
Equity		
Subscribed capital	27,847,814.00	25,490,430.00
Capital reserve from foreign currency conversion adjustments	5,703.64	(1,188.65)
Capital reserve	81,624,394.38	79,525,292.28
Loss carried forward	(109,823,695.69)	(98,620,285.49)
Net loss for the year	(447,743.50)	(11,203,410.20)
	(793,527.17)	(4,809,162.06)
Non-current liabilities		
Non-current financial liabilities	3,241,945.97	11,229,946.00
Current liabilities		
Current financial liabilities		
Trade payables	962,462.07	1,043,425.65
Short-term financial debt	8,674,936.03	830,174.00
Other financial liabilities	52,178.41	37,622.28
	9,689,576.51	1,911,221.93
Other current liabilities		
Other provisions	1,242,695.19	1,041,860.80
Other current liabilities	124,749.34	123,851.10
	1,367,444.53	1,165,711.90
	11,057,021.04	3,076,933.83
Total liabilities (1)	13,505,439.84	9,497,717.77

(1) Please note that “total liabilities” in the meaning of this balance sheet include equity, long-term liabilities and current liabilities.

Consolidated statement of comprehensive income for the first quarter of the 2016 and 2015 financial year

in EUR	3M 2016	3M 2015
	Unaudited	Unaudited
Revenue	1,016,794.06	1,030,011.30
Cost of sales	-360,985.36	-310,182.09
Gross profit from sales	655,808.70	719,829.21
Operating expenses:		
Research and development costs	-1,004,685.90	-1,240,073.31
General administrative costs	-788,889.09	-633,178.56
of which financing costs	-301,743.45	-81,400.13
Marketing costs	-1,195,558.55	-944,943.27
Loss from operations	-2,333,324.84	-2,098,365.92
Financial result		
Interest expenses and the like	-293,354.60	-280,684.69
Interest income and the like	558.61	7,658.65
Other income and expenses		
Other expenses	-13,999.64	-16,433.79
Other income	2,192,376.97	25,345.65
Earnings before income tax	-447,743.50	-2,362,480.10
Income tax	0.00	0.00
Earnings for the period	-447,743.50	-2,362,480.10
Expenses and income not recognized in income		
Subsequent valuation of financial assets available for sale	0	0
Other expenses and income not recognized in income	0	0
Total earnings for the period	-447,743.50	-2,362,480.10
Undiluted (=diluted) earnings per share	-0,02	-0,11

Consolidated cash flow statement for the first quarter of the 2016 and 2015 financial year

	3M 2016 Unaudited	3M 2015 Unaudited
	EUR	EUR
Cash flows from operations:		
Total earnings for the period	-447,743.50	-2,362,480.10
Adjustments to reconcile total earnings for the period to cash flow into operations:		
Financial result	292,795.99	273,026.04
Depreciation	197,211.95	199,493.00
(Gains)/losses from disposal of assets	4,836.33	115.00
Non-cash expenses and income	21,685.79	27,256.85
Changes in operating assets and liabilities:		
Trade receivables	244,089.68	-231,377.57
Other assets and income tax claims	-334,596.29	-4,895.12
Inventories	63,699.22	31,299.70
Trade payables	-80,963.58	58,103.74
Provisions	207,135.60	161,938.04
Other liabilities	15,454.37	29,116.74
Net cash flow into operations:	183,605.56	-1,818,403.68
Cash flows from investment activities:		
Purchase of intangible and tangible assets	-100,897.81	-37,473.12
Interest received	558.61	55,358.65
Revenue from the sale of intangible and tangible assets	8,308.43	4,742.01
Net cash flow from (into) investment activities	-92,030.77	22,627.54
Cash flows from financing activities:		
Proceeds from the issue of shares	4,434,585.60	0.00
Interest paid	-435,786.81	-830,174.00
Increase/(decrease) in long-term financial debt	-8,280,512.03	186,871.27
Increase/(decrease) in short-term financial debt	8,280,512.03	-186,880.43
Net cash flow from financing activities	3,998,798.79	-830,183.16
Net increase (decrease) in cash and cash equivalents	4,090,373.58	-2,625,959.30
Cash and cash equivalents at beginning of period	3,959,207.16	8,509,398.16
Cash and cash equivalents at end of period	8,049,580.74	5,883,438.86
Composition of financial resources at end of period:		
Cash and bank balances and checks	8,049,580.74	5,883,438.86

Consolidated statement of changes in equity for the first quarter of the 2016 and 2015 financial year

Unaudited	Ordinary shares Number	Subscribed capital EUR	Capital reserve EUR	Capital reserve from foreign currency conversion adjustments EUR	Accumulated loss EUR	Total EUR
Balance as at January 1, 2015	22.196.570	22.196.570,00	76.402.715,36	0,00	(98.620.285,49)	(21.000,13)
Capital increase	0	0,00	0,00	0,00	0,00	0,00
Cost of equity procurement	0	0,00	0,00	0,00	0,00	0,00
Increase in capital reserves from the stock option program	0	0,00	27.417,00	0,00	0,00	27.417,00
Net loss for the year	0	0,00	0,00	0,00	(2.362.480,10)	(2.362.480,10)
Balance as at March 31, 2015	22.196.570	22.196.570,00	76.430.132,36	0,00	(100.982.765,59)	(2.356.063,23)
Capital increase	3.293.860	3.293.860,00	3.515.382,80	0,00	0,00	6.809.242,80
Cost of equity procurement	0	0,00	(495.769,88)	0,00	0,00	(495.769,88)
Foreign currency conversion adjustments	0	0,00	0,00	(1.188,65)	0,00	(1.188,65)
Increase in capital reserves from the stock option program	0	0,00	75.547,00	0,00	0,00	75.547,00
Net loss for the year	0	0,00	0,00	0,00	(8.840.930,10)	(8.840.930,10)
Balance as at December 31, 2015	25.490.430	25.490.430,00	79.525.292,28	(1.188,65)	(109.823.695,69)	(4.809.162,06)
Capital increase	2.357.384	2.357.384,00	2.121.645,60	0,00	0,00	4.479.029,60
Cost of equity procurement	0	0,00	(44.444,00)	0,00	0,00	(44.444,00)
Foreign currency conversion adjustments	0	0,00	0,00	6.892,29	0,00	6.892,29
Increase in capital reserves from the stock option program	0	0,00	21.900,50	0,00	0,00	21.900,50
Net loss for the year	0	0,00	0,00	0,00	(447.743,50)	(447.743,50)
Balance as at March 31, 2016	27.847.814	27.847.814,00	81.624.394,38	5.703,64	(110.271.439,19)	(793.527,17)

Quarterly report as at March 31, 2015

Consolidated interim management report for the first quarter of the 2015 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") during the first quarter of the 2015 financial year. The group consists of the parent company Biofrontera AG and five wholly owned, direct subsidiaries - Biofrontera Bioscience GmbH, Biofrontera Pharma GmbH, Biofrontera Development GmbH, Biofrontera Neuroscience GmbH and Biofrontera Inc. Biofrontera Inc. has its head office in Wilmington, Delaware, USA. All the other companies are based at Hemmelrather Weg 201, 51377 Leverkusen in Germany.

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 has responsibility for research and development tasks for the group and is the holder of patents and 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. 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.

Biofrontera Inc. was founded in March 2015 and it is intended that this company will handle the group's business operations in the USA in the future.

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 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.

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 gradually developed, and Biofrontera's own field sales team has been selling Ameluz® to dermatologists in Germany since the drug was launched in February 2012, and in Spain since

March 2015. The drug is distributed in other European Union member states, Israel and Switzerland by licensing partners.

Biofrontera has thus established itself as a specialist pharmaceutical company with an unusually high level of research and development expertise in comparison to other companies in this sector. The focus of the Group's strategy is to further expand its business in Europe, achieve market entry of Ameluz® in the USA and extend the indication to include basal cell carcinoma, first in the EU and then in the USA.

The approval for Ameluz® in the USA continued to be prepared for submission during the reporting period. The clinical part of the registration package has been successfully completed. Since Ameluz® and BF-RhodoLED® must be approved in the USA as a combination of a drug product and a medical device, the approval application is unusually complex. The submission of the registration dossier to the FDA (food and drug administration = licensing authority in the USA) is scheduled for Q2 2015. Once the approval has been issued, which is expected approximately 12 months after submission of the application, Biofrontera will have access to the largest healthcare market in the world.

The extension of the indication of Ameluz® to include basal cell carcinoma was also initiated in 2014. The patient recruitment for phase III clinical testing in direct comparison to the competitive product Metvix® has nearly been completed, so it is expected that the trial will be concluded by the end of 2015. The latter currently has a competitive advantage over Ameluz® due to its approval for the treatment of both basal cell carcinoma and actinic keratoses. In particular in other European countries, in which PDT is carried out mainly in hospitals and less in the registered doctors sector, the market opportunities for Ameluz® are significantly reduced as a result. An extension of the indication would therefore put Biofrontera in a significantly improved market position. The submission of the application for the extended indication of Ameluz® to include basal cell carcinoma is to be carried out in early 2016, following completion of the phase III clinical trial and creation of the trial report; approval is expected to be granted during the first half of 2016.

3. Products

Ameluz®

Ameluz® 78 mg/g Gel ("for people who love the light", development name: BF-200 ALA) 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.

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 87% of the patients treated with Ameluz®. In terms of individual keratoses, a total of 96% of them were completely eradicated (all values stated here are ITT, *Intent to Treat,* values). In the second phase III trial relevant to approval, the effectiveness of Ameluz® was tested in comparison to 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 rival product that was already approved at that time

achieved a healing rate of only 64%. With LED lamps, the healing rate increased to 85% for Ameluz® and 68% for the competitor product. The side effect profile was comparable for both preparations.

As approval in the USA requires a combination of medication and lamp therapy, Biofrontera has developed its own PDT lamp, BF-RhodoLED®, and has had it CE-certified in the EU, which requires the company to be certified pursuant to the ISO 9001 and ISO 13485 standards. In preparation for the approval in the USA, a phase III trial was carried out with a combination of Ameluz® and BF-RhodoLED®, and this was completed in the reporting period. With this combination, a total of 91% of patients became completely free of keratoses, with a total of 94% of the individual lesions having been eradicated following treatment (99.1% of the mild lesions and 91.7% of the moderate lesions). As it has been reported a lot in the literature that PDT has pronounced skin rejuvenating properties, in particular with regard to sun-damaged skin, this phase III trial of PDT, which was the first of its kind in the world, involved applying the medication over large surface areas and determining the cosmetic result, without taking into account the disappearance or not of the keratotic lesions. All the parameters that were tested improved significantly as a result of the treatment. The proportion of patients without rough, dry and scaly skin increased by 14.8% after treatment with Ameluz®, to 63.0%. The group of patients without hyperpigmentation or hypopigmentation increased from 40.7% to 57.4% and 53.7% to 70.4%, respectively. The proportion of patients with mottled pigmentation who had both hyperpigmentation and hypopigmentation in the treated area decreased from 48.1% to 29.6%. Before treatment, 22.2% of the patients had mild scarring, which declined to 14.8% of patients after treatment. Atrophic skin was diagnosed in 31.5% of patients before treatment but in only 16.7% of patients after the treatment.

Both the phase I trials required by the American approval authority, the FDA, were also completed during the reporting period. These clinical trials were initiated with a total of approximately 240 patients or subjects in order to supplement the European approval package for Ameluz® with the safety data required for registration in the USA. Specifically, one of the trials was a sensitisation study, which determines the potential of Ameluz® to trigger allergies, and the other was a maximal use trial, which tests the absorption into the blood of the active ingredient in Ameluz®, aminolevulinic acid, and the light-activated metabolite protoporphyrin IX when treatment is carried out with the maximum quantity, i.e. upon application of a complete tube to the defective skin. No safety concerns were identified in either of the studies.

Actinic keratosis is classified as a tumour that requires treatment, and the international treatment guidelines list photodynamic therapy as the gold standard for the removal of actinic keratoses, particularly for patients with large keratotic areas. The latest statistics show that actinic keratosis is becoming a widespread disease, with 8 million people affected in Germany alone, and that there is a marked upward trend in cases. Subclinical and mild actinic keratoses 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. However, to date, the remuneration process has not yet been defined, but this is expected to happen in 2015.

At present, actinic keratoses are treated using a wide range of methods. Lesions may be treated for weeks or months with topical creams, which are often ineffective, or the degenerated skin may be removed by mechanical intervention (curettage) or freezing (cryotherapy), which frequently leads to scar formation or permanent pigment changes.

The market for topical creams continues to grow constantly and the use of legally questionable PDT formulations remains at a consistently high level. As Ameluz® has a leading position with dermatologists based in

Germany, with over 70% of the market share in the PDT proprietary medicinal product market, an increase in sales can and must result from taking market share from the above-mentioned sectors.

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. This will be helped by the expansion of the range of indications to include basal cell carcinoma, which the company is currently striving to achieve, as the clear majority of PDT treatments are for this indication, particularly in Great Britain and Spain.

Biofrontera is currently carrying out a phase III trial for the extension of the European approval to include the indication basal cell carcinoma (BCC). BCCs are the most common invasive tumours that 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 for the treatment of thin BCCs, produces excellent cosmetic results. In the clinical trial, Biofrontera will compare Ameluz® with the competitor product approved for BCC, Metvix®. It was 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 for this trial is going more slowly than originally planned, but should, however, be completed by June 2015. A respective application has already been submitted to the relevant authorities. Thus the clinical part of the trial would end in October 2015 and the approval extension could be submitted to the EMA by the end of the year. Such an extension will theoretically take three months. This period may, however, be interrupted by questions from the EMA.

BF-RhodoLED®

BF-RhodoLED® is a lamp designed for photodynamic therapy (PDT), and uses 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 session 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®

Belixos® is a medical skin care product with herbal ingredients for the regeneration of damaged skin. The Belixos® skin cosmetics range combines selected extracts of traditional medicinal plants with a modern formulation technology.

Belixos® cream was launched on the market in October 2009. It was initially available via the company's own online shop and then also via pharmacies. The Belixos range was extended in February 2014 with the addition of Belixos® liquid and in December 2014 with the addition of Belixos® gel. In conjunction with this expansion, sales via the dedicated online shop were discontinued. Instead, the products are now available via the online retailer Amazon.

The innovative biocolloid technology and the specific combination of high-quality herbal ingredients is intended to set new standards in the very competitive 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 rapidly and reliably soothes itching 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 antipruritic and anti-oxidative.

Belixos® Liquid treats the problems of itchy and flaky scalp with a combination of anti-inflammatory mahonia, moisturising oats and a 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 regenerative properties.

The new Belixos® gel with mahonia and cinnamon bark was developed for the care of skin that is vulnerable and prone to redness and skin blemishes. In the case of rosacea and acne, it cools the skin and reduces redness. The cinnamon extract in the Sepicontrol A5 complex opens closed pores and thereby prevents new skin impurities.

The development pipeline for further expansion of the Belixos® range currently includes Belixos® Protect, a day cream with protective anti-aging properties designed especially for photo-damaged skin, and Belixos® to go, a roll-on pen for people on the move that is thus available at any time for treating insect bites or incipient Herpes cold sores.

4. Sales and marketing

With its central European approval, Ameluz® can be sold and distributed in all EU countries as well as in Norway, Iceland and Liechtenstein. However, in many European countries, the price and reimbursement status for the drug has to be defined prior to market launch, which can in some cases be a very lengthy process. To date, the company has commenced sales and distribution in Germany, UK, Spain, Austria, Holland, Belgium, Denmark, Sweden, Norway and Slovenia. The new drug is available in these countries at a pharmacy retail price of between just under EUR 200 and approx. EUR 280 per 2g tube.

In Germany, and in Spain since March 2015, Ameluz® is marketed by Biofrontera's own sales force, while in other European countries it is promoted with the help of marketing partners. Biofrontera is also taking over the distribution activities in the UK and Slovenia, but will be supported in local marketing by companies based there. 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, as well as in Spain and other countries. The response from dermatologists has been extraordinarily positive. A comparison of 2013 and 2014 shows that Biofrontera has achieved a significant increase in sales of more than 27%, and growth during the first quarter of 2015 amounted to an excellent 44% in Germany. The Ameluz® market share in the PDT

medication segment is consistently greater than 70%, with the remaining almost 30% going to the competing 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). 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 in the public health insurance industry, as doctors do not receive any compensation for performing PDT in this industry. An information video for patients on this subject has been uploaded to YouTube (in German at http://www.youtube.com/watch?v=aK4a3R5kqMA and in English at http://www.youtube.com/watch?v=2xEO8DWCO8o).

Approval for basal cell carcinoma is a pre-requisite for the distribution of Ameluz® to hospitals, as basal cell carcinoma is mainly treated there, whereas this is less the case for actinic keratosis. This indication plays an essential role for the breakthrough of Ameluz®, in particular in European countries. Basal cell carcinoma is the most common infiltrating tumour in humans: in the US alone, approx. 2.8 million basal cell carcinoma treatments are carried out annually, and European figures are comparable. As 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. According to a market study published last year by Technavio, the international market for actinic keratosis medications is expected to grow by approx. 8% annually, from its current level of approximately USD 546 million to USD 942 million in 2020. However, during the same period, the market for basal cell carcinoma medications is expected to grow at a phenomenal rate, from approx. USD 236 million today to nearly USD 5 billion, because the availability of new medications (Ameluz® is mentioned in this context) will mean that fewer and fewer patients undergo operations.

Ameluz® is marketed by Desitin Arzneimittel GmbH in Denmark, Sweden and Norway, by BiPharma N.V. in the Benelux region and by Pelpharma Handels GmbH in Austria. Biofrontera carries out distribution activities itself in the UK and Slovenia and is supported with regard to marketing aspects by Spirit Healthcare Limited in the UK and by PHA Farmed in Slovenia. Sales in Spain were handled by Allergan, but since March 2015 Biofrontera has carried out market activities in Spain itself via its own branch, Biofrontera Pharma GmbH sucursal en España. Louis Widmer SA has been granted the Ameluz® distribution licence for Switzerland and Liechtenstein, and the Ameluz® distribution licence for Israel has been allocated to Perrigo Israel Agencies LTD. In these countries, it is necessary to obtain independent approval, which the above-mentioned distribution partners are currently carrying out in cooperation with Biofrontera.

The contracts with the respective sales partners 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 from 35% to 65% of net sales.

In France, Biofrontera has prepared the application to make Ameluz® eligible for reimbursement, with the assistance of a consulting company that specialises in this area, and will submit this application as soon as still outstanding clarifications regarding responsibilities for the local pharmaceutical vigilance have been obtained.

A decision on the business model for sales in the USA is to be taken during the course of the 2015 financial year. With the help of a consulting company specialising in market access and a team of consultants specialising in medical issues, Biofrontera has started to analyse the market for actinic keratosis medications and the reimbursement systems in the American health care system. In this regard, Biofrontera can make use of the

experience of a competitor product, Levulan Kerastick®, from the company Dusa Pharmaceuticals Inc. Whether the distribution is carried out in the form of a collaboration with another company or by Biofrontera itself depends on the contract conditions that are achievable with suitable partners, and on the availability of the funding required to establish a US branch. Although the second approach would first require further investment, Biofrontera could include all sales and profits in its own profit and loss account in such a model in the long term, and could thus probably lay the foundation for a considerably higher company valuation. A decision must be taken in time to ensure that preparations can be made to enter the market once the approval has been received. In order to further prepare the foundations for US activities, a dedicated local subsidiary, Biofrontera Inc., was established in March 2015 and a very experienced CEO was appointed in the form of Monica L. Tamborini.

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 trial 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. However, no work to this end has yet been undertaken, for reasons of capacity.

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 has been synthesised, in accordance with the Good Manufacturing Practice (GMP) quality standards.

Patent and trademark developments since 31 December 2014

ALA

Further official communications regarding the "Nanoemulsion" patent (PCT/EP2007/011404) were issued in Canada, Chile and the USA, and responses were sent by the relevant deadlines.

Brand development

Protection was granted in full for Singapore and Japan for two different forms of the international "Natural Heritage with Herbal Biocolloids" trademark.

Economic report
For the first quarter of the 2015 financial year for the Biofrontera group:

- 59% overall revenue growth compared to the 1st quarter of the previous year, including 44% growth in Germany as well as significant sales growth in other European countries
- EBIT: EUR -2.1 million (same period in previous year: EUR -2.3 million)
- Consolidated profit/loss before tax: EUR – 2.4 million (same period in previous year: EUR -2.6 million)
- Liquid assets of EUR 5.9 million on 31 March
- Undiluted earnings per share amounted to EUR -0.11 (same period in previous year: EUR -0.13)

Achievement of objectives as at 31 March 2015:

Revenue: In Germany, sales rose by approximately 44% compared to the same period in the previous year. The target of 30% revenue growth in Germany has thus been significantly exceeded; the forecast of 30% growth in Germany for the whole of 2015 remains unchanged. Significantly higher orders were recorded in other European countries, which led to a sharp increase in international sales.

Preparation of the application for approval of Ameluz® in the USA: Three clinical trials have been completed in preparation for the submission of the approval application file to the FDA (Food and Drug Administration). All three studies were completed in 2014 with very convincing results. A reformatting of the data into the FDA format and a joint evaluation of all the clinical findings (integrated analysis) were at that time still required in order to finalize the approval documents for the FDA. This work has now also been completed. Meanwhile, the finishing touches are now being carried out on the dossier, and submission is planned for June 2015. 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, during which all questions still outstanding in relation to the company were answered.

In Spain, Biofrontera took over responsibility for sales and distribution from Allergan on 17 March, as planned in the corresponding agreement. Sales and distribution is now carried out via a registered branch office called *Biofrontera Pharma GmbH, sucursal en España*, which is based in Cornellà de Llobregat near Barcelona.

Clinical trials: the phase III clinical trial for basal cell carcinoma is very far advanced. A request has thus been submitted to the relevant authority to bring patient recruitment to a close. As planned, the most recently recruited patient will have gone through the course of treatment in 6 months, which means that the trial could be completed by the end of 2015.

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

Biofrontera Group profit/loss account (summary)

	3M 2015	3M 2014	Change
	in thousand EUR	in thousand EUR	in %
	unaudited	unaudited	
Sales revenue	1,030	650	+59
Cost of sales	310	180	+72
Research and development costs	1,240	1,140	+9
Sales, distribution and general administration costs	1,578	1,687	-6
Other operating income and expenses	9	27	-67
EBIT	-2,089	-2,331	-10
Financial result	-273	-307	-11
Profit/loss before income tax	-2,362	-2,638	-10
Income tax	0	3	+100
Profit/loss after tax	-2,362	-2,641	-11
of which attributable to other shareholders	0	0	

Sales revenue

The Biofrontera Group recorded sales of EUR 1,030 thousand in the first quarter of the 2015 financial year (first quarter of 2014: EUR 650 thousand), corresponding to an increase of 59% compared to the same period in the previous year. Turnover from sales of our products in Germany increased by 44% to EUR 783 thousand (same period in previous year: EUR 544 thousand), and sales in other countries increased by 276% to EUR 247 thousand (same period in previous year: EUR 66 thousand). No down payments were collected during the first quarter of the 2015 financial year (same period in previous year: EUR 40 thousand).

Cost of sales

In line with this increase in sales, the cost of sales also increased by 73%, from EUR 180 thousand to EUR 310 thousand, which resulted in the gross profit from sales improving from EUR 470 thousand in the first quarter of the 2014 financial year to EUR 720 thousand in the first quarter of the 2015 financial year.

The gross margin fell slightly, from 72% to 70%, due to the higher proportion of foreign sales, as according to its licensing agreements Biofrontera only receives part of the margin.

Research and development costs, distribution and administration costs

The research and development costs, which amounted to EUR 1,140 thousand in the first quarter of the 2014 financial year, increased to EUR 1,240 thousand in the first quarter of the 2015 financial year. This is in line with Biofrontera's strategy, which provides for investment in research and development in order to extend the range of indications and to achieve approval for Ameluz® in the USA. The distribution and administration costs fell by EUR 109 thousand compared to the same period in the previous year, to EUR 1,578 thousand, primarily due to lower financing costs.

Financial result

The interest expenses included in the financial result, which amount to EUR 281 thousand, are almost entirely the result of interest payments for the two warrant bonds, and of the compounding of interest on the two warrant bonds using the effective interest method. The interest payments for the 2014 calendar year from the warrant bond I and the warrant bond II were made in January 2015.

Share capital

On 31 March 2015, the fully paid-up share capital of the parent company, Biofrontera AG, amounted to EUR 22,196,570.00. This was divided into 22,196,570 registered shares with a nominal value of EUR 1.00 and has not changed compared to the share capital on 31 December 2014.

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 Xetra computer trading system and all other German stock exchanges. On 3 June 2014, 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 AIM Market (AIM) of the London Stock Exchange.

The shareholdings of the shareholders on 31 March 2015, based on the most recent compulsory disclosures of the shareholders, were as follows:

	31 March 2015 EUR
Maruho Deutschland Co., Ltd., Osaka, Japan The total share of voting rights is assigned to Maruho Co., Ltd, Osaka, via the company Maruho Deutschland GmbH, Düsseldorf, Germany, which is controlled by the former.	4,467,143
Professor Ulrich Abshagen, Germany Professor Abshagen has a direct holding of 52,293 voting rights, and he is indirectly assigned 976,056 voting rights 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, Germany *Most recent notification of voting rights on 10.02.2011. Since then, no threshold transgressions have been reported, thus the actual shareholding as of 31 March 2015 may deviate significantly from this information.	981,438*
Professor Hermann Lübbert, Leverkusen, Germany	685,512
Free float	15,034,128
	22,196,570

Financial position and cash flows

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. For more details of the development of the company's equity capital, please see the equity reconciliation statement.

The cash flow from operating activities improved in comparison with the first quarter of 2014, from EUR -2,449 thousand to EUR -1,818 thousand.

Due to interest received on cash investments, the cash flow from investment activities increased by EUR 8 thousand, from EUR 15 thousand to EUR 23 thousand.

The cash flow from financing activities decreased by EUR 14,527 thousand compared to the same period in the previous year, due to the proceeds received in the first quarter of the 2014 financial year from shares issued in a capital increase. The cash flow fell from EUR 13,696 thousand to EUR -830 thousand.

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

Pursuant to IFRS, the group has negative equity amounting to EUR 2,356 thousand. As of 31 March 2015, Biofrontera AG had positive equity amounting to EUR 64,797 thousand.

Personnel details

Staff

On 31 March 2015, 49 (31 December 2014: 46) employees worked for the Biofrontera Group. This figure comprises 16 employees of Biofrontera AG (31 December 2014: 16), 6 employees of Biofrontera Bioscience GmbH (31 December 2014: 6), and 27 employees of Biofrontera Pharma GmbH (31 December 2014: 24). No staff are employed at Biofrontera Development GmbH or Biofrontera Neuroscience GmbH.

Supplementary report

Events of special significance occurring since 31 March 2015

A small capital increase of 1,377,272 new shares with proceeds of EUR 3.1 mln (net) was executed in May. The proceeds will be used to cover the „PDUFA Fee“ of US$ 2,335,000 that Biofrontera will have to transfer to the FDA prior to submitting the dossier for its medicament Ameluz®. While this fee is normally waived for first submissions of small companies, the FDA does not yet have a process installed for granting the waiver in the current year. Following approval of the waiver, the money should be returned to Biofrontera. The remaining sum will flow into Biofrontera’s general operational costs.

Monica L. Tamborini was appointed managing director of the US subsidiary Biofrontera Inc. on 1 April 2015.

Pursuant to a resolution passed by the Supervisory Board on 9 April 2015, Thomas Schaffer’s appointment as Chief Financial Officer was extended by five years, until 30 November 2020.

Forecast regarding key tax figures

The current outlook for the 2015 financial year is unchanged from the forecast contained in the 2014 Annual Report.

For the 2015 financial year, Biofrontera expects to achieve turnover of approximately EUR 4 to 5 million, though this is still subject to significant planning uncertainties relating primarily to the speed of market penetration. In Germany, as in 2014, we envisage an increase in turnover of approximately 30% compared to the previous year. It is still very difficult to predict the increase in sales in other European countries, which means that the achievable revenue could be anywhere within a wide spread. Further licence agreements with possible one-off payments are not included in the above turnover forecast. Neither a down payment from a possible US distribution partner nor possible additional costs relating to the establishment of the company's own sales team in the USA are taken into account in the planning for 2015.

In order to extend the range of indications, and to receive approval for the USA, Biofrontera will continue to invest heavily in research and development and regulatory affairs in 2015. We therefore expect development costs to remain in the area of EUR 4 to 5 million.

Biofrontera does not plan to make any significant investments in tangible assets in 2015.

The financial result reflects the interest payments and compounding of interest using the effective interest method for the two warrant bonds. Therefore, this will not significantly change in 2015 compared to 2014.

With the above-mentioned conditions and forecasts, the company will achieve a net result of EUR -9 to -10 million in 2015. The achievement of this result depends heavily on progress in terms of turnover.

Leverkusen, Germany, 29 May 2015

Biofrontera AG

Professor Hermann Lübbert

Thomas Schaffer

Consolidated balance sheet as at 31 March 2015

Assets

in EUR	31 March 2015 unaudited	31 Dec 2014
Non-current assets		
Tangible assets	333,775.26	339,532.00
Intangible assets	2,418,957.02	2,580,077.17
	2,752,732.28	2,919,609.17
Current assets		
Current financial assets		
Trade receivables	540,361.92	308,984.35
Other financial assets	722,011.37	726,790.94
Cash and cash equivalents	5,883,438.86	8,509,398.16
	7,145,812.15	9,545,173.45
Other current assets		
Inventories		
Raw materials and supplies	724,733.90	684,455.83
Unfinished products	135,318.02	107,784.39
Finished products and goods	502,170.43	601,281.83
Income tax reimbursement claims	62,233.51	62,072.99
Other assets	51,926.60	90,118.27
	1,476,382.46	1,545,713.31
	8,622,194.61	11,090,886.76
Total assets	11,374,926.89	14,010,495.93

Liabilities

in EUR	31 March 2015 unaudited	31 Dec 2014
Equity		
Subscribed capital	22,196,570.00	22,196,570.00
Capital reserve	76,430,132.36	76,402,715.36
Loss carried forward	(98,620,285.49)	(87,899,306.51)
Net loss for the year	(2,362,480.10)	(10,720,978.98)
	(2,356,063.23)	(21,000.13)
Long-term liabilities		
Long-term financial liabilities	11,241,257.43	10,774,298.38
Current liabilities		
Current financial liabilities		
Trade payables	1,025,541.40	967,437.66
Short-term financial debt	207,543.57	1,224,598.00
Other financial liabilities	62,756.86	27,012.10
	1,295,841.83	2,219,047.76
Other current liabilities		
Other provisions	1,114,313.37	951,944.41
Other current liabilities	79,577.49	86,205.51
	1,193,890.86	1,038,149.92
	2,489,732.69	3,257,197.68
Total liabilities (1)	11,374,926.89	14,010,495.93

(1) Please note that "total liabilities" in the meaning of this balance sheet include equity, long-term liabilities and current liabilities.

Consolidated statement of comprehensive income for the first quarters of the 2015 and the 2014 financial years

in EUR	3M 2015	3M 2014
	unaudited	unaudited
Sales revenue	1,030,011.30	649,530.32
Cost of sales	-310,182.09	-179,841.33
Gross profit from sales	719,829.21	469,688.99
Operating expenses:		
Research and development costs	-1,240,073.31	-1,140,462.18
General administrative costs	-633,178.56	-737,166.85
of which financing costs	-81,400.13	-231,028.52
Cost of sales	-944,943.27	-949,796.47
Loss from operations	-2,098,365.92	-2,357,736.51
Financial result		
Interest expenses and similar	-280,684.69	-317,584.65
Interest income and similar	7,658.65	10,647.30
Other income and expenses		
Other expenses	-16,433.79	-12,630.40
Other income	25,345.65	39,498.00
Profit/loss before income tax	-2,362,480.10	-2,637,806.25
Income tax	0.00	-3,062.00
Profit or loss for the period	-2.362.480.10	-2,640,868.25
Expenses and income not included in profit/loss		
Subsequent valuation of financial assets available for sale	0	0
Other expenses and income not included in profit/loss	0	0
Total result for the period	-2.362.480.10	-2,640,868.25
Undiluted (= diluted) earnings per share	-0.11	-0.13

Consolidated cash flow statement for the first quarters of the 2015 and 2014 financial years

	3M 2015 unaudited	3M 2014 unaudited
	EUR	EUR
Cash flows from operations		
Total result for the period	-2.362.480.10	-2,640,868.25
Adjustments to reconcile net profit or loss for the period with cash flow into operations:		
Financial result	273,026.04	306,937.35
Depreciation	199,493.00	195,440.50
(Gains)/losses from disposal of assets	115.00	2,632.00
Non-cash expenses and income	27,256.85	-284,260.81
Changes in operating assets and liabilities:		
Trade receivables	-231,377.57	258,895.87
Other assets and income tax assets	-4,895.12	-219,862.86
Inventories	31,299.70	29,874.85
Trade payables	58,103.74	-186,525.94
Provisions	161,938.04	94,568.45
Other liabilities	29,116.74	-5,664.66
Net cash flow into operations:	-1,818,403.68	-2,448,833.50
Cash flows from investment activities:		
Purchase of intangible and tangible assets	-37,473.12	-16,834.95
Interest received	55,358.65	1,635.46
Revenue from the sale of intangible and tangible assets	4,742.01	30,681.56
Net cash flow from (into) investment activities	22,627.54	15,482.07
Cash flows from financing activities:		
Proceeds from the issue of shares	0.00	15,134,588.29
Interest paid	-830.174.00	-454.416.67
Increase/(decrease) in long-term financial debt	186,871.27	-1,210,057.95
Increase/(decrease) in short-term financial debt	-186,880.43	226,210.24
Net cash flow from financing activities	-830,183.16	13,696,323.91
Net increase (decrease) in cash and cash equivalents	-2,625,959.30	11,262,972.48
Cash and cash equivalents at beginning of period	8,509,398.16	2,933,578.47
Cash and cash equivalents at end of period	5,883,438.86	14,196,550.95
Composition of financial resources at end of period:		
Cash and bank balances and cheques	5,883,438.86	14,196,550.95

New representation with adjustment of previous year's figures

Consolidated statement of changes in equity for the first quarters of the 2015 and 2014 financial years

Unaudited	Ordinary shares Number	Subscribed capital EUR	Capital reserve EUR	Accumulated loss EUR	Total EUR
Account balance on 1 January 2014	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)
Change 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 capital reserves from the stock option programme	0	0.00	24,312.00	0.00	24,312.00
Net loss for the year	0	0.00	0.00	(2,640,868.25)	(2,640,868.25)
Account balance on 31 March 2014	22,196,570	22,196,570.00	76,314,276.86	(90,540,174.76)	7,970,672.10
Capital increase	0	0.00	0.00	0.00	0.00
Cost of capital procurement	0	0.00	0.00	0.00	0.00
Changes in the capital reserve associated with the sale/repurchase 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 capital reserves from the stock option programme	0	0.00	88,438.50	0.00	88,438.50
Net loss for the year	0	0.00	0.00	(8,080,110.73)	(8,080,110.73)
Account balance on 31 December 2014	22,196,570	22,196,570.00	76,402,715.36	(98,620,285.49)	(21,000.13)
Capital increase	0	0.00	0.00	0.00	0.00
Cost of capital procurement	0	0.00	0.00	0.00	0.00
Changes in the capital reserve associated with the sale/repurchase 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 capital reserves from the stock option programme	0	0.00	27,417.00	0.00	27,417.00
Net loss for the year	0	0.00	0.00	(2,362,480.10)	(2,362,480.10)
Account balance on 31 March 2015	22,196,570	22,196,570.00	76,430,132.36	(100,982,765.59)	(2,356,063.23)

Selected notes on the consolidated interim financial statement as at 31 March 2015

1 Information about the company

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, Biofrontera Neuroscience GmbH and Biofrontera Inc., which is based in Wilmington, Delaware, USA, research, develop and market dermatological products. The main focus of the business is the identification, 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 small German pharmaceutical company to be granted 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 keratoses. 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 introduced in the spring of 2014 and Belixos® Gel for the treatment of rosacea and acne was launched at the beginning of December 2014. Belixos® Protect, a day cream with protective anti-aging properties designed especially for photodamaged skin, will follow during 2015.

The product Ameluz® (development name BF-200 ALA), which was approved at the end of 2011, was tested for the purposes of European approval in one phase II and two phase III clinical trials for the treatment of actinic keratosis. In preparation for approval in the USA, two further phase I trials and a phase III trial have been conducted. Ameluz® consists of a combination of the active agent aminolevulinic acid (ALA) and a nanoemulsion (BF-200), which gives the 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®. In Europe, doctors can choose to use any of the lamps approved for PDT, whereas in the USA the approval of Ameluz® will be intrinsically linked to that of the lamp.

The BF-derm1 project 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 BF-1 project 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.

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 partner's investments 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 company's 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 31 March 2015 comprises an abridged consolidated interim financial report, 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 31 March 2015 of Biofrontera AG for the period 1 January 2015 to 31 March 2015 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 presentation of the financial position, cash flows and results of operations for the periods ending on 31 March 2015 and 2014.

These interim financial statements do not include all the information and data required to prepare annual financial statements. The interim financial statements should therefore be read in conjunction with the consolidated financial statements for 2014.

In the context of the preparation of the consolidated interim financial statements, the Management Board has to make estimates and assumptions that influence the application of accounting principles in the group as well as the reported amounts of the assets and liabilities and the income and expenses. The actual amounts may deviate from these estimates. The results achieved in the first quarter of the 2015 financial year do not permit any forecasts to be made on the development of the further course of business.

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 2014. 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 as 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 May 2015.

3 Deferred taxes

As at 31 March 2015, 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-forfeitable 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 the 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 31 March 2015. During the period under review, the expenditure booked was EUR 27 thousand (31 March 2014: EUR 24 thousand).

5 Shares / earnings per share

The earnings per share are calculated in accordance with IAS 33 on the basis of the quarterly results of the Biofrontera Group as well as on the basis of the ordinary shares outstanding during the relevant periods in 2015 and 2014.

	31 March 2015 unaudited	31 March 2014 unaudited
Ordinary shares	22,196,570.00	22,196,570.00
Net loss for the year in EUR	(2,362,480.10)	(2,640,868.25)
Earnings per share in EUR, related to net loss for the year	(0.11)	(0.13)

6 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)
- Pursuant to a resolution passed by the Supervisory Board on 27 March 2015, the management contract with Prof. Hermann Lübbert has been extended for a further five years, until 31 October 2020.
- Pursuant to a resolution passed by the Supervisory Board on 9 April 2015, the management contract with Thomas Schaffer has been extended by five years, until 30 November 2020.

During the first quarter of the 2015 financial year, Management Board remuneration amounted to EUR 138 thousand (during same period in 2014: EUR 134 thousand).

7 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 chairperson 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 Munich, Germany
Ulrike Kluge	Managing Partner of klugeconcepts GmbH, Cologne; resident in Cologne, Germany
Andreas Fritsch	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

During the first quarter of the 2015 financial year, Supervisory Board remuneration amounted to EUR 28 thousand (during same period in 2014: EUR 28 thousand).

8 Transactions with related persons

During the period under review, the company availed itself of additional advisory services from one member of the Supervisory Board, Dr Ulrich Granzer. These services went beyond the scope of normal Supervisory Board activities. 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 quarter of the 2015 financial year, advisory services amounting to EUR 21 thousand (same period in previous year: EUR 29 thousand) were provided by Granzer Regulatory Consulting & Services. Accounts payable to Granzer Regulatory Consulting & Services amounted to EUR 11 thousand on 31 March 2015 (31 December 2014: EUR 6 thousand). The amounts stated here do not include statutory VAT at the current rate of 19%. The underlying consultancy contract was approved in consideration of the statutory provisions.

9 Significant events occurring since the interim balance sheet date

A small capital increase of 1,377,272 new shares with proceeds of EUR 3.1 mln (net) was executed in May. The proceeds will be used to cover the „PDUFA Fee“ of US$ 2,335,000 that Biofrontera will have to transfer to the FDA prior to submitting the dossier for its medicament Ameluz®. While this fee is normally waived for first submissions of small companies, the FDA does not yet have a process installed for granting the waiver in the current year. Following approval of the waiver, the money should be returned to Biofrontera. The remaining sum will flow into Biofrontera's general operational costs.

Monica L. Tamborini was appointed managing director of the US subsidiary Biofrontera Inc. on 1 April 2015.

Pursuant to a resolution passed by the Supervisory Board on 9 April 2015, Thomas Schaffer's appointment as Chief Financial Officer was extended by five years, until 30 November 2020.

Leverkusen, 29 May 2015

Professor Hermann Lübbert
Chairman of the Management Board

Thomas Schaffer
Chief Financial Officer

Signature Page

Leverkusen, October 2016

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Biofrontera AG

(signed) Prof. Dr. Hermann Lübbert

Chairman of the Management Board

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Biofrontera AG

(signed) Thomas Schaffer

Member of the Management Board

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Biofrontera AG

(signed) Christoph Dünwald

Member of the Management Board

Düsseldorf, October 2016

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Lang & Schwarz Broker GmbH

(signed) Peter Zahn

Managing Director