Biofrontera AG

("Biofrontera" or "Company" or "Group)

Final Results

Leverkusen, Germany, 10 April 2015 – Biofrontera AG (FSE/AIM:B8F), the biopharmaceutical company focusing on skin cancer, announces final results for the year ended 31 December 2014.

Highlights

- Increase in revenues by nearly 30% in Germany
- Major investment in R&D in order to extend product indications and to prepare for marketing approval in the USA
- Successful completion of US Phase III study for the combination of Ameluz® and BF-RhodoLED® lamp in field therapy of actinic keratosis was carried out and completed in the reporting period:
    - 91% of patients were completely cured of keratoses
    - 94 % individual lesions were completely eradicated
- Phase III trial continues on the expansion of indications to include basal cell carcinoma
- Positive pre-NDA meeting with the FDA regarding the submission of approval documents for Ameluz® in the USA
- Final report on the Ameluz® safety trials to be filed with the FDA
- Licensing agreement with Perrigo for Ameluz® in Israel
- Licensing agreement for Ameluz® in Switzerland and Liechtenstein with Louis Widmer SA
- Agreement with Allergan with regard to Biofrontera taking over sales activities in Spain
- Launch of new products in the Belixos® range
- Upgraded to Prime Standard on the Frankfurt stock exchange, and shares listed on the AIM Market of the London stock exchange (AIM)
- Successful capital increase with proceeds of EUR 15.3 million

Commenting, **Professor Hermann Lübbert, Chief Executive Officer**, said: "We will continue to strive assiduously to realise the enormous potential of Ameluz® in order that Biofrontera becomes a more established independent pharmaceutical company. We achieved important milestones in 2014 and are now in a stronger position to lay the groundwork to tap into our products' full potential and make Biofrontera a highly successful company in the medium term."

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The **Biofrontera Group** (FSE/AIM: B8F, ISIN DE0006046113) is a biopharmaceutical company specialising in the development, sale and distribution of drugs and medical cosmetics for the care and treatment of skin diseases. Biofrontera's most important product is **Ameluz®**, a prescription drug which is approved in Europe for the treatment of mild and moderate actinic keratosis (superficial skin cancer) with photodynamic therapy (light therapy). Biofrontera is the first German pharmaceutical start-up company to obtain centralised approval for a drug it has developed itself. The company also plans for Ameluz® to be approved for basal cell carcinoma and is currently preparing for approval in other countries, especially in the largest pharmaceutical market in the world, the United States.

The company also markets the Belixos® dermatological range of cosmetics. Belixos® products contain combinations of active substances extracted from plants, relieve itching and redness and are used for the regenerative care of chronic skin conditions such as atopic dermatitis or psoriasis. At the moment, Belixos® cream, gel and scalp tonic are available through Amazon.

The Biofrontera Group was established in 1997 by Prof. Dr Hermann Lübbert, the Chairman of the company's Management Board, and has its headquarters in Leverkusen, Germany.

www.biofrontera.com

This communication expressly or implicitly contains certain forward-looking statements concerning the business activities of Biofrontera AG. These forward-looking statements reflect the opinion of Biofrontera at the time of this communication and involve certain known and unknown risks. The actual results achieved by Biofrontera may differ significantly from future results or performances which are published in its forward-looking statements. Biofrontera assumes no responsibility to update its forward-looking statements.

Group Management Report

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.

Products

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 96% of patients treated with Ameluz® (all values specified here are ITT, *Intent to Treat* values). When counting individual keratosis lesions, no fewer than 99 % were completely eradicated. In the second phase III trial relevant to approval, the effectiveness of Ameluz® was tested in comparison with an already approved standard medication. The results of the trial provided evidence that Ameluz® was clearly superior to the competitor drug available in Europe. Based on the average for all lamps used in the treatment, Ameluz® resulted in complete healing of actinic keratoses in 78% of patients, whereas the 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.

European Phase III Study - extension of the European approval to include the indication basal cell carcinoma

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.

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.

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 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.

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.

Research and development

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.

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.

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 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.

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.

Business Development

Results for the year ended 31 December 2014

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.

Financial position, cash flows and results of operations

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 2,378 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.

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.

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.

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.

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.

Interest Expenses

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.

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).

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.

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.

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.

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.

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.

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.

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.

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 towards the end of 2015.

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 loss of EUR 9 to 10 million in 2015. The achievement of this result depends heavily on progress in terms of turnover.

Leverkusen, 9 April 2015

Biofrontera AG

Professor Hermann Lübbert Chief Executive Officer	Thomas Schaffer Chief Financial Officer

Consolidated statement of comprehensive income for 2014

in EUR	Note	1 Jan - 31 Dec 2014	1 Jan - 31 Dec 2013
Sales revenue	(4)	3,095,555	3,114,551
Cost of sales	(5)	(1,116,686)	(1,603,700)
Gross profit from sales		1,978,869	1,510,850
Operating expenses:			
Research and development costs	(6)	(4,534,181)	(3,186,223)
General administrative costs	(8)	(3,124,158)	(2,426,195)
of which financing costs		(869,733)	(182,134)
Sales costs	(7)	(3,847,487)	(3,036,171)
		(11,505,828)	(8,648,591)
Loss from operations		(9,526,958)	(7,137.740)
Financial result			
Interest expenses	(9)	(1,289,613)	(1,271,081)
Interest income	(9)	190,294	38,689
Other expenses	(10)	(280,282)	(90,572)
Other income	(10)	185,580	394,086
		(1,194,020)	(928,877)
Profit/loss before income tax	(12)	(10,720,978)	(8,066,618)
Income tax		0	0
Profit or loss for the period	(12)	(10,720,978)	(8,066,618)
Net loss for the year = Total comprehensive income for the period	(12)	(10,720,978)	(8,066,618)
Undiluted (= diluted) earnings per share	(11)	(0.49)	(0.47)

Consolidated balance sheet as at 31 December 2014

Assets

in EUR	Note	31 December 2014	31 December 2013	1 January 2013
Non-current assets				
Tangible assets	(1)	339,532	467,323	288,150
Intangible assets	(1)	2,580,077	3,202,208	3,790,207
		2,919,609	3,669,532	4,078,358
Current assets				
Current financial assets				
Trade receivables		308,984	578,410	251,778
Other financial assets		726,790	767,224	61,980
Cash and cash equivalents		8,509,398	2,933,578	3,366,232
		9,545,173	4,279,213	3,679,991
Other current assets				
Inventories				
Raw materials and supplies		684,455	819,912	901,450
Unfinished products		107,784	141,723	66,080
Finished products and merchandise		601,281	623,559	244,714
Income tax reimbursement claims		62,072	22,280	16,622
Other assets		90,118	80,908	48,200
		1,545,713	1,688,385	1,277,069
		11,090,886	5,967,599	4,957,061
Total assets		14,010,495	9,637,131	9,035,419

Liabilities

in EUR	Note	31 December 2014	31 December 2013	31 January 2013
Equity	(2)			
Subscribed capital		22,196,570	17,753,168	16,143,168
Capital reserve		76,402,715	65,598,778	59,595,506
Loss carried forward		(87,899,306)	(79,832,687)	(75,714,590)
Net loss for the year		(10,720,978)	(8,066,618)	(4,118,097)
		(21,000)	(4,547,359)	(4,094,013)
Long-term financial liabilities	(2)	10,774,298	12,030,950	11,170,614
Current liabilities				
Current financial liabilities				
Trade payables		967,437	713,098	749,369
Short-term financial debt	(2)	1,224,598	435,750	435,750
Other financial liabilities		27,012	22,608	8,945
		2,219,047	1,171,456	1,194,065
Other current liabilities				
Income tax provisions		0	11,863	11,863
Other provisions		951,944	879,226	653,442
Other current liabilities		86,205	90,995	99,448
		1,038,149	982,084	764,753
		3,257,197	2,153,541	1,958,818
Total liabilities		14,010,495	9,637,131	9,035,419

Consolidated statement of changes in equity for 2014

See note 2	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	59,595,506	(79,832,687)	(4,094,013)
Capital increase	1,610,000	1,610,000	5,924,800	0.00	7,534,800
Costs of capital procurement	0	0.00	(90,936)	0.00	(90,936)
Changes in the capital reserve associated with the sale of own Warrant Bonds I and II	0	0.00	81,551	0.00	81,551
Changes in the capital reserve resulting from transaction costs associated with the sale of own Warrant Bonds I and II	0	0.00	(518)	0.00	(518)
Increase in the capital reserve resulting from the stock option programme	0	0.00	88,376	0.00	88,376
Net loss for the year	0	0.00	0.00	(8,066,618)	(8,066,618)
Total comprehensive income for the period	0	0.00	0.00	(8,066,618)	(8,066,618)
Account balance on 31 December 2013	17,753,168	17,753,168	65,598,778	(87,899,306)	(4,547,359)
Capital increase	4,443,402	4,443,402	11,105,950	0.00	15,549,352
Costs of capital procurement	0	0.00	(215,725)	0.00	(215,725)
Changes in the capital reserve associated with the repurchase of own Warrant Bonds I	0	0.00	(198,939)	0.00	(198,939)
Changes in the capital reserve resulting from transaction costs in connection with the repurchase of own Warrant Bonds I	0	0.00	(99)	0.00	(99)
Increase in the capital reserve resulting from the stock option programme	0	0.00	112,750	0.00	112,750
Net loss for the year	0	0.00	0.00	(10,720,978)	(10,720,978)
Account balance on 31 December 2014	22,196,570	22,196,570	76,402,715	(98,620,285)	(21,000)

Consolidated cash flow statement for 2014

	2014 EUR	2013 EUR
Cash flows from operations		
Net loss for the year	(10,720,978)	(8,066,618)
Adjustments to reconcile the net loss for the year with		
cash flow into operational activity:		
Financial result	1,099,319	1,232,391
Depreciation	811,005	742,133
(Gains)/losses from disposal of assets	2,632	8,672
Non-cash expenses and income	302,084	(155,926)
Changes in operating assets and liabilities:		
Trade receivables	269,426	(326,632)
Other assets and income tax assets	(269,667)	(743,609)
Inventories	191,674	(372,949)
Trade payables	254,339	(36,271)
Provisions	132,619	488,336
Other liabilities	(385)	5,209
Net cash flow into operations:	(7,927,932)	(7,225,264)
Cash flows from (into) investment activities:		
Purchase of intangible and tangible assets	(164,082)	(341,980)
Interest received	142,588	19,033
Revenue from the sale of intangible and tangible assets	100,368	0
Net cash flow from investment activities	78,874	(322,946)
Cash flows from financing activities:		
Proceeds from the issue of shares	15,333,626	7,443,863
Proceeds from the repurchase of own warrant bonds	0	501,875
Payouts from the repurchase of own warrant bonds	(1,500,750)	0
Interest paid	(454,489)	(830,180)
Increase / (decrease) in long-term financial debt	742,357	0
Increase / (decrease) in short-term financial debt	788,848	0
Net cash flow from financing activities	13,424,877	7,115,557
Net increase (decrease) in cash and cash equivalents	5,575,819	(432,654)
Cash and cash equivalents at beginning of period	2,933,578	3,366,232
Cash and cash equivalents at end of period	8,509,398	2,933,578
Composition of financial resources at end of period:		
Cash and bank balances and cheques	8,509,398	2,933,578

Explanatory Notes to the Consolidated Financial Statement of 31 December 2014

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 InterpretationsCommittee (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.

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) 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	74,917	128,134	3,342,769	2,928,662	99,708	25,133	3,003,237	339,532	467,323
II.	Intangible assets										
1	Software and licenses	410,461	8,434	0	418,895	267,487	14,425	0	281,912	136,983	142,974
2.	Usage rights	5,937,723	89,731	0	6,027,454	2,887,489	696,871	0	3,584,360	2,443,093	3,050,234
3.	Prepayments made	9,000	0	9,000	0	0	0	0	0	0	9,000
		6,357,184	98,165	9,000	6,446,349	3,154,976	711,296	0	3,866,272	2,580,077	3,202,208
		9,753,170	173,082	137,134	9,789,118	6,083,638	811,005	25,133	6,869,509	2,919,609	3,669,532

Consolidated statement of changes in fixed assets in 2013

		Acquisition and production costs				Accumulated depreciation				Book values	
		01 Jan 2013 EUR	Additions EUR	Disposals EUR	31 Dec 2013 EUR	01 Jan 2013 EUR	Additions EUR	Disposals EUR	31 Dec 2013 EUR	31 Dec 2013 EUR	31 Dec 2012 EUR
I.	Tangible assets										
	Operating and business equipment	3,666,407	266,547	536,969	3,395,985	3,378,257	78,701	528,296	2,928,662	467,323	288,150
II.	Intangible assets										
	1. Software and licenses	483,660	30,990	104,189	410,461	363,170	8,506	104,189	267,487	142,974	120,490
	2. Usage rights	5,902,281	35,441	0	5,937,723	2,232,564	654,924	0	2,887,489	3,050,234	3,669,716
	3. Prepayments made	0	9,000	0	9,000	0	0	0	0	9,000	0
		6,385,942	75,432	104,189	6,357,184	2,595,734	663,431	104,189	3,154,976	3,202,208	3,790,207
		10,052,349	341,980	641,159	9,753,170	5,973,991	742,133	632,486	6,083,638	3,669,532	4,078,358

2. 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:

	31.12.2014	31.12.13
	EUR	EUR
Long-term financial debt (at amortised cost of acquisition)	10,774,299	12,030,950
Short-term financial debt (accrued interest from nominal interest rate)	1,224,598	435,750
Capital reserve (equity component 2009/2017 warrant bond)	1,485,294	1.684,233
Capital reserve (equity component 2011/2016 warrant bond)	1,226,747	1,226,747

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).

3. 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. Interest 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

Notes on the consolidated statement of comprehensive income of 31 December 2014

4. 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 2,378 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.

5. 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.

6. 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.

7. 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.

8. 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.

9. 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 446 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.

10. 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.

11. 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	17,342,948
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.

12. 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.

13. 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.

14. 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.

15. 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.

16. Preliminary Announcement

This preliminary announcement is not the Group's statutory accounts. The Group's audited statutory accounts for the year ended 31 December 2014 are available at the Company's website, http://biofrontera.com/en/