Biofrontera Group I Annual Report 2013

Courtesy translation of the German document

Key figures 2013

Key consolidated figures calculated in accordance with IFRS

In EUR thousand	31 Dec 2013	31 Dec 2012	Change
Earnings			
Sales Germany	1,867	1,350	38.4%
Sales International	1,248	532	134.6%
Onetime payments	0	1,550	-100%
Other income/expenses	304	104	192.3%
General administrative and operating costs	(5,462)	(4,092)	33.5%
Research and development	(3,186)	(1,384)	130.2%
Operating profit (EBIT)	(6,834)	(3,449)	98.2%
Profit/loss before taxes	(8,067)	(4,103)	96.6%
Annual profit/loss	(8,067)	(4,118)	95.9%
Cash flow statement			
Cash flow from operating activities	(7,665)	(5,175)	48.1%
Cash flow from investing activities	(323)	(138)	134.0%
Cash flow from financing activities	7,555	8,126	(7.0%)
Balance sheet figures			
Cash and cash equivalents	2,934	3,366	-12.8%
Balance sheet total	9,637	9,035	6.7%
Current liabilities (excluding provisions)	1,262	1,294	-2.4%
Long-term liabilities	12,031	11,171	7.7%
Equity (subscribed capital & capital reserve)	83,352	75,739	10.1%
Equity ratio	(47.2%)	(45.3%)	(1.9%)
Number of staff on 31 December	38	34	11.8%
Biofrontera share			
Total number of shares outstanding on 31 December	17,753,168	16,143,168	10.0%
Share price (Xetra closing price) in EUR	3.45	3.75	-8.0%

Products

Ameluz® (BF-200 ALA) for the treatment of actinic keratosis

Ameluz® is the first prescription drug that Biofrontera has launched on the market. Ameluz® combines the active ingredient 5-aminolevulinic acid (ALA) with a patent-protected nano-emulsion, which increases chemical stability and improves skin penetration. The drug is approved in the European Union (EU) for use in the photodynamic therapy (PDT) of superficial skin cancer (actinic keratosis) and is already being sold in ten European countries.

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 a powerful lamp for a period of 10-15 minutes. This triggers a chemical reaction, which kills the diseased skin cells without causing scarring. This process also stimulates collagen formation, which leads to significant skin rejuvenation in the treated areas and produces excellent cosmetic results.

PDT lamp BF-RhodoLED®

The light exposure used in conjunction with Ameluz® requires a powerful lamp that emits red light with a wavelength of approximately 635 nm. A number of different such lamps were used in the clinical phase III studies for Ameluz®, all of which were approved for PDT. It was a surprise to discover that there were considerable differences in the success of the treatment depending on the type of lamp used. Biofrontera therefore developed its own PDT lamp, the BF-RhodoLED®. This is the first lamp that not only has the necessary luminous intensity at the relevant wavelength in order to ensure optimal efficiency, but which also makes it possible to counteract the pain experienced by many patients during the standard 10 minute exposure, by adjusting the light intensity and increasing the period of exposure, or by increasing ventilation of the relevant area of skin.

In November 2012, Biofrontera achieved CE marking for the BF-RhodoLED® lamp, which is manufactured in Germany. As a result, the lamps can now be sold throughout the European Union.

The development and approval of the BF-RhodoLED® lamp is of particular importance for obtaining approval in the USA, where, in the case of products such as Ameluz®, which are used together with a specific device, the drug and the device are actually approved as a combination.

Dermatological cosmetics

Belixos®is a cream with herbal ingredients that is used for the basic care of inflamed, itchy and flaky skin with conditions such as localised itching, insect bites, burns, neurodermatitis and psoriasis. The cream combines an extract of *Mahonia aquifolium* (a relative of the barberry, which is common in many ornamental gardens) with an innovative biocolloid formulation developed by Biofrontera. *Mahonia aquifolium* has been widely used in natural medicine, and the good clinical effects of the plant extract have been demonstrated in numerous studies. When combined with Biofrontera's biocolloid, the extract achieves maximum skin penetration and excellent cosmetic results. Belixos® cream was launched on the German market in October 2009 as an active cosmetic. Other products are currently being developed for this active cosmetic range. In addition to Belixos® cream, there is now also a hair tonic called Belixos® LIQUID, which was launched in Germany in February 2014.

Development pipeline

Ameluz® is expected to be approved for other forms of superficial cancer and warts in other parts of the world in the coming years. At the present time, four clinical trials are being carried out in order to extend the range of indications in the EU and to obtain approval in the USA:

1) Ameluz® is being tested for the treatment of non-aggressive basal cell carcinoma (BCC) and compared with the competitor product, Metvix®. BCCs are the most common invasive tumours to affect humans and account for approx. 80% of all invasive white skin cancers. About 30% of all Caucasians develop at least one BCC in their lifetime, and cases are increasing rapidly worldwide due to increased exposure to UV light. Surgical removal is the most frequent treatment currently used in Germany but this can lead to clearly visible scarring, whereas treatment with photodynamic therapy (PDT), which is an alternative particularly in the treatment of thin BCCs, produces excellent cosmetic results. The trial was carried out with 360 patients, with an equal number receiving photodynamic therapy with either Ameluz® or the competitor product, Metvix®. The trial was carried out in two countries, with 14 centres located in Germany and another 5 in Great Britain.

2) Actinic keratoses frequently appear over large areas, e.g. forehead, bald head or cheeks, that have been extensively damaged by UV radiation. Therefore, it is frequently necessary to treat the entire area of skin, not just the individual keratoses. In one trial, Ameluz® is being specifically tested in combination with Biofrontera's PDT lamp, BF-RhodoLED®, for the treatment of large areas. For this trial, both the successful eradication of all actinic keratoses and the cosmetic results are regarded as significant. Hence, this trial supplements the existing phase III trials, which were carried out with a range of different PDT lamps, with additional data from Biofrontera's own lamp for the broad area therapy of actinic keratosis. Patient recruitment for this trial was completed in early February 2014, so the clinical phase of the trial for the last patients will be completed by early August at the latest.

3) The allergenic potential (sensitisation) of Ameluz® is being determined in a phase I clinical trial. This trial was designed to investigate the extent to which Ameluz® could trigger skin irritation and contact allergies. The trial was carried out with 220 patients, and the clinical phase has been completed. At the present time, the results are being analysed and the trial report is being prepared.

4) A "maximal-use" study is being carried out to determine the pharmacokinetics of aminolevulinic acid. This trial involves applying an entire tube of Ameluz® to skin that is severely damaged by actinic keratosis, and then measuring any possible increase and subsequent reduction in the levels of aminolevulinic acid and its metabolite, protoporphyrin IX, in the blood, pursuant to FDA requirements. The trial was carried out with 12 patients, and the clinical phase has been completed.

BF-derm1 is a tablet with a new, irreversibly binding histidine decarboxylase inhibitor that blocks the synthesis of histamine in cells, a major cause of allergic symptoms. BF-derm1 is being developed as a tablet

for the treatment of chronic urticaria (hives) that cannot be treated adequately with antihistamines. The effectiveness of BF-derm1 has been clinically proven in a phase IIa study. The taking of BF-derm1 resulted in an improvement in the symptoms of urticaria, and patients were able to alleviate their itching by taking significantly lower doses of antihistamines, which can cause drowsiness. As the continuing development of Ameluz® has top priority in the coming years, this product was transferred in December 2012 to Biofrontera Development GmbH, a dedicated subsidiary founded for this purpose, where it can be financed separately. Further details are available in the Biofrontera AG Management Report.

BF-1 is a highly selective serotonin receptor inhibitor. This substance is being developed as a tablet for migraine prophylaxis. BF-1 has shown excellent results in mouse models of migraine development. Tests on humans have already been carried out for bioavailability (absorption of the active ingredient in the blood), degradation pathways and excretion (pharmacokinetics). Because of the substance's high level of stability in the human body, taking one tablet daily is sufficient to maintain uniform levels of the active ingredient in the blood. As the continuing development of Ameluz® will continue to have top priority in the coming years, and this product no longer fits Biofrontera's market focus, it was transferred to Biofrontera Bioscience GmbH, a dedicated subsidiary founded for this purpose. Further details are available in the Biofrontera AG Management Report.

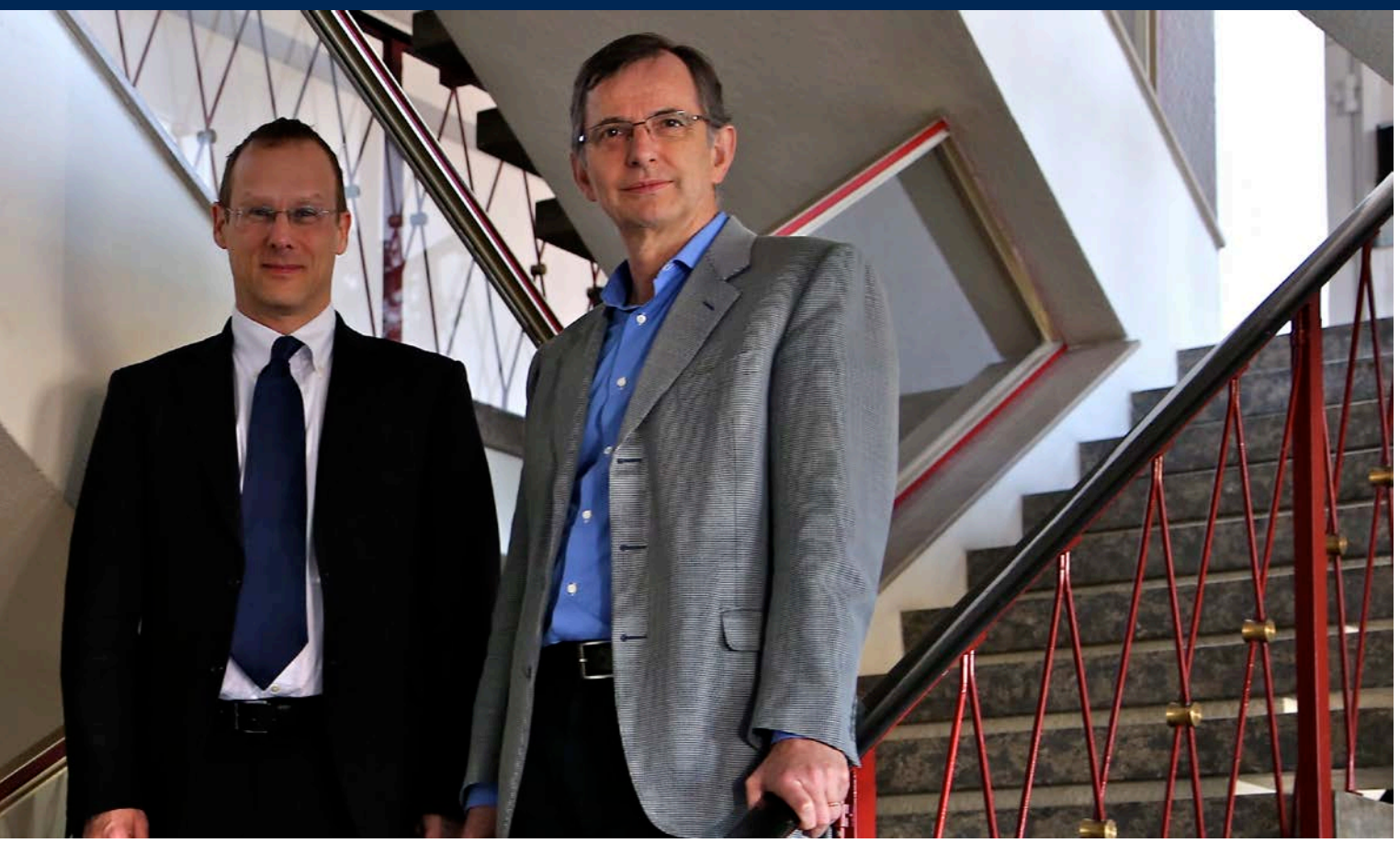
Highlights 2013 and 2014 and planned milestones for 2014

2013

- Extending the shelf life of Ameluz®
- Capital increase through the issue of 1,610,000 shares subscribed by the strategic investor, Maruho Deutschland GmbH
- Start of marketing activities for Ameluz® in Spain
- Beginning of clinical development activities for extending the range of indications covered by Ameluz®
- Preparation of the approval process for the USA
- Appointment of Thomas Schaffer as new CFO
- Coverage of the Biofrontera stock by the investment firm FinnCap, London, UK
- Recommendation of Ameluz® by the Welsh health authority
- Recognition of actinic keratosis as an occupational disease
- Significant increase in turnover from product sales by 66% compared with the previous year

2014

- Expansion of European product turnover
- Sales agreement with Perrigo for Ameluz® in Israel
- Launch of new products in the Belixos® care range
- Final report on the Ameluz® safety trials required by the FDA
- Final report on the phase III trial of Ameluz® for broad area therapy
- Completion of the clinical stage of the phase III trial for the indication basal cell carcinoma
- Completion and preparation for submission of documents for the approval of Ameluz® in the USA



Letter to the Shareholders

Dear Shareholders,

Perhaps we can describe the 2013 financial year as the year of small successes, successes that were certainly very important, even if they were not so clearly perceptible for the public. After the major strides forward made in previous years, such as the EU approval of Ameluz® in 2011 and the successful launch of Ameluz® in 2012, in 2013 the question was whether Biofrontera could also find its feet in terms of sales. With an increase in turnover from product sales of more than 60% compared with the previous year, we can answer that question with an emphatic "yes". This statement is further underlined by the stable market share of more than 65% of PDT proprietary medicinal products. We were able to achieve EUR 1.9 mio in turnover in Germany, equaling an increase of 38% compared to the previous year. Our partner Allergan could finally launch Ameluz® in Spain last fall after more than one year of price negotiations. The Spanish PDT market is one of the largest in Europe and thus we hope that a very successful market launch will lead to significant revenues on a long term basis. And finally with Slovenia Ameluz® was launched for the first time in a South-East-European country. Although the use will be limited to very few hospitals only, this may have an impact into other East-european countries.

The capital increase in early 2013 and the associated investment made by Maruho resulted in Biofrontera being able to confirm the interest of the largest Japanese dermatological company in Biofrontera and its products. We are now pursuing detailed discussions with this strategic investor concerning joint projects, a process that will, of course, require quite a large amount of time. In the capital increase successfully implemented in February 2014, Maruho demonstrated just how seriously interested it is in the company by acquiring another significant quantity of shares, which means that it now owns just over 20% of the company's shares.

The liquidity obtained through these capital increases provides us with the necessary financial foundation for clinical activities, which will form the basis to extend the range of indications covered by Ameluz® and to make important preparations for approval in the USA. In agreement with the Supervisory Board, we decided to restart development activities in

order to achieve the fastest possible and most enduring increase in value for our shareholders. Our efforts to obtain approval in the USA will cause further losses, both this year and probably next year. At the same time, however, successfully obtaining approval in North America will significantly increase the value of the product, Ameluz®. This, in turn, should be positively reflected in the company's value and therefore in its share price.

Nevertheless, we must face the fact that, so far, the level of turnover that we have achieved has not yet matched our expectations. The market environment in which Ameluz® must compete is extremely heterogeneous, which means that our sales endeavours must pursue many different directions. A marketing approach that merely emphasises the quality of our product is not sufficient. Furthermore, the actinic keratosis market is dominated by topical treatments. Although these are significantly less effective than Ameluz®, prescribing them is significantly less expensive for dermatologists than performing PDT. In addition, as things stand, many statutory healthy insurers do not pay doctors anything for PDT, which is why they are put off by the expense associated with it. The extemporaneous PDT product market represents the other source of competition, because even now, despite their highly questionable legality, many PDT treatments are performed using non-approved extemporaneous products prepared by pharmacies. Nevertheless, we can be satisfied with a turnover increase of more than 38% in Germany, which we are also expecting to repeat this year. However, the sales achieved by our partners in other European countries are less satisfactory. In this context, we have to clear various country-specific hurdles, which reflect the anxiety of public health systems when faced with new therapy options. Therefore, one of our priorities this year is to show, through various expert opinions, analyses and pharmacoeconomic publications, that PDT with Ameluz® is not only the most effective but also the most cost-effective treatment option. The fact that actinic keratosis was recognised as an occupational disease in Germany in July 2013 reflects the fact that this widespread disease is being taken increasingly seriously. It is not yet possible to give a precise assessment of the consequences of this classification for sales of Ameluz®, because the recommended treatments and associated reimbursements are currently being worked out by the occupational insurance associations.

We will continue to work hard to position Ameluz® more successfully on the market and to align the company's strategy so that maximum value can be achieved. Apart from anything else, the fact that we could implement a capital increase in February 2014 without offering a discount on the market price was impressive evidence, in particular, of the confidence of our large shareholders and their approval of our strategic focus.

Our objectives remain very ambitious, just as they have been in the past – but we are confident that we can achieve them, because we can depend on the expertise and dedication of our employees. Once again, our colleagues produced outstanding work in 2013. In order to realign the company for sales activities, it was first necessary to reconfigure the staff structures completely. But now all the positions necessary for a pharmaceutical company have been successfully incorporated, and our employees show great dedication in their everyday work within the new structures. We are very proud of the fact that we have built up such an excellent team, and that we can pursue the company's objectives together with all our employees and thus promote the interests of our shareholders.

Yours sincerely,

On behalf of the Management Board

Professor Hermann Lübbert

Chief Executive Officer

Thomas Schaffer

Chief Financial Officer

Biofrontera securities

Key details for the Biofrontera share*	
Stock exchanges	Düsseldorf, Frankfurt, Berlin, Bremen, Munich, Stuttgart, Xetra, Tradegate
WKN (German securities ID number)	604611
ISIN	DE0006046113
Shares in circulation on 31 December 2013	17,753,168
12-month high (26 March 2013)	EUR 4.99
12-month low (23 August 2013)	EUR 3.25
Closing price 31 December 2013	EUR 3.45
Market capitalisation on 31 December 2013	EUR 61.25 million

*(Xetra closing price data)

Key details for Warrant Bond I*	
Stock exchanges	Düsseldorf
WKN (German securities ID number)	A0Z169
ISIN	DE000A0Z1690
Duration, maturity	8 years, 31 December 2017
Coupon staggered interest	4% (2010), 6% (2011), 8% (2012)
12-month high (3 January 2013)	EUR 105.00
12-month low (3 December 2013)	EUR 87.00
Closing price 31 December 2013	EUR 92.00

*(Closing price data from the Düsseldorf Stock Exchange)

Key details for Warrant Bond II with warrant*	
Stock exchanges	Düsseldorf
WKN (German securities ID number)	A1KQ9Q
ISIN	DE000A1KQ9Q9
Duration, maturity	5 years, 31 December 2016
Coupon	5%
12-month high (10 April 2012)	EUR 109.00
12-month low (27 January 2012)	EUR 90.00
Closing price 31 December 2012	EUR 93.00

*(Closing price data from the Düsseldorf Stock Exchange)

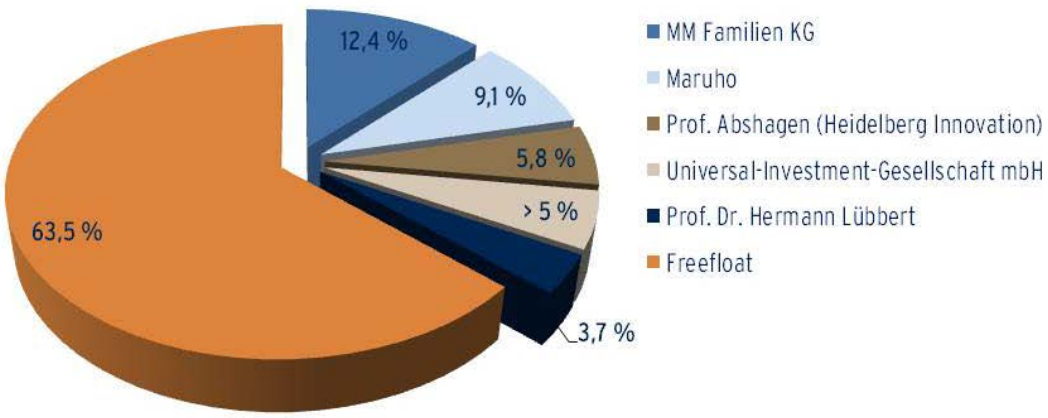
Performance of the financial instruments during the reporting period

As illustrated by the 3-year comparison shown above between the Xetra prices of the Biofrontera share and those of the TecDAX index, the share price of Biofrontera AG has consistently been above that of the TecDAX index. Although the price trend was initially very positive, it was also subject to major fluctuations, reflecting considerable volatility and significant uncertainty on the part of the shareholders. During the course of 2013, the share price underperformed significantly compared to the TecDAX index. In spite of this initially disappointing trend, it can be noted that the major price fluctuations stabilised in the course of the year. Perhaps this reflects the efforts of the management to encourage more institutional investors to invest in Biofrontera shares. Thanks to this stable price foundation, it was possible to implement a large capital increase in full in February at a ratio of 4:1, without any discount on the market price.

The Biofrontera share was analysed in research studies by the companies, LFG Kronos Investment Services GmbH and Performaxx Research GmbH. In addition, in recent months, the company has been followed by the renowned London investment companies finnCap and Cenkos Securities plc. Lang & Schwarz Broker GmbH and M.M.Warburg & CO. assumed responsibility for providing the liquidity required by the stock exchange for Xetra computer trading. The second of these firms was appointed as the new designated sponsor in September 2013.

In the reporting year, the recorded prices of our warrant bonds were consistently lower than the issue price, which may have given rise to some uncertainty for some investors. Nevertheless, it should be noted that the low or non-existent trading volumes of the bonds have resulted in considerably distorted prices, which have frequently been adjusted by stock exchange computers without any sales.

On 31 December 2013, the share capital had the following distribution:



The shares of voting rights are assigned according to voting right notifications pursuant to § 21, paragraph 1 WpHG (German Securities Trading Act). The details of the holding of Universal Investment GmbH are based on a notification dating from 2011.

The first shareholders' evening was held in 2010, and another such evening took place in December 2013 at the company's premises in Leverkusen. As in previous years, interested shareholders could discuss issues with the directors of the company, ask questions and express their wishes. The shareholders' evening is a more relaxed forum for exchanging ideas than the Annual General Meeting, which is more rigid and formal. Of course, previously unpublished developments are not communicated at shareholders' evenings, the purpose of which is to explain and clarify facts that have already been published.

Ameluz®

Biofrontera's Ameluz® combines 5-aminolevulinic acid (ALA) with an innovative nanoemulsion. The gel received Europe-wide approval in December 2011 for the treatment of actinic keratosis, an early form of skin cancer that has not yet spread beyond the top layer of skin. Treatment of actinic keratosis with Ameluz® is performed using photodynamic therapy (PDT), during which the drug is combined with phototherapy.

For PDT treatment, ALA must first penetrate the affected skin cells. A subsequent 10-20 minute illumination with powerful red light then triggers a chemical reaction that selectively destroys tumour-like skin cells without causing any scarring. Ameluz® achieves optimal skin penetration and shows excellent chemical stability. The cosmetic, physical and penetrative properties of the nanoemulsion make PDT significantly more user-friendly and efficient. Ameluz® was tested on humans in two phase III clinical trials, both of which were completed by the end of 2009. The results of these placebo-controlled trials demonstrated excellent healing rates, which varied depending on the type of lamp used, and significant superiority to the approved comparison product tested in parallel.

In the first phase III trial, which involved the drug being combined with an LED lamp, all keratoses were completely removed for more than 96% of patients treated with Ameluz®. When counting individual keratosis lesions, no fewer than 99% were completely eradicated. Side effects occurred only briefly during the treatment, and the cosmetic results were excellent. In the second phase III trial required for approval, the effectiveness of Ameluz® in comparison to the approved standard medication was tested. A total of 570 patients were treated with Ameluz®, with the comparison drug or with a placebo. The trial was carried out in 27 domestic and international centres. The trial results confirmed the clear superiority of Ameluz® when compared to the competitor drug available in Germany. The data showed that, based on the average for all lamps used in the treatment, Ameluz® resulted in the complete eradication of actinic keratoses in 78% of patients, whereas the approved rival product achieved a healing rate of only 64%, which is a statistically significant difference. 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 verum groups.

In both clinical trials, the effectiveness of the different treatments was verified after six and twelve months. This showed that the recurrence rates were somewhat lower for Ameluz® than for Metvix®, demonstrating that the former maintained its superior rate of success in eradicating all keratoses for a patient in the long term. In fact, in comparison with all other drugs that have been subjected to similar long-term trials, Ameluz® has demonstrated its clear superiority.

On the basis of the excellent results of the clinical trials, a centralised European drug approval process was initiated for Ameluz® in September 2010, and was successfully completed in December 2011 with Europe-wide approval being granted by the European Commission. A prerequisite for this process is the recognition of a particularly high level of innovation, and such a level of innovation was recognised by the European authorities.

With its central European approval, Ameluz® can be sold and distributed in all EU countries, as well as in Norway, Iceland and Liechtenstein. Distribution in Germany started on 1 February 2012. Prior to this, the necessary logistics were put in place, and contracts were concluded with all German pharmaceutical wholesalers. Ameluz® is represented by Allergan in Spain, by Desitin Arzneimittel GmbH in Denmark, Sweden and Norway, by BiPharma N.V. in Benelux, by Pelpharma in Austria, and by Spirit Healthcare in England. The launches of the drug in various European countries were dependent on the issue of whether or not reimbursement by health insurers was required, and how long this process would take. The drug was launched in Scandinavia in September 2012, in Holland in October 2012 and in England and Austria in November 2012. In September 2013, Ameluz® was also launched in Spain, after the drug was approved for reimbursement by health insurers.

The latest figures show that around 8 million people have actinic keratosis in Germany. The prevalence of the disease among over-40s is estimated to be around 15%, and every other person over 60 has skin lesions of this kind. 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.

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.

Despite their ineffectiveness, the market for topical creams is still constantly growing. They are applied by the patients themselves over several weeks or even months, and they have to be applied several times a day or virtually every day, depending on the cream. Moreover, the proven effectiveness of this form of treatment is significantly inferior to the efficiency figures achieved by PDT with Ameluz®. In addition, using the more effective topical treatments frequently causes severe side effects. Hence, one may reasonably suspect that users' lack of compliance results in even lower levels of treatment success with products of this kind.

Therefore, photodynamic therapy is used because of its superior effectiveness and excellent cosmetic results, especially for keratoses covering a broad area. Moreover, it only has to be performed once or twice. Ameluz® is the only PDT product to also have obtained approval for use with moderate keratoses and keratoses covering a broad area. Unlike the competitor product tested in parallel, Ameluz® can be used as a first-choice treatment.

As a result of the benefits offered by Ameluz® in terms of effectiveness, use and user-friendliness, it established itself quickly in the German market, where it now enjoys a share of more than 65% of the market for approved PDT drugs for actinic keratosis.

In Great Britain, both the Scottish and the Welsh health authorities for the state health system have recommended the use of Ameluz® for PDT.

In the course of 2012, further stability data were submitted to the authorities, and at the beginning of the reporting year, Biofrontera received notification that the shelf life of Ameluz® had been extended to three years. Even after the tube has been opened, the product can still be used for three months. This is particularly important because keratoses that are not

eradicated by the first treatment are subjected to a second treatment three months later. Now the second treatment can be carried out using the same tube. This means that the frequent and legally questionable practice of treating several patients with the same tube can be restricted, which is highly desirable.

Belixos®

Belixos® cream is a medical cosmetic for the intensive treatment of itchy, flaky and reddened skin. The product contains the extract of the *Mahonia aquifolium plant, which has been used in natural remedies by North American Indians for centuries.* In Belixos®, the active ingredients of this plant are combined with antibacterial and anti-inflammatory extracts of green tea and camomile in a perfectly balanced combination. This combination of active ingredients is mixed with biocolloids, a patent-protected formulation from Biofrontera, in order to ensure the balanced distribution of the active ingredients in the top layer of skin.

In special dermatological tests, Biofrontera produced impressive evidence of the symptom-reducing effects and tolerance of Belixos®. In the series of experiments, Belixos® had a positive effect, reducing the subjects' itching sensations after just a few minutes. Other tests clearly demonstrated that the application of Belixos® reduces irritation in the affected skin areas significantly more quickly than is the case with similar products.

Belixos® cream is currently sold in Germany at pharmacies and through an online store. Wholesale distribution to pharmacies was initiated in the fourth quarter of 2010 and was supported by a promotional campaign that targeted end users. The cream's formula has also been further refined, giving it a pleasant scent in which the plant extracts are less predominant.

Because Belixos® has aroused increasing interest in online forums, where it is discussed in very favourable terms, Biofrontera has created a Facebook page for Belixos®, which went online in January 2014. Furthermore, an organisation of neurodermatitis patients tested Belixos® cream and obtained very positive results, which it published in the magazine, "Ästhetische Dermatologie" (Aesthetic Dermatology), along with the recommendation that Belixos® should be used to

treat skin with this disease.

In parallel with online promotions, additional high-quality products will be added to the Belixos® range. The first additional product, a Belixos® hair tonic (Belixos® Liquid), is already available on the market on the date of publication of this report. This product was also the subject of a test published in Ästhetische Dermatologie (Aesthetic Dermatology): an independent test on people with scalp problems (e.g. itchiness or severe scaling). Other products in the Belixos® range should be ready for launch in the course of 2014.

BF-RhodoLED®

BF-RhodoLED® is a lamp designed for photodynamic therapy (PDT), and features LEDs emitting red light at a wavelength of approx. 635 nm. The molecule protoporphyrin absorbs energy at this wavelength, and this forms the basis of photodynamic therapy. The active ingredient in Ameluz®, 5-aminolevulinic acid, is converted into protoporphyrin IX particularly in tumour cells. Protoporphyrin IX is thus concentrated in tumour cells and is activated when they are illuminated with red light. The energy thereby absorbed is transferred to oxygen, which, in activated form, can react non-specifically with macromolecules in the cells, thus irreversibly damaging and ultimately killing the diseased cells.

The BF-RhodoLED® lamp was developed in accordance with the latest technical standards, guaranteeing straightforward and clear usage, energy efficiency and the controlled and constant emission of light with the desired wavelength. The lamp was developed and is manufactured in Germany. Biofrontera has hired its own storage facility for raw materials and finished lamps at the manufacturer's premises.

The BF-RhodoLED® LED lamp is specially designed to be used for photodynamic therapy. PDT is used for the treatment of skin problems such as actinic keratosis, acne, basal cell carcinoma, Bowen's disease and warts. It involves treating the affected areas of skin with a gel or an ointment containing 5-aminolevulinic acid (ALA) or an ALA ester as a photosensitiser, and then using the lamp to illuminate the affected areas. The lamp emits non-warming visible red light with an average wavelength of approximately 635 nm. The BF-RhodoLED lamp provides optimal light output and flexibility for such usage, and caters in equal measure for the requirements of practitioners and patients. In November 2012, the BF-RhodoLED® lamp

was awarded a CE mark, which means that it can be sold throughout the EU.

One special feature of the BF-RhodoLED® lamp is that its light intensity and the power setting for the built-in fan can be adjusted as required for the skin area being treated. In addition, a built-in computer automatically calculates the duration of treatment in the event of different light intensities, so that the light dose is kept constant. It is expected that these features will ensure that the pain experienced by many patients during PDT treatments can be made significantly more bearable, so this will no longer be an issue that hinders the implementation of PDT. So far, the feedback from dermatologists has confirmed this expectation.

Corporate Governance Report for the 2013 Financial Year

I. Statement pursuant to § 161 of the German Stock Corporation Act

The Management Board and the Supervisory Board made the following compliance declaration in December 2013:

Declaration of the Management Board and of the Supervisory Board of Biofrontera AG (company) concerning the German Corporate Governance Code, pursuant to § 161 of the German Stock Corporation Act

Pursuant to § 161 German Stock Corporation Act (AktG), the Management Board and the Supervisory Board of Biofrontera AG 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. The declaration pursuant to § 161 of the German Stock Corporation Act must be made permanently accessible to the shareholders.

The Management Board and the Supervisory Board hereby declare that, since the submission of its last compliance declaration in December 2012, Biofrontera AG has complied with the recommendations of the German Corporate Governance Code in the version listed in that declaration, and that it will comply with the version of 13 May 2013, with the following exceptions:

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, there is no need for such a deductible to ensure the motivation and sense of responsibility of the Supervisory Board members. A deductible would, however, probably conflict with 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).

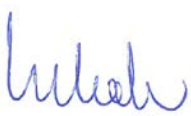
Structure of remuneration for the Supervisory Board (figure 5.4.6)

The company 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.

Reporting (figure 7.1.2)

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

Leverkusen, December 2013



Prof. Dr. Hermann Lübbert Thomas Schaffer Jürgen Baumann

Executive Board Supervisory Board

II. Corporate Governance Report

(including statements pursuant to § 289 a para. 2 point 2 and point 3 HGB (German Commercial Code) - together with the statement pursuant to § 161 of the German Stock Corporation Act in point I above, these constitute the statement concerning corporate governance)

Biofrontera Aktiengesellschaft (hereinafter also referred to as "the company") is a public limited company under German law. The company is managed by the Management Board and the Supervisory Board, and these boards cooperate for the benefit of the company. "Corporate governance" means the responsible management and supervision of companies, with a focus on long-term value creation. The Supervisory Board and the Management Board continuously review and develop corporate governance in the company, in order to ensure good, responsible company management and to provide transparency for shareholders. The Management Board and the Supervisory Board of Biofrontera Aktiengesellschaft are aware of their responsibilities to their shareholders, employees and business partners and to the general public. Therefore, Biofrontera Aktiengesellschaft considers compliance with the recommendations of the German Corporate Governance Code (hereinafter also referred to simply as "the Code") to be an important component of responsible corporate governance.

Pursuant to Item 3.10 of the Code, the Management Board and the Supervisory Board must submit an annual report on the company's corporate governance (corporate governance report). This report must also include explanations of any areas of non-compliance with the recommendations of the Code. The other contents of the corporate governance report are as follows: Item 5.4.1: Diversity, the Supervisory Board's aims in terms of its composition, and its progress in achieving these aims must be published in the corporate governance report. Item 6.3: If the total quantity of shares owned by all Management Board and Supervisory Board members exceeds 1% of the shares issued by the company, the respective total quantities of shares owned by the Management Board and the Supervisory Board must be stated separately in the corporate governance report. Item 7.1.3: The corporate governance report must include specific statements concerning share option programmes and similar security-based incentive systems provided by the company, if these statements have not already been made in the annual financial statement, the consolidated financial statement or the remuneration report.

About the company's management structure

Biofrontera Aktiengesellschaft is subject to the provisions of German law on stock companies and capital markets, the Articles of Association and the Rules of Procedure for the Management Board and the Supervisory Board. With the two organs, the Management Board and the Supervisory Board, the company has a two-part management and supervisory structure. The Management Board and the Supervisory Board are obliged to act in the interests of the shareholders and for the benefit of the company. The company's third organ is the Annual General Meeting.

About the company's corporate governance practices

The values enshrined in the statutory regulations and in internal guidelines and organisational instructions lie at the heart of the management culture for the company and its subsidiaries. Of particular importance in this respect are sector-specific certifications and quality requirements, compliance with which requires considerable efforts.

In addition, there is a common understanding among management and employees of the need to link sustainable growth with commercial success and, at the same time, to create benefits for society by providing effective and tolerable pharmacological products.

To achieve this goal, every employee should be aware of his or her contribution to corporate success and to the creation

of value and should be able and willing to undertake the responsibility for results required in this respect.

In order to act autonomously and on their own initiative, employees must first know and understand the company's strategic orientation. Therefore, the company management provides its employees with regular updates concerning company objectives, current business progress, the market environment and the competitive environment. Moreover, clearly defined company structures, areas of responsibility and processes are an important foundation for efficient corporate governance and cooperation. When combined with fixed but continuously optimised processes, this kind of structure makes it possible to align management processes with the company's objectives and to regularly monitor the company's progress in achieving its objectives.

In this respect, the motivation and esteem of the company's employees is particularly important, because employees will show exceptional dedication and achieve high productivity and efficiency only if they have a positive attitude towards their work environment, and if they identify strongly with the company and its objectives. This is why the company promotes a good balance between the high performance expected of highly-qualified and focused employees in a dynamic market, on the one hand, and the necessities and demands of a healthy personal life, on the other.

Compliance

The entrepreneurial activities of the Biofrontera Group must adhere to the laws of the various countries in which it operates. This is increasingly relevant because of increasing sales activities in foreign markets.

The Biofrontera Group performs its business activities responsibly and in accordance with the statutory provisions and official regulations of the countries in which it is active. It expects its employees to carry out their everyday work in a legally and ethically impeccable manner, because it is a developer and manufacturer of pharmacological products, and therefore it is especially vital for it to act with the utmost integrity, in order to justify the trust of its partners and especially that of the patients treated with its products.

In training courses involving the responsible compliance officer, the employees have been made familiar with the relevant codes of conduct and legal and regulatory requirements. Key elements of the compliance applied at the Biofrontera Group are compliance with antitrust rules, integrity in business transactions, a commitment to product stewardship and sustainability, adherence to the company's quality management system, and the avoidance and/or proper handling of conflicts of interest. Further details can be found in the published code of conduct entitled "Behavior in Business: Integrity, Innovation, Respect and Responsibility", which must be followed by all employees and organs.

Functions of the Management Board and the Supervisory Board

Management Board

The Management Board represents the company externally and manages it in accordance with the law, the Articles of Association and the Rules of Procedure for the Management Board. The company's quality management system is directly linked to the Chief Executive Officer. The Management Board guarantees that appropriate risk management is implemented within the company and that risk controlling is carried out. This is intended to ensure that any developments that could threaten the company's ongoing existence are identified at an early stage. The Management Board defines the company's strategic orientation, adjusts the latter in consultation with the Supervisory Board and ensures that it is implemented. The Management Board must ensure compliance with statutory regulations and the company's internal guidelines, and it strives to ensure compliance with the latter by the companies in the group (compliance).

The Management Board of Biofrontera Aktiengesellschaft currently comprises two members: the Chief Executive Officer and the Chief Financial Officer. The Supervisory Board has issued Rules of Procedure for the Management Board. Pursuant to the Rules of Procedure for the Management Board, measures implemented and transactions performed by the Management Board that are of fundamental significance require the approval of the Supervisory Board.

Supervisory Board

The Supervisory Board appoints the members of the Management Board, advises the Management Board concerning the management of the company, and monitors the company's general management activities. The Supervisory Board of Biofrontera Aktiengesellschaft currently comprises six members, none of whom was previously a member of the company's Management Board. The Supervisory Board has established its own Rules of Procedure.

Committees of the Supervisory Board

Currently, the Supervisory Board has a Personnel Committee, an Audit Committee, a Research & Development Committee, a Business Development Committee and a Nomination Committee as its permanent committees.

The Personnel Committee prepares decisions for the Supervisory Board regarding the appointment and dismissal of Management Board members. Unlike in the past, the plenum are now assigned responsibility for remuneration decisions, as a result of changes in the German Act regarding the Appropriateness of Management Board Remuneration (VorstAG), so the Personnel Committee now only carries out preparatory work. The Supervisory Board has amended its Rules of Procedure accordingly. In addition, it advises on long-term succession planning for the Management Board.

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 overseeing the audit of the company's annual financial statement. In companies as defined in § 264d of the German Commercial Code (HGB), which includes Biofrontera Aktiengesellschaft, the Supervisory Board's nomination for the selection of the auditor must be based on the Audit Committee's recommendation. Furthermore, in companies as defined in § 264d of the German Commercial Code (HGB), 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 Research & Development Committee deals with key issues related to product development. After discussions within the Research and Development Committee, it makes appropriate recommendations to the Management Board and Supervisory Board.

The Business Development Committee assesses the available opportunities for licensing and related contractual terms, advises the Management Board in specific negotiations and prepares decisions for the Supervisory Board on matters requiring approval.

The Nomination Committee proposes suitable candidates to the Supervisory Board for its nominations at the Annual General Meeting. In so doing, the Nomination Committee considers the balance and diversity 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 the results of regular evaluations of the knowledge, skills and experience of the individual 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.

Aims regarding composition of the Supervisory Board

Pursuant to Item 5.4.1 of the Code, the Supervisory Board must be composed in such a way that, all in all, its members have the necessary knowledge, skills and professional experience to carry out their tasks properly. The Supervisory Board should define specific aims regarding its composition, taking into account the company's specific situation, the company's international activities, potential conflicts of interest, the number of independent members of the Supervisory Board within the meaning of Section 5.4.2 of the Code, an age limit specified for the Supervisory Board members, and diversity. In particular, these specific aims are intended to ensure that there is an appropriate proportion of female Supervisory Board members.

Pursuant to Item 5.4.2 of the Code, the Supervisory Board should include what it considers to be an appropriate proportion of independent members. In the context of this recommendation, a Supervisory Board member cannot be regarded as independent if s/he is in a personal or commercial relationship with the company, its organs, a controlling shareholder or a company affiliated to the latter which may be deemed to represent a significant and not merely temporary conflict of interest. The Supervisory Board should not include more than two former Management Board members. Supervisory Board members should not have any roles within the organs of, or consulting tasks for, any of the company's major competitors.

The Supervisory Board concurs with the contents of the Code with regard to the fact that, in addition to balanced professional qualifications, diversity should also be taken into account: the composition of the Supervisory Board should always be suitably international, and there should always be a suitable proportion of women represented on the Supervisory Board. In this context, "diversity" is understood in terms of international origin, education, training or professional activity, rather than in terms of citizenship, gender and age.

This means that the composition of the Supervisory Board should take proper account of the diversity that is to be found in an open, innovative company like Biofrontera Aktiengesellschaft, which will probably be even more internationally active in the future. This has particular relevance for Biofrontera Aktiengesellschaft in terms of it being a biopharmaceutical company as well as, of course, with regard to the fields of research, development, manufacture and sales of medical cosmetics and new drugs for the care and treatment of skin and inflammatory diseases.

However, this also means that nobody should be excluded from being a candidate for the Supervisory Board or should be proposed as a candidate for the Supervisory Board solely because he or she has or does not have a particular attribute. In this regard, women are to be given preference to a reasonable extent in the event of candidates having the same qualifications and experience, but not within the framework of a binding quota.

For companies as defined in § 264d of the German Commercial Code, which includes Biofrontera Aktiengesellschaft, at least one independent member of the Supervisory Board must also have expertise in the fields of accounting or auditing in accordance with the provisions of the German Stock Corporation Act. Hence, this is a mandatory diversity criterion.

The company's Supervisory Board consists of six members, all of whom are elected by the shareholders.

The Supervisory Board defined the following aims on 22 February 2011 regarding its composition:

- Consideration of the expected future increase in the international activities of the company and its subsidiaries
- Availability and willingness / acceptable maximum number of Supervisory Board members
- Consideration of professional / technical expertise and industry knowledge, especially with regard to the areas of research and development, manufacturing and sales of medical cosmetics and new drugs for the care and treatment of skin and inflammatory diseases
- Consideration of specialist knowledge and experience in the use of accounting principles and internal control procedures (financial expert)
- Independence of the Supervisory Board members / avoidance of conflicts of interest

- Consideration of the age limit defined in the Rules of Procedure of the Supervisory Board
- Inclusion of two women on the Supervisory Board

As an addition to the above aims regarding its composition, the Supervisory Board expanded the point, "Independence of Supervisory Board members / avoidance of conflicts of interest" on 23 March 2013, to stipulate that at least half of its members should fulfil the criteria of independence set by the current recommendations of the Code, and that the financial expert must be an independent member of the Supervisory Board pursuant to the statutory directive specified in § 100, paragraph 5 of the German Stock Corporation Act.

In the Supervisory Board's opinion, the current level of progress in achieving these aims should be judged favourably. All the relevant areas of expertise are represented in the Supervisory Board, particularly with regard to sector-specific requirements and other specialist areas (financial expert). There are members with international business experience, as well as members from other countries. All Supervisory Board members have sufficient time to fulfil their responsibilities. In the opinion of the Management Board and the Supervisory Board, no Supervisory Board members are in a personal or commercial relationship with the company, its organs, a controlling shareholder or a company affiliated to the latter which may be deemed to represent a significant and not merely temporary conflict of interest. The Supervisory Board does not include any former Management Board members. In addition, the incumbent Supervisory Board members do not have any roles within the organs of, or consulting tasks for, any major competitors.

A woman, Ms Ulrike Kluge, has been a member of the Supervisory Board since 10 May 2011, so successful progress has been made in terms of achieving the aims in this respect. If possible, a second woman shall be included following the next regular election of shareholder representatives. This election would take place in the Annual General Meeting that decides whether or not to discharge the boards for the 2015 financial year.

The Supervisory Board will take into account the aims set for its composition to the greatest extent possible in finding suitable candidates, in the event that any of its members leave their position prematurely.

The Annual General Meeting

The shareholders exercise their rights at the Annual General Meeting, including their voting rights. Each share grants its holder one vote. The ordinary Annual General Meeting takes place within the first eight months of each financial year. The agenda for the Annual General Meeting, including the reports and documents required for the Annual General Meeting, are also published on the company's website. In order to make it easier for its shareholders to exercise their rights personally, the company provides them with a proxy bound by their voting instructions. In the convocation of the Annual General Meeting and in communications to the shareholders, it is explained how voting instructions can be issued prior to the Annual General Meeting. In addition, the shareholders remain entitled to appoint agents to vote on their behalf. The Annual General Meeting decides whether or not to discharge the Management Board and the Supervisory Board. Among other things, it also decides upon the appropriation of the balance sheet profit and upon corporate actions, and decides whether or not to approve company contracts or to amend the company's Articles of Association.

Accounting

The Biofrontera consolidated financial statement is prepared in accordance with the International Financial Reporting Standards (IFRS). Financial reports, half-yearly reports and interim reports are published within the statutory periods.

Shareholdings of the Management Board and the Supervisory Board

On 31 December 2013, the members of the Management Board and the Supervisory Board directly or indirectly held the following shares or stock options for financial instruments related to shares or from employee stock option programmes.

Management Board

Name	Shares	Options for € 5 per share from warrant bond 2009/2017	Employee stock options from stock option programme 2011
Prof. Dr. Hermann Lübbert	664,512	22,830	135,000
Thomas Schaffer	3,000	0	15,000

Supervisory Board

Name	Shares	Options from warrant bond 2011/2016
Jürgen Baumann (Chairman)	9,666	4,000

Transparency

Our shareholders are informed about any significant events in the company and in the group in the annual report, current press releases and ad hoc reports. All notifications received by the company that shareholders have exceeded or fallen below the voting right thresholds of 3, 5, 10, 25, 50 and 75% are published promptly.

Supervisory Board Report of Biofrontera AG for the 2013 financial year

Dear Shareholders,

The 2013 financial year was characterised by the ongoing marketing of our drug Ameluz®, which received approval in December 2011 for marketing throughout the EU, as well as in Norway, Iceland and Liechtenstein.

It was launched on the market in 2012, and sales agreements were concluded for Scandinavia, Spain, Benelux, Great Britain, Ireland, Austria, Hungary, the Czech Republic and Slovakia in the same year. In 2013, we stepped up our sales efforts even further. Among other things, it is worth mentioning that a sales agreement was concluded for Slovenia, and that our sales partner Allergan began marketing Ameluz® in Spain. In Spain, Ameluz® is 100% covered by health insurers - and Spain is one of the most important PDT markets in Europe. In addition, further efforts were made to obtain approval for the sale of Ameluz® in the USA. To this end, two safety trials required by the FDA had to be carried out, and the clinical part of both trials has been concluded. Furthermore, a clinical phase III trial on the field therapy of actinic keratosis with Ameluz® was initiated. As well as facilitating the extension of European approval of Ameluz® to include field therapy, the trial results are very important for obtaining approval in the USA and will be included in the approval package. In order to extend the range of approved indications in Europe, and thus to exploit further marketing potential, the company began a clinical phase III trial for the treatment of basal cell carcinoma with Ameluz®, as compared with Metvix®.

With regard to financial matters, in March 2013 we successfully placed 1,610,000 new shares with Maruho Deutschland GmbH, Düsseldorf, at a total issue price of EUR 7,534,800.00. Maruho Deutschland GmbH is a 100% subsidiary of Maruho Co.,Ltd. (Maruho), a pharmaceutical company based in Osaka, Japan, which specialises in the development, manufacture

and sale of dermatological prescription drugs.

After the end of the 2013 financial year, in February 2014, 4,438,292 new shares were successfully placed in a pre-emptive rights offering. The net revenue from the issue amounted to approximately EUR 15.3 million.

In the 2013 financial year, the Supervisory Board discharged the responsibilities imposed upon it by the law, the Articles of Association, the German Corporate Governance Code (Kodex) and the Rules of Procedure.

The Supervisory Board monitored the Management Board's activities and discussed future-orientated business decisions and plans with the Management Board. The Supervisory Board's discussions with the Management Board were always based on Management Board reports, and also involved reviewing and taking into consideration business documents and templates.

The Supervisory Board's activities included monitoring and advising the Management Board regarding the management of the company and the group. In particular, the Supervisory Board reviewed the legality, regularity and expediency of measures proposed by the company's management team, as well as their efficiency.

Regarding decisions of fundamental significance for the company, the Supervisory Board was always consulted immediately. The Supervisory Board was continuously kept informed by the Management Board, both during and outside meetings, about the company's current performance. The Management Board provided the Supervisory Board with regular, timely and comprehensive reports.

On the basis of the Management Board's written and verbal reports, the Supervisory Board comprehensively discussed business developments in its meetings. Furthermore, the Chief Executive Officer and the Chairperson of the Supervisory Board regularly exchanged information and ideas. In addition to sales activities and the preparation of further clinical developments and US approval of Ameluz®, the financial situation of the company and of the group was addressed.

Whenever approval from the Supervisory Board was required for decisions made by the Management Board, pursuant to the catalogue of such decisions defined by the Supervisory Board or because of legal requirements or corresponding requirements of the Annual General Meeting, the Supervisory Board was informed in advance via submission of written information and documents relevant to the decision. Approval was subsequently granted following extensive consultation at meetings of the Supervisory Board or - in the case of decisions involving circulation procedure - in or after a conference call. If necessary, the Supervisory Board also inspected the company's books and documents.

Furthermore, the Supervisory Board always examined the extent to which the decisions, proposals and recommendations that it had made were subsequently implemented by the Management Board in running the company.

Meetings and areas of focus

In fulfilling its responsibilities, the Supervisory Board held five meetings during the reporting year:

20 March 2013

In the meeting, the status of progress made in marketing Ameluz® domestically and internationally, including the business activities of existing licensees, was discussed, as were ongoing efforts to gain further licensees. Furthermore, the commissioning of further clinical trials and the budget required for the latter were discussed with the Management Board. In this context, the liquidity situation and the capital increase to be implemented were also discussed. In addition, the Supervisory Board discussed the aims regarding its composition, pursuant to Item 5.4.1 of the German Corporate Governance Code, and decided to implement one change.

8 April 2013

The meeting of 8 April 2013 was a balance sheet meeting. After discussing the annual financial statement, the consolidated financial statement and the combined company and group management report, the Supervisory Board approved the reports of the auditor, raised no objections on the basis of the results of its own review and approved the annual financial statement and the consolidated financial statement. The annual financial statement of Biofrontera Aktiengesellschaft for the 2012 financial year was thus adopted. In the same meeting, the agenda was set for the Annual General Meeting. In this context, the question was discussed as to whether the audit company, Warth & Klein Grant Thornton AG, should be nominated as the auditor for 2013 at the Annual General Meeting. These resolutions were based on the preliminary work and recommendations of the Audit Committee from its meeting held in the morning on the same day.

17 June 2013

In this meeting, the Management Board reported on the status of progress in marketing Ameluz® in Germany and in licensed European countries. Furthermore, the Management Board was informed of the conclusions of the joint meeting of the Research and Development Committee and the Business Development Committee, which had discussed the progress made in terms of gaining US approval of Ameluz®, clinical trials relating to Ameluz® and ongoing licensing activities prior to the Supervisory Board meeting. In addition, the company's financial situation and plans for a possible capital increase were discussed at the Supervisory Board meeting.

6 September, 2013

In this meeting, the Management Board presented the provisional figures for the first half-year of 2013 and the current outlook for the whole year. In addition to the financial figures for the first half-year and the outlook, the liquidity plan was also discussed. Once again, sales activities were another core topic in the discussions.

2 December 2013

In the meeting, the Management Board presented the provisional figures for the third quarter of 2013 and the current outlook for the whole year. Furthermore, after intensive discussions, the planned budget for 2014 was approved. Once again, sales activities, US approval and further licensing plans were core topics in the discussions. In addition, the Supervisory Board resolved to establish a nomination committee, as defined in Item 5.3.3 of the German Corporate Governance Code, as a permanent committee. For the configuration set down in its Rules of Procedure, the Supervisory Board aligned itself with the new statutory provisions that were defined by the legislature in the German Credit Services Act (KWG), initially only for financial companies.

Committees of the Supervisory Board

Currently, the Supervisory Board has an Audit Committee, a Personnel Committee, a Research & Development Committee, a Business Development Committee and a Nomination Committee as its permanent committees. The Supervisory Board appoints a Supervisory Board member as committee chairperson in each case. Pursuant to the Rules of Procedure for the Supervisory Board, the Supervisory Board Chairperson is expected to chair the committees that deal with the Management Board contracts and prepare the Supervisory Board meetings. He/she should not be the Audit Committee's chairperson. The committee chairpeople report regularly to the Supervisory Board about the committees' work.

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 compa-

ny's annual financial statement. In companies as defined in § 264d of the German Commercial Code (HGB), which includes Biofrontera AG, the Supervisory Board's nomination for the selection of the auditor must be based on the Audit Committee's recommendation. Furthermore, in companies as defined in § 264d of the German Commercial Code (HGB), 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. In the reporting year, the Audit Committee comprised the following individuals: Jürgen Baumann, Andreas Fritsch and Alfred Neimke. Mr Fritsch is the current chairperson. The committee met twice in the reporting year. It met once with the auditor to discuss the annual and consolidated financial statements for the 2012 financial year. In so doing, the committee also made a recommendation to the plenum regarding the selection of the auditor for the 2013 financial year. The second meeting of the Audit Committee took place on 2 December 2013 prior to the budget meeting of the Supervisory Board that took place on the same day. At this meeting, the financial plan submitted by the Management Board was closely examined and discussed in detail.

Personnel Committee

The Personnel Committee prepares decisions for the Supervisory Board regarding the appointment and dismissal of Management Board members. Unlike in the past, the plenum are now assigned responsibility for remuneration decisions, as a result of changes in the German Act regarding the Appropriateness of Management Board Remuneration (VorstAG), so the Personnel Committee now only carries out preparatory work. In the reporting year, the Personnel Committee comprised the following individuals: Jürgen Baumann, Dr. rer. nat. Ulrich Granzer and Prof. Dr. rer. nat. Bernd Wetzel. Mr Baumann is the current chairperson. The committee met once in the reporting year to prepare a Supervisory Board resolution on the variable salary components and share options to be granted. Before Mr Schaffer was appointed Chief Financial Officer, the members of the Finance Committee decided unanimously not to extend Mr Pehlemann's expiring contract. Subsequently, they interviewed several candidates for the post in person and, by common accord, they recommended the appointment of Mr Schaffer to the Supervisory Board.

Research & Development Committee

The Research & Development Committee deals with key issues related to product development. After discussions within the Research and Development Committee, it makes appropriate recommendations to the Management Board and the Supervisory Board. In the reporting year, the Research & Development Committee comprised the following individuals: Dr. rer. nat. Ulrich Granzer, Ulrike Kluge and Prof. Dr. rer. nat. Bernd Wetzel. Prof. Dr. rer. nat. Wetzel is the current chairperson. The committee met three times in the reporting year. At all the meetings, the details of the clinical trials and of the plan to obtain US approval were discussed with the Chief Executive Officer and the respective heads of the Regulatory Affairs, Research & Development and Manufacturing departments. A third meeting concerning strategic business development was held together with the Business Development Committee.

Business Development Committee

The Business Development Committee assesses the available opportunities for licensing and related contractual terms, advises the Management Board in specific negotiations and prepares decisions for the Supervisory Board relating to transactions requiring approval. In the reporting year, the Business Development Committee comprised the following individuals: Jürgen Baumann, Dr. rer. nat. Ulrich Granzer and Ulrike Kluge. Ms Kluge is the current chairperson. The committee met twice in the reporting year to discuss the various licensing negotiations that were conducted during the course of the year. The committee also took part in a meeting with the Research & Development Committee, in which future strategic business development was discussed.

Nomination Committee

On 2 December 2013, the Supervisory Board established the Nomination Committee. In addition to the chairperson, it

includes two further Supervisory Board members, who are elected to the committee. The Nomination Committee currently comprises: Jürgen Baumann (chairperson), Dr. rer. nat. Ulrich Granzer and Prof. Dr. rer. nat. Bernd Wetzel.

The Nomination Committee proposes suitable candidates to the Supervisory Board for its nominations at the Annual General Meeting. In so doing, the Nomination Committee considers the balance and variation of knowledge, skills and experience of all 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.

Changes of personnel in the Management Board

Mr Thomas Schaffer was appointed Chief Financial Officer (CFO), effective as of 1 June 2013. He is responsible for the departments of Finance, Administration, Controlling and Investor Relations. The appointment of Mr Schaffer took into account the company's international growth strategy. Mr Schaffer began his career in positions in the Finance and Controlling departments of Siemens Semiconductor, where he was appointed Vice President and CFO in the area of Security & Chipcard ICs. 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 the management of Qimonda Solar GmbH. With positions as CFO at Heptagon Oy, Finland/Switzerland, and Ubidyne Inc., Delaware, USA, he expanded his extensive international experience. Mr Schaffer played leading roles in achieving the objectives of the companies for which he worked, in areas such as capital increases, third-party financing, restructuring, M&A and initial public offerings.

Mr Schaffer has replaced Mr Werner Pehlemann. Mr Werner Pehlemann played an extremely important role in developing the company. During his eight years with Biofrontera AG, he played a pivotal role in ensuring the long-term financing of the company during its phase as a pure research and development company, thus laying the necessary foundations for its transformation into a young, dermatology-orientated pharmaceutical company. Thanks to his outstanding performance, the Biofrontera Group also has stable financial foundations, and has the prerequisites to achieve future success as a result of its international growth strategy.

The Supervisory Board sincerely thanks Mr Pehlemann for his outstanding and successful work as part of the Biofrontera Management Board. Together with all the employees and the Management Board of Biofrontera AG, we wish him continued success in his future roles.

Annual and consolidated financial statements for 2013

The audit company, Warth & Klein Grant Thornton AG, Düsseldorf, was appointed group auditor for the 2013 financial year by the Annual General Meeting on 18 June 2013 and was subsequently given the corresponding mandate by the Supervisory Board. The auditor's declaration of independence was received before the nomination was made at the Annual General Meeting. Warth & Klein Grant Thornton AG reviewed the annual and consolidated financial statements for Biofrontera AG, which were compiled by the Management Board, and the abridged management report for the 2013 financial year, and it issued unqualified audit opinions. Furthermore, the auditor noted that the Management Board had established an appropriate information and monitoring system which was well-equipped, both in terms of its design and use, to identify any developments that might endanger the continued existence of the company at an early stage.

The consolidated financial statement was prepared in accordance with the International Financial Reporting Standards (IFRS).

The statement documents were discussed in detail by the Audit Committee on 25 March 2014 and in the subsequent bal-

ance sheet meeting of the Supervisory Board, which also took place on 25 March 2014 – each time in the presence of, and after a report by, the auditor. All Supervisory Board members received the statement documents and the audit reports by the auditor in good time before the balance sheet meeting, and they studied these documents thoroughly. At the balance sheet meeting, the annual and consolidated financial statements were comprehensively discussed with the Management Board. The auditor reported on the audit, commented on the main audit topics and was at the Supervisory Board's disposal to answer questions and provide information. He also provided information about his observations on internal controlling and risk management with regard to the accounting process.

All questions asked by the Supervisory Board were answered in full by the Management Board and the auditor.

The Supervisory Board has taken note of the audit reports, the annual and consolidated financial statements and the combined company and group management report.

After discussion of the annual financial statement, the consolidated financial statement and the combined company and group management report, the Supervisory Board approved the reports of the auditor, raised no objections on the basis of the results of its own review and approved the annual financial statement and the consolidated financial statement.

The annual financial statement of Biofrontera Aktiengesellschaft was thus adopted.

The present Supervisory Board report was adopted at the balance sheet meeting held on 25 March 2014.

Corporate governance and compliance declaration pursuant to § 161 German Stock Corporation Act (AktG)

The Supervisory Board reviews the efficiency of its operational activities on an annual basis. The Supervisory Board worked intensively to issue the declaration of compliance with the recommendations of the German Corporate Governance Code for 2013. Further information on corporate governance is available in the corporate governance report in the annual report for 2013.

The Supervisory Board defined the following aims on 22 February 2011 regarding its composition and adjusted them in its meeting of 20 March 2013. Further details regarding the above aims and the progress made in achieving them is available in the corporate governance report for the 2013 financial year.

Conflicts of interest

There is no evidence of any conflicts of interest of which the Supervisory Board must be notified without delay, and of which the Annual General Meeting should be informed, relating to members of the Management Board or the Supervisory Board.

The Supervisory Board thanks the Management Board and the employees of Biofrontera AG and the Biofrontera Group for their great dedication during the past financial year.

Leverkusen, 25 March 2014

Jürgen Baumann

- Vorsitzender des Aufsichtsrats -

Combined Company and Group Management Report on 31 December 2013

Basics of the Group

1 Group structure

The present report for the 2013 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 the companies are based at Hemmelrather Weg 201, 51377 Leverkusen.

The listed public limited company (AG in German) has a holding function in the group of companies and ensures the necessary financing for the group. Biofrontera Bioscience GmbH assumes responsibility for research and development tasks for the group and is the holder of patents and 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 these two companies is to carry out further development of pipeline products that are not part of Biofrontera's core business and cannot therefore be adequately financed within the scope of normal business development. To this end, the two projects BF-derm1 and BF-1 were purchased from Biofrontera Bioscience GmbH by Biofrontera AG, with purchase and transfer agreements dated 31 December 2012, and then transferred to the two new subsidiaries as part of a partner's investment, with the contribution agreement being effective from 31 December 2012. The product BF-derm1, which is intended for the treatment of severe chronic urticaria, is now the responsibility of Biofrontera Development GmbH, while the product BF-1, which is intended for the prophylactic treatment of migraines, is the responsibility of Biofrontera Neuroscience GmbH. This outsourcing of development candidates has created a structure through which the financing of the further development of these two products can be uncoupled from the normal group financing.

2. Group strategy

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

Biofrontera was the first small German company to receive a centralised European drug approval for a completely independently developed drug, Ameluz®. In the months prior to the market launch of Ameluz®, the company's own sales division was 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 also distributed in other European countries by licensees.

The company has thus successfully transformed the originally exclusively research-oriented business into a specialist dermatological pharmaceutical company with a level of internal research and development expertise that is unusually high in the industry. The group's strategy now focuses on the further expansion of the business in Germany and in other European countries. To this end, Biofrontera is looking for distribution partners in other European countries, e.g. France or Italy. The approval application for Ameluz® in the USA is currently being prepared. After the conclusion of the clinical trials and the completion of the approval package, Biofrontera plans to submit the approval application, ideally in early 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.

3. Products

Ameluz® and BF-RhodoLED®

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 Medicines Agency (EMA) explicitly mentions the significant superiority of Ameluz ® compared to direct competitors regarding the removal of all of a patient's keratoses. During the treatment, the active substance 5-aminolevulinic acid (ALA) penetrates into the affected cells, assisted by an innovative nano-emulsion, where it is first converted into a second substance, particularly in tumour cells. This second substance, protoporphyrin IX, serves as a photo-sensitiser that can be stimulated by a 10 to 15-minute exposure to high-intensity red light. The molecule stimulated in this way causes the formation of cytotoxic amounts of highly reactive oxygen, which induces tumour cell death via oxidation processes. In the phase III trials required for approval, Ameluz® demonstrated excellent healing rates and a clear superiority over the approved comparator preparation tested at the same time. In the first phase III trial, which involved the drug being combined with an LED lamp, all keratoses were completely removed for more than 96% of patients treated with Ameluz®. When counting individual keratosis lesions, no fewer than 99% were completely eradicated. In the second phase III trial relevant to approval, the effectiveness of Ameluz® was tested in comparison with an already approved standard medication. The results of the trial provided evidence that Ameluz® was clearly superior to the competitor drug available in Europe. Based on the average for all lamps used in the treatment, Ameluz® resulted in complete healing of actinic keratoses in 78% of patients, whereas the approved rival product achieved a healing rate of only 64%. With LED lamps, healing rates rose to 85% for Ameluz® and 68% for the rival product. The side effect profile was comparable for both preparations.

In addition to the excellent efficacy of PDT, it is also worth mentioning the cosmetic results achieved with the large-scale application of this medication. In this case, not only do the visible keratoses disappear: the healthy skin also looks better after the treatment. This is because PDT stimulates collagen synthesis in the dermis, which makes the skin appear younger and fresher.

With its central European approval, Ameluz® can be sold and distributed in all EU countries as well as in Norway, Iceland and Liechtenstein. Distribution in Germany started on 1 February 2012.

Ameluz® is marketed by Desitin Arzneimittel GmbH in Denmark, Sweden and Norway, by BiPharma N.V.in Benelux, by Pelpharma Handels GmbH in Austria, by Spirit Healthcare Limited in England, and by Allergan Pharmaceuticals in Spain.

For the two remaining large EU countries, Italy and France, Biofrontera has so far been unable to conclude contracts with satisfactory distribution partners under commercially acceptable conditions, a fact which is primarily attributable to the difficult conditions in their respective local health systems.

In January 2014, a licensing agreement was concluded with Perrigo Israel Agencies LTD, which means that, for the first time, a licensee is selling Ameluz® in a country not covered by the central European drug approval. With Biofrontera's support, Perrigo will apply for its own approval in Israel.

Actinic keratosis is classified as a tumour that requires treatment, and the international treatment directives list photodynamic therapy as the gold standard for the removal of actinic keratosis, particularly for patients with large areas of keratoses. The latest statistics show that actinic keratosis is becoming a widespread disease, that 8 million people are affected in Germany

alone, and that there is a marked upward trend in cases. Subclinical and mild actinic keratosis can develop into life-threatening spine 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 primarily worked outdoors for a long period and who fulfil certain criteria, for the duration of these patients' lives.

At present, actinic keratoses are treated using a wide range of methods. Lesions are treated for weeks or months with topical creams, which are often ineffective, or the degenerated skin is removed by mechanical intervention (curettage) or freezing (cryotherapy), which usually leads to scar formation or permanent pigment changes.

At present, the market for topical creams is constantly growing and the use of legally questionable PDT formulations remains at a consistently high level. Because Ameluz® is the market leader in the PDT proprietary medicinal product market, with over 65% market share, an increase in sales can and must result from taking market share from the above-mentioned sectors.

Through an intensive programme of education concerning the manufacturing and liability risks associated with the use of extemporaneous products, Biofrontera intends to break into the extemporaneous product market. Using an awareness plan to provide further training to doctors, physicians with a preference for topical applications will be given a better understanding of PDT as a treatment option. Both marketing concepts are aimed at 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 most PDT treatments are for this indication, particularly in England and Spain.

Through its implementation of a phase III trial, Biofrontera intends to have the European approval extended to include the indication, basal cell carcinoma (BCC). BCCs are the most common invasive tumours to affect humans and account for approx. 80% of all invasive white skin cancers. About 30% of all Caucasians develop at least one BCC in their lifetime, and cases are rapidly rising 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 cure rates for patients treated with Ameluz® are significantly higher than those for Metvix®-patients. The clinical phase of this study is to be completed by the end of 2014, and the recruitment of patients began in early February 2014.

In parallel to this, Biofrontera has initiated a trial in which actinic keratoses covering entire areas, e.g. forehead, bald head, cheeks etc, are treated. In this trial, Ameluz® is combined with Biofrontera's PDT lamp, BF-RhodoLED®. This trial is intended to supplement the existing phase III trials, which were carried out with a range of different PDT lamps, with data from Biofrontera's own lamp. By treating entire areas, the intention is to obtain additional safety data, in order to facilitate a better analysis of the long-term effects of the treatment and to provide proof of its excellent cosmetic results. The recruitment of patients for this trial was completed in early February 2014.

The two phase I trials required by the FDA, the American approval authority, have already been completed, and the trial reports are currently being compiled. The two clinical trials were initiated with a total of 240 patients or subjects, in order to obtain the safety data required for registration in the USA and to add it to the European approval package for Ameluz®. Specifically, one of the trials is 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, in cases of treatment with the maximum quantity, i.e. the application of a complete tube to the defective skin.

BF-RhodoLED®

BF-RhodoLED® is a lamp designed for photodynamic therapy (PDT), and features LEDs emitting red light at a wavelength of approx. 635 nm. Light at this wavelength is ideally suited for PDT illumination with drugs containing ALA or methyl ALA. It is red but is still outside the warming infrared range. The BF-RhodoLED® lamp combines a controlled and consistent emission of light at the required wavelength with simplicity, user-friendliness and energy efficiency. The modulation of light energy and fan power during PDT treatment also makes it possible to adapt to and thereby ameliorate possible treatment-related pain. No other lamp on the market offers comparable performance and flexibility. BF-RhodoLED® has been CE-certified since November 2012 and is marketed throughout the EU.

Belixos®

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

Belixos® contains valuable ingredients obtained in a complex and particularly gentle process from the Mahonia aquifolium plant, which has been used for centuries by North American Indians in traditional medicine.

It is supplemented by the antibacterial properties of green tea and the soothing effects of camomile to create a unique active ingredient combination.

Due to its innovative composition based on colloids, Belixos® provides a balanced combination of active substances allowing a particularly rapid and also very even dispersion into the epidermis.

The sound scientific basis and unique combination of valuable plant ingredients are expected to set new standards in the highly competitive active 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 neurodermitis or psoriasis.

Following the approval of Ameluz®, the resources of the sales force and of the marketing department have been focused exclusively on the marketing of Ameluz®. Thanks to convinced Belixos users, sales of the drug have remained at a consistent but low level, but an increase in marketing activity was delayed until late 2013 for financial reasons.

Now the Belixos® range is gradually being expanded, and as a result, marketing efforts are being reorientated. The first of the new products, a Belixos® hair tonic, was launched in early 2014, and additional products are to be launched during the course of 2014. A variety of measures are also intended to make increasing use of the opportunities offered by new media channels for promotional purposes. Hence, Belixos® is now being promoted via its own Facebook page, and the online shop has been reworked and modernised.

4. Sales and marketing

In Germany, Ameluz® is marketed by Biofrontera's own sales force, while in other European countries it is promoted and sold with the help of marketing partners. It was launched in Germany on 1 February 2012. Dermatologists have been briefed about the properties of Ameluz® and trained to perform photodynamic therapy. The new medication is available in Germany with a pharmacy sale price of just under EUR 200. Distribution to public pharmacies takes place via pharmaceutical wholesalers, and

hospital pharmacies are supplied directly. In addition to regular sales force visits to dermatologists, Biofrontera has presented Ameluz® at all the major dermatological conferences in Germany since it was launched. The response from dermatologists has been extraordinarily positive. Comparing the years 2012 and 2013, Biofrontera achieved a significant increase in sales in Germany of more than 38%. The company's various sales and marketing endeavours have most definitely made a crucial contribution to this increase. As well as continuously targeting dermatologists, the company also started to inform patients of the benefits of photodynamic therapy, within the strict legal limitations in this area. For instance, an educational video on the subject was posted on YouTube. If you are interested, you can view this video in German at http://www.youtube.com/watch?v=aK4a3R5kqMA, or in English at http://www.youtube.com/watch?v=2xEO8DWCO8o.

Within a few months, Ameluz® became a market leader in Germany in terms of sales by pharmaceutical wholesalers to public pharmacies, overtaking the previous gold standard, Metvix®. The market share of tube-based Ameluz® in Germany is now between 65% and 70%, with the remaining 30-plus % 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). PDT achieves the highest cure rates by a large margin. However, the complexity of the treatment and the time required by medical practices to administer it, have so far prevented better market penetration. Biofrontera's sales and marketing activities are intended to further increase the use of proprietary medicinal products and thus expand the market.

Biofrontera has formed partnerships with other pharmaceutical companies to enable distribution in several other European countries. As a result, the distribution of Ameluz® is managed in Spain by Allergan Pharmaceuticals, in Denmark, Sweden and Norway by Desitin Arzneimittel GmbH, in Benelux by Bipharma N.V., in Austria by Pelpharma Handels GmbH and in England by Spirit Healthcare Limited. All contracts have been concluded in such a way that Biofrontera has received no down-payment, or only a modest down-payment, and the regional partners purchase Ameluz® from Biofrontera at a price that is coupled to their own sales price. Biofrontera's share of the sale price varies significantly according to the market conditions in a country, and lies between 35% and 65% of net sales. Admittedly, Biofrontera's share in Great Britain is 80%, but in return, the company also shares the sales and marketing costs itself, meaning that Biofrontera has made only losses in this country to date. Hence, this is designed as a very long-term contract and permits Biofrontera to completely take over sales in Great Britain. In Israel, Ameluz® is to be sold and distributed by Perrigo Israel Agencies LTD. Because Israel is not covered by the central European drug approval, however, Perrigo must first apply for its own approval there.

Biofrontera has been selling the medical cosmetic Belixos®, which was launched on the German market in the autumn of 2009, for a number of years. As well as being marketed through pharmacies, Belixos® can also be purchased from an online store operated by Biofrontera. In order to support marketing endeavours, a promotional campaign has been started using new media channels: Belixos has its own Facebook page with discussions on the product, and competitions have been set up. In the long term, the Belixos® range should develop into a core business area that is not affected by uncertainties, risks and time limits associated with business activities involving innovative, patent-protected pharmaceuticals, which are very strictly regulated by state healthcare systems. Although a new medical cosmetic brand requires a lot of effort to establish and only very slow progress can be made to begin with, especially when there is no significant marketing budget, it can become a constant source of revenue for the company in the long run. Marketing activities for Belixos® has been expanded since the beginning of 2014. As well as having its own Facebook page, Belixos is now promoted in a video posted on YouTube: (http://www.youtube.com/watch?v=WIJoZMZj_oc). In addition, the product range will be expanded, initially with a gel and a hair tonic.

5. Research and development

Ameluz®

The Ameluz® development programme is currently being advanced through the performance of clinical trials. Biofrontera expects this to produce a dramatic 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.

At the present time, the two trials described above, for the inclusion of basal cell carcinoma in the range of indications and for field therapy of actinic keratosis, are in progress.

In addition, Biofrontera has begun intensive preparatory work on 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, and the trial reports are currently being compiled. A pre-NDA meeting (NDA = New Drug Application) with the American health authority, the FDA, is scheduled for June 2014. In this meeting, the intention is to clarify and resolve all the significant issues relating to the submission of the approval application.

Total costs for the four clinical trials will amount to approximately EUR 6 million. In addition, it is expected that considerable costs will be incurred during the approval process itself.

BF-derm1

BF-derm1 is a tablet for the treatment of severe chronic urticaria (hives). The severe forms of this disease are difficult to treat with the drugs currently available on the market. The tablet contains an active ingredient with a completely new efficacy profile for alleviating chronic urticaria, which has not been adequately treatable up to now. A phase II 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 efforts have yet been undertaken in this regard for reasons of capacity.

BF-1

BF-1 is a drug candidate from Biofrontera's drug portfolio. It is intended for use in the prophylactic treatment of patients who suffer from frequent and painful migraine attacks. As this product candidate no longer fits Biofrontera's dermatological focus, it is to be out-licensed after the initial development stages.

After the first results in humans, which proved the excellent bioavailability and pharmacokinetics of the active ingredient, further pre-clinical trials have been carried out on the substance's tissue distribution, metabolism and toxicology. The studies have not produced any negative findings, so there is to date nothing to prevent further development in humans. 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 2012

Biofrontera has a broad portfolio of patents and brands protecting its products against the competition. A detailed list is available in the security prospectus issued on 20 January 2014 on the company's website. The 2013 financial year saw progress in terms of the granting of significant core patents. In particular, a further patent application for the protection of the migraine project BF-1 is highly significant for the commercial value of this project. The company has also applied for the registration of further trademarks for the Belixos range. Specifically, the patent portfolio was changed in the following ways in 2013:

ALA

The Ukrainian PCT application component "Nano-emulsion" (PCT/EP2007/011404) was granted in April 2013. The Russian component was granted in September 2013. The patent was granted in Australia in October 2013. The official communications issued relating to the corresponding applications in Belarus, Israel, China, Canada and the USA were answered within the deadlines set for this purpose in 2013.

Skin irritation & skin diseases

An additional official communication was received in February 2013 regarding the patent application "Pharmaceutical and / or cosmetic composition for skin treatment" in the USA. This was answered within the specified time limit. A "Request for Continued Examination" was filed in the further course of the proceedings.

Migraines

A new PCT application was filed in February 2013 with the European Patent Office entitled "Antimigraine compounds and their use". The application has been registered under the official reference number PCT/EP2013/052060. All states that were Contracting States at the time of the application were named. In March 2013, an international research report was issued in which evidence of innovation was provided for a number of claims.

Economic report

2013 financial year for the Biofrontera group:

- Turnover in Germany increased by more than 38%
- Turnover development in other European countries fell significantly below expectations
- No down-payments in 2013
- EBIT -6.8 million (-3.4 million compared with previous year)
- Consolidated result before taxes – 8.1 million (-4.0 million compared with previous year)
- Undiluted earnings per share amounted to - € 0.47 (previous year: - € 0.27)

Achievement of objectives in 2013:

	Outlook in April 2013	Reduced outlook in November 2013	Achievement of objectives on 31 December 2013
Group turnover	**EUR 6 million**	**EUR 3.3 – 3.8 million**	**EUR 3,115 thousand**

All in all, turnover remained significantly lower than expected. Although turnover increased by more than 38% in Germany, turnover for our European distribution partners did not increase as we would have liked. In particular, this is because it took considerably longer than expected to conclude the reimbursement agreements with the relevant health authorities. In addition, Biofrontera was unable to conclude any further licensing agreements with partners in other countries, which meant that no further down-payments were received in 2013. Although the fourth quarter was the most successful quarter, in terms of turnover, in the entire financial year, turnover was also lower than planned in December, which meant that the last forecast was not quite met.

Assets, finances and earnings of the Biofrontera Group

Biofrontera Group profit/loss account (summary)

	2012 in EUR	2013 in EUR	Change in %
Sales revenue	3,431	3,115	-9.2
Cost of sales	1,508	1,604	6.4
Research and development costs	1,384	3,186	130.2
General administrative costs	4,092	5,462	33.5
Other operating expenses and income	104	304	191.8
EBIT*	-3,449	-6,834	98.2
Financial result	-654	-1,232	88.4
Profit/loss before income taxes	-4,103	-8,067	96.6
Income taxes	-15	0	100.0
Profit/loss after taxes	-4,118	-8,067	95.9
of which apportioned to other shareholders	0	0	

Turnover

The Biofrontera Group achieved turnover of EUR 3,115 thousand in the 2013 financial year (previous year: EUR 3,431 thousand). Turnover for the previous year included a down-payment sum of EUR 1,550 thousand. Product turnover increased by EUR 1,867 thousand (a 66% increase compared with the previous year). This turnover is the result of sales in Germany amounting to EUR 1,867 thousand and sales abroad amounting to EUR 1,248 thousand. Turnover outside Germany still fell below expectations, because product launches in some of the European markets covered by our licensees were delayed, as it was first necessary to reach price and reimbursement agreements with the countries' domestic health insurers. Although significant progress was made in major countries, and the necessary reimbursement agreements and other agreements were concluded there, there was only a limited increase in turnover in 2013. We expect that increased sales efforts will improve progress in 2014.

Cost of sales

The cost of sales increased by 6.4% from EUR 1,508 thousand to EUR 1,604 thousand. The cost of sales includes materials expenses of EUR 591 thousand (previous year: EUR 657 thousand) and costs of manufacture and production for foreign external amounting to EUR 1,013 thousand (previous year: EUR 851 thousand).

Research and development costs, distribution and administration costs

Research and development costs increased by 130.2%, from EUR 1,349 thousand in the previous year to EUR 3,186 thousand in the 2013 financial year. In line with its strategy, Biofrontera has increased its investment in research and development in order to enable the expansion of indications described above, as well as the obtaining of approval for Ameluz® in the US. Primarily because of the international market launches of Ameluz®, distribution and administration costs increased by EUR 1,428 thousand compared with the previous year, to a total of EUR 5,520 thousand.

Financial result

The interest expenses included in the financial result, which amount to EUR 1,271 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 payment of interest on Warrant Bond II for the 2012 calendar year was made in January 2013, and the payment of interest on Warrant Bond I for 2013 was made in December 2013. Also in the previous year, income of EUR 815 thousand was achieved in the financial result through the premature termination of the convertible bond and the associated termination of the agio; there is no comparable income in the financial result for the 2013 financial year.

Investments

The inflows to tangible assets in the reporting period resulted primarily from the activation of PDT lamps held by the company as retained samples and for advertising purposes (EUR 228 thousand; previous year: EUR 0). Furthermore, inflows to intangible assets amounting to EUR 75 thousand (previous year: EUR 81) were activated.

The disposal of tangible fixed assets at acquisition cost amounting to EUR 537 thousand (31 December 2012: EUR 1,220 thousand) and that of intangible fixed assets amounting to EUR 104 thousand (31 December 2012: EUR 562 thousand) resulted from the reviews conducted in 2013 regarding the usability of tangible and intangible fixed assets. The assets in question had mostly already been written off, so the derecognition resulted in a book loss of just EUR 9 thousand.

Inventories

Inventories amounted to EUR 1,585 thousand (31 December 2012: EUR 1,212 thousand). These included: finished products (Ameluz®) amounting to EUR 239 thousand, the BF-RhodoLED® lamps recorded in the company's own inventories, which amounted to EUR 327 thousand, and unfinished products, raw materials and supplies amounting to EUR 962 thousand.

Receivables

As a result of the increased volume of business in Germany, receivables from goods and services increased by EUR 326 thousand, from EUR 252 thousand to EUR 578 thousand.

Share capital

On 31 December 2013, the fully paid-up share capital of the parent company, Biofrontera AG, amounted to EUR 17,753,168.00. It was divided into 17,753,168 registered shares, each with a nominal value of EUR 1.00.

On 31 December 2012, the share capital amounted to EUR 16,143,168.00, and it was increased during the course of 2013 by EUR 1,610,000.00, divided into 1,610,000 registered shares (see the "Corporate actions" section). The Biofrontera AG share was listed on the regulated market of the Düsseldorf Stock Exchange in 2006. Likewise, approval was granted for trading on the regulated market of the Frankfurt Stock Exchange in August 2012. The company's shares are also traded on the computer trading system Xetra and all other German stock exchanges.

The quantities of shares held by the shareholders were as follows on 31 December 2013, based on the most recent compulsory disclosures by the shareholders:

	31 December 2013 EUR
MM Familien KG, Hanover, Germany MM Familien KG has a direct holding amounting to 175,497 voting rights, and it is indirectly assigned 2,018,896 voting rights, pursuant to § 22, paragraph 1, sentence 1, no. 1 WpHG (German Securities Trading Act), by Alternative Strategic Investments GmbH, Hanover.	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, pursuant to § 22, paragraph 1, sentence 1, no. 1 WpHG (German Securities Trading Act), by Heidelberg Innovation BioScience Venture II GmbH & Co.KG (in liquidation) via Heidelberg Innovation Asset Management GmbH & Co. KG, of which he is one the managing partners.	1,028,349
Universal-Investment-Gesellschaft mbH, Frankfurt	981,438
Professor Hermann Lübbert, Leverkusen	664,512
Maruho Deutschland GmbH, Düsseldorf	1,610,000
Free float	11,274,476
	17,753,168

Financial situation:

The company's capital management body regularly reviews the equity ratio of the group and of the group subsidiaries. The management's aim is to keep the appropriate equity base in line with capital market expectations and to maintain creditworthiness in relation to domestic 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. The company carried out several capital market transactions during the period covered by the report in order to secure financing for development costs.

Cash flow into operational activity fell in comparison with the previous year from EUR (5,175) thousand to EUR (7,665) thousand, primarily because of the increased net loss.

Because of the increase in PDT lamps held in the company's own capital assets, cash flow into investment activity increased from EUR (138) thousand to EUR (323) thousand.

In both 2012 and 2013, capital increases were implemented in order to provide further financing for the company. 2013 saw a slightly smaller increase in equity than 2012. Therefore, cash flow from financing activity fell from EUR 8,126 thousand to EUR 7,991 thousand.

For more details of the consolidated cash flow statement, see Annexe 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 contributions was implemented in the reporting period. 1,610,000 new shares were issued in this process, and the increase was registered in the Commercial Register on 4 April 2013. The subscription rights of shareholders were excluded, and the net proceeds from the issue amounted to EUR 7.5 million. The capital increase was subscribed in its entirety by a strategic investor, Maruho Deutschland GmbH. Its Japanese parent company Maruho Co. Ltd. is the largest dermatological company in Japan, with turnover in the last financial year of around 60 billion yen.

According to IFRS, the group has negative equity amounting to EUR 4,547 thousand. On 31 December 2013, Biofrontera AG had positive equity of EUR 51,593 thousand. In legal terms, 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.

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 in a position in which it can 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 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 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. Therefore, there were still 340,700 options outstanding on 31 December 2013. Booked expenses for the 2013 financial year amounted to EUR 88 thousand.

Assets, finances and earnings of Biofrontera AG

A capital increase against cash contributions was implemented in the period covered by the report. 1,610,000 new shares were issued in this process, and the increase was registered in the Commercial Register on 4 April 2013. The subscription rights of shareholders were excluded, and the net proceeds from the issue amounted to EUR 7.5 million. The capital increase was subscribed in its entirety by a strategic investor, Maruho Deutschland GmbH. Its Japanese parent company Maruho Co. Ltd. is the largest dermatological company in Japan, with turnover in the last financial year of around 60 billion yen.

According to IFRS, the group has negative equity amounting to EUR 4,547 thousand. On 31 December 2013, Biofrontera AG had positive equity of EUR 51,593 thousand. In legal terms, 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.

Personnel details

Staff

On 31 December 2013, 38 employees worked for the Biofrontera Group (31 December 2012: 34). This figure comprises 13 employees of Biofrontera AG (31 December 2012: 13), 4 employees of Biofrontera Bioscience GmbH (31 December 2012: 6), and 21 employees of Biofrontera Pharma GmbH (31 December 2012: 15). There are no employees at Biofrontera Development GmbH or Biofrontera Neuroscience GmbH.

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, 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.

The total remuneration paid to members of the Management Board in the 2013 financial year, and the total accumulated stock options issued to the Management Board, were as follows on 31 December 2013:

Professor Hermann Lübbert received	- Salary / Bonus	EUR 412 thousand (31 December 2012: EUR 417 thousand)
	- Stock options	135,000 (fair value when granted: € 153,520) (previous year: 105,000, fair value when granted: EUR 121,150), of which 30,000 options were granted in 2013 (2012: 40,000 options)
Werner Pehlemann	- Salary / Bonus	EUR 211 thousand (31 December 2012: EUR 278 thousand)
	- Stock options	were forfeited (previous year: 65,000, fair value when granted: € 76,200), 0 options were granted in 2013 (previous year: 25,000). After his departure, pursuant to the conditions of the option programme, it is no longer possible for Mr Pehlemann to exercise the options granted to him in the past, because the share price when he left the company was below the minimum price of € 5.00 specified in the conditions.
Thomas Schaffer	- Salary / Bonus	EUR 100 thousand (31 December 2012: EUR 0)
	- Stock options	15,000 (fair value when granted: EUR 16,050 (previous year: 0; fair value when granted: EUR 0), of which 15,000 options were granted in 2013.

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 30% of the target value is reached, no bonus is payable. The assessment factors for the following financial year are determined at the end of each 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 the variable remuneration and thus its focus on sustainable business development, the board members have pledged to match each of the stock options granted as part of the stock option plan 2010 by holding an ordinary share of the company as a private investor and thereby establishing a commitment lasting for a period of three years beginning one month after the date of issue of the options ("restricted shares"). If such restricted ordinary shares are sold prematurely, 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 retransferred first (last in, first out). Such a retransfer is not applicable if the Management Board member can demonstrate that the sale of the restricted ordinary shares was necessary in order to comply with urgent financial obligations. In 2011, the Chief Executive Officer was granted 40,000 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, 30,000 options were granted to the Chief Executive Officer, and 15,000 options were granted to the other board member.

Supervisory Board

The Annual General Meeting held on 10 May 2011 passed a resolution appointing the following members of the Supervisory Board for a period of 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 Director of klugeconcepts GmbH in Cologne, resident in Cologne, Germany
Andreas Fritsch	Managing Director of Finance System GmbH & Co. KG, Munich and Managing Director of Fritsch & Fritsch GbR, Seefeld, resident in Seefeld near Munich, Germany
Alfred Neimke	Managing Director of Kopernikus AG in Zurich, Switzerland, resident in Zurich, Switzerland

All the Supervisory Board members held their positions throughout the entire 2013 financial year.

Total renumeration for the Supervisory Board in the financial year 2013 was EUR 113 thousand (2012: EUR 113 thousand).

Key developments

Corporate actions

A capital increase against cash contributions was implemented in the reporting period. 1,610,000 new shares were issued in this process, and the increase was registered in the Commercial Register on 4 April 2013. The subscription rights of shareholders were excluded, and the net proceeds from the issue amounted to EUR 7.5 million. The capital increase was subscribed in its entirety by a strategic investor, Maruho Deutschland GmbH. Its Japanese parent company, Maruho Co. Ltd., is the largest dermatological company in Japan.

Thomas Schaffer was appointed Chief Financial Officer on 1 June 2013. Werner Pehlemann stepped down as Chief Financial Officer at the end of 3 June 2013.

Other statements pursuant to § 289 paragraph 4 and 315 paragraph 4 of the German Commercial Code (HGB)

The appointment and dismissal of members of the Management Board is governed by § 84 and § 85 German Stock Corporation Act (AktG). The composition of the Management Board is specified in detail in § 9 paragraph 3 of the Articles of Association. Pursuant to this, the Management Board must consist of one or more members. It is currently made up of two people. The Supervisory Board appoints the 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 a director's duties are terminated pursuant to such a special right of termination, the severance pay will amount to 150% of the severance pay 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. According to § 179 paragraph 1 number 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.

Supplementary report

Events of special significance occurring since 31 December 2013

In January 2014, a distribution and licensing agreement was concluded with Perrigo Israel Agencies LTD. Pursuant to this, Perrigo will be responsible for the sales and distribution of Ameluz in Israel and will apply for its own drug approval there.

In February 2014, a further capital increase was implemented. In a pre-emptive rights offering, all shareholders were given the opportunity to subscribe to new shares, with the possibility of an additional subscription. In total, 4,438,292 shares were issued

at an issue price of EUR 3.50. The implementation of the capital increase was recorded in the Commercial Register on 6 February 2014. The net revenue from the issue amounted to EUR 15.3 million. EUR 10 million of this was received from Maruho Deutschland GmbH alone.

In late February 2014, an additional product in the Belixos range was launched: Belixos Liquid. This product is designed especially to care for itchy, irritable and flaky scalp.

Risk and forecast report

Risk management system

The Biofrontera Group's management system for monitoring opportunities and risks applies in equal measure to Biofrontera AG. In its holding capacity, Biofrontera AG controls all the legally independent entities within the Biofrontera Group. A group-wide assessment of opportunities and risks within the group is therefore required.

The primary goal of the Biofrontera Group is to grow sustainably and thereby to steadily increase its corporate value. The risk management procedures applied contribute significantly to achieving this goal. Risk management at Biofrontera involves the identification of risks that could lead to a long term or substantial impairment of the assets, finances and earnings of the company, as well as the responsible analysis and monitoring of these risks and the implementation of appropriate countermeasures. This requires the existence of established principles, organisational structures as well as measurement and monitoring processes tailored to the specific activities of the Biofrontera Group.

Correspondingly detailed risk prevention measures are a prerequisite for fully exploiting the opportunities that arise from the risks to the business activities of Biofrontera. In the 2013 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.

The management of opportunities and risks at Biofrontera

Risk management at the Biofrontera Group is integrated into the group's business processes and business decisions and is thus incorporated into the group-wide planning and controlling processes. Risk management and control mechanisms are coordinated with each other. These ensure that relevant corporate risks are identified and assessed at an early stage, while at the same time ensuring that potential opportunities are exploited quickly.

Risk management at Biofrontera is organised both locally and centrally. Opportunities and risks are regularly identified, evaluated and analysed across all levels of the hierarchy. All management staff in the group are involved in the group-wide risk assessment policy and associated reporting. This includes both the Management Board and the Managing Directors of the group companies, as well as 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. The Risk Management Team coordinates the individual management committees and teams and ensures that they receive ongoing and timely information. Moreover, it is responsible for the ongoing monitoring of the risk profile, the initiation of risk prevention measures and the corresponding control instruments. The management of the Biofrontera Group

holds regular meetings on all levels to discuss and share relevant risk management information between the operational and central management functions.

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 or she immediately initiates the necessary steps to counteract them.

He or she is responsible for the development of the risk management system, and also supervises its documentation in the risk manual. In addition, the Risk Management Officer defines uniform standards and ensures that similar risk management processes are applied throughout the Biofrontera Group. To this end, the regular analysis of key financial figures relating to business development helps to identify and assess possible deviations from expected development at an early stage, and to initiate any necessary countermeasures. There is overall monitoring of sales activities relating to Ameluz®, including the PDT lamp and Belixos®. Risk planning and identification are carried out in consultation with the relevant unit managers. The auditor assesses the structure and function of the risk early warning system.

Accounting-related risk management system and internal control system

In the following, the essential features of the internal control and risk management system will be described with regard to the accounting process for the individual and consolidated financial statements, pursuant to § 289 paragraph 5 of the German Commercial Code (HGB) in the version resulting from the Accounting Law Modernization Act (BilMoG).

The accounting procedures in place at Biofrontera AG ensure the representation of the complete and correct figures and statements using the instruments of external financial reporting (bookkeeping, annual financial statement and consolidated financial statement components, combined company and group management report), as well as compliance with the applicable requirements of the law and 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. Any risks identified must be assessed with regard to their influence on the annual and consolidated financial statements. It is the task of the accounting-related internal control system to ensure, through implementation of appropriate policies, procedures and controls, that the process of drawing up the financial statements is in line with legal requirements.

The risk management system and the internal control system cover all the operational and other technical areas that are essential for the annual and consolidated financial reports and which contain all the processes relevant to the preparation of the financial statements.

Essential elements of risk management and control with regard to accounting include the clear allocation of responsibilities and controls when preparing the financial statements and the use of transparent guidelines for accounting. The double check principle and a separation of functions are also important verification principles in the accounting procedures.

The Management Board assumes overall responsibility with regard to the organisation of the internal monitoring and control system. The coordinated subsystems of the internal monitoring and control system are the responsibility of the quality management / administrative management / risk management and accounting departments.

Opportunities and risks relating to future business performance

The Biofrontera Group strives to implement its strategic objectives, in particular the establishment of its own sales activities in certain countries, the identification of sales partners and the approval of development projects. The European approval granted to Ameluz® provides the group with an opportunity to achieve rapid growth and good profitability.

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

It is possible that the product Ameluz® will not prevail among the treatment options available for actinic keratosis. Doctors may revert to other products more often than expected despite the effectiveness of Ameluz®, owing to the high treatment costs associated with PDT, and to the fact that they may not obtain any or sufficient coverage of costs from the healthcare systems.

There is no guarantee that an actual product will be launched at the end of a project's development period – *which is on average 6 to 10 years*. A lack of success in the various stages of development may lead to additional costs, project delays or may even halt the project development completely. Invested funds may not be recovered or may only be partly recovered from the achieved turnover.

The company seeks to partially offset these risks by choosing projects with relatively attractive risk profiles, by setting up a project control and reporting system and by relying on the Supervisory Board members' outstanding professional experience. The project control and reporting system monitors in detail the entire development process through to final approval and enables the analysis of the influence of small changes or delays, for instance during clinical trials, on the development and the costs associated herewith. In this way, the development risk of individual projects can be monitored closely, and any necessary steps can be taken to minimize the development risks. A diversified project portfolio offsets the risks associated with individual projects.

As a result of the present loss-making situation and the uncertainty concerning the future business structure, the continued existence of the company could largely depend on the allocation of further cash and cash equivalents by the shareholders or other investors.

To this end, 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.

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 they 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 suita-

ble 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, 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

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, to some extent, Biofrontera is dependent upon individual suppliers. Through 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 are currently in the process of approving two suppliers for the supply of the active ingredient BF-ALA®, in order to reduce dependencies. Because there is worldwide manufacturing overcapacity in the pharmaceutical field, we believe that the risk of price increases is low.

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 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 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.

Law and compliance

The group may be subjected to legal disputes or proceedings in 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 they may damage the company's reputation and ultimately have a negative effect on our company's success.

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 discussed 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 2013 and another capital increase implemented in February 2014, the company currently has sufficient liquidity at its disposal.

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.

The risks reported above do not constitute threats to the company's continued existence. Furthermore, there are no risks associated with mutually strengthening dependencies that could develop in such a way as to threaten our company's continued existence.

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), and it is currently carrying out clinical trials to this end. According to the current schedule, we expect to apply for the approval of broad area therapy by the end of 2014, and for the approval of the inclusion of BCC before the end of 2015.

Furthermore, Biofrontera plans to establish further partnerships or licensing agreements both within and outside the European Union in 2014.

With regard to achieving approval in the USA, the first step has already been taken in the form of a consultation with the FDA, the American drug approval authority. For this market, the largest pharmaceutical market in the world, Biofrontera has invested in further safety trials recommended by the FDA. Both trials have already been completed, and the trial reports are currently being compiled.

Forecast of key tax figures

For the 2014 financial year, Biofrontera expects to achieve turnover of EUR 5 to 6 million, though this is still subject to significant planning uncertainties relating primarily to the speed of market penetration. In Germany, as in 2013, 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. Further progress in terms of turnover also depends on whether or not Biofrontera successfully concludes licensing agreements with distribution partners in other European countries. Contracts with US distributors and the associated down-payments are not currently planned for 2014.

In order to extend the range of indications, and to receive approval for the USA, Biofrontera will continue to invest heavily in R&D and RA in 2014. Therefore, we expect our development costs to increase further, to EUR 7 – 8 million.

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

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 2014 compared with 2013.

With the above-mentioned conditions and forecasts, the company will achieve a net result of EUR -10 to -11 million in 2014. The achievement of this result depends heavily on progress in terms of turnover.

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.

Leverkusen, 25 March 2014

Biofrontera AG

Professor Hermann Lübbert

Thomas Schaffer

Consolidated balance sheet on 31 December 2013

Assets

in EUR	Note	31 Dec 2013	31 Dec 2012
Non-current assets			
Tangible assets	(1)	467,323.63	288,150.56
Intangible assets	(1)	3,202,208.62	3,790,207.45
		3,669,532.25	**4,078,358.01**
Current assets			
Current financial assets			
Receivables from goods and services	(3)	578,410.60	251,778.17
Other financial assets	(4)	767,224.80	61,980.85
Cash and cash equivalents	(6)	2,933,578.47	3,366,232.58
		4,279,213.87	**3,679,991.60**
Other current assets	(2)		
Inventories			
Raw materials and supplies		819,912.99	901,450.42
Unfinished products		141,723.44	66,080.83
Finished products and merchandise		623,559.71	244,714.91
Income tax reimbursement claims	(5)	22,280.71	16,622.68
Other assets	(4)	80,908.61	48,200.95
		1,688,385.46	**1,277,069.79**
		5,967,599.33	**4,957,061.39**
Total assets		**9,637,131.58**	**9,035,419.40**

Liabilities

in EUR	Note	31 Dec 2013	31 Dec 2012
Equity	(8)		
Subscribed capital		17,753,168.00	16,143,168.00
Capital reserve		65,598,778.57	59,595,506.32
Loss carried forward		(79,832,687.98)	(75,714,590.56)
Net loss		(8,066,618.53)	(4,118,097.42)
		(4,547,359.94)	**(4,094,013.66)**
Long-term financial liabilities	**(9)**	**12,030,950.38**	**11,170,614.38**
Current liabilities			
Current financial liabilities			
Liabilities for goods and services	(10)	713,098.17	749,369.84
Short-term financial debt	(9)	435,750.00	435,750.00
Other financial liabilities	(12)	22,608.18	8,945.60
		1,171,456.35	**1,194,065.44**
Other current liabilities			
Income tax provisions	(7)	11,863.00	11,863.00
Other provisions	(11)	879,226.67	653,442.03
Other current liabilities	(12)	90,995.12	99,448.21
		982,084.79	**764,753.24**
		2,153,541.14	**1,958,818.68**
Total liabilities		**9,637,131.58**	**9,035,419.40**

Consolidated comprehensive income statement for 2013

in EUR	Note	1 Jan - 31 Dec 2013	1 Jan - 31 Dec 2012
Sales revenue	**(14)**	**3,114,551.20**	**3,431,349.30**
Cost of sales	**(19)**	**(1,603,700.78)**	**(1,507,937.18)**
Gross profit on sales		**1,510,850.42**	**1,923,412.12**
Operating expenses:	**(15)**		
Research and development costs		(3,186,223.66)	(1,384,127.15)
General administrative costs		(5,462,367.38)	(4,091,958.13)
		(8,648,591.04)	**(5,476,085.28)**
Loss from operations		**(7,137.740.62)**	**(3,552,673.16)**
Other income (expenses):			
Financial result	(16)	(1,232,391.89)	(654,188.24)
Other income (expenses), net	(17)	303,513.98	104,026.78
		(928,877.91)	(550,161.46)
Profit/loss before income taxes		**(8,066,618.53)**	**(4,102,834.62)**
Income taxes	**(7)**	**0.00**	**(15,262.80)**
Net loss for the year = Total comprehensive income for the period	**(19)**	**(8,066,618.53)**	**(4,118,097.42)**
Undiluted (= diluted) earnings per share	(18)	(0.47)	(0.27)

Consolidated statement of changes in equity for 2013

See note (8)	Ordinary shares Number	Subscribed capital EUR	Capital reserve EUR	Accumulated loss EUR	Total EUR
Account balance on 1 January 2012	**11,240,486**	**11,240,486.00**	**51,942,668.86**	**(75,714,590.56)**	**(12,531,435.70)**
Capital increase[1]	4,902,682	4,902,682.00	8,108,217.20	0.00	13,010,899.20
Costs of capital procurement	0	0.00	(447,905.74)	0.00	(447,905.74)
Changes in the capital reserve associated with the sale/repurchase of own Warrant Bonds I and II	0	0.00	(7,402.00)	0.00	(7,402.00)
Changes in the capital reserve resulting from transaction costs associated with the sale/repurchase of own Warrant Bonds I and II	0	0.00	(72.00)	0.00	(72.00)
Net loss	0	0.00	0.00	(4,118,097.42)	(4,118,097.42)
Total comprehensive income for the period	0	0.00	0.00	(4,118,097.42)	(4,118,097.42)
Account balance on 31 December 2012	**16,143,168**	**16,143,168.00**	**59,595,506.32**	**(79,832,687.98)**	**(4,094,013.66)**
Capital increase[1]	1,610,000	1,610,000.00	6,013,176.00	0.00	7,623,176.00
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)
Net loss	0	0.00	0.00	(8,066,618.53)	(8,066,618.53)
Total comprehensive income for the period	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[1] = including increase in capital reserve of EUR 88,376.00 in 2013 and EUR 63,926.00 in 2012 from the stock option programme 2010.

Consolidated cash flow statement for 2013

See note (22)	2013 EUR	2012 EUR
Cash flows from operations		
Net loss	(8,066,618.53)	(4,118,097.42)
Adjustments to reconcile the net loss with cash flow into operational activity:		
Financial result	1,232,391.89	654,188.24
Depreciation	742,133.19	643,290.37
(Gains) / losses on disposal of assets	8,672.73	1,078.28
Non-cash items of the financial result	(332,868.48)	(610,615.89)
Changes in operational assets and liabilities:		
Receivables from goods and services	(326,632.43)	(209,177.29)
Other assets and income tax assets	(743,609.64)	1,022.33
Inventories	(372,949.98)	(789,560.51)
Liabilities for goods and services	(36,271.67)	46,676.78
Provisions	225,784.64	148,105.23
Other liabilities	5,209.49	(941,873.11)
Net cash flow into operations	**(7,664,758.79)**	**(5,174,962.99)**
Cash flows from (into) investment activities:		
Purchase of intangible and tangible assets	(341,980.16)	(171,967.49)
Interest received	19,033.42	33,665.11
Net cash flow into investment activities	**(322,946.74)**	**(138,302.38)**
Cash flows from financing activities:		
Proceeds from issue of shares and sale of own Warrant Bonds	7,524,896.25	12,499,067.46
Interest paid	(830,180.83)	(1,142,096.72)
Increase / (decrease) in long-term financial debt	860,336.00	536,349.98
Increase / (decrease) in short-term financial debt	0.00	(3,767,397.37)
Net cash flow from financing activities	**7,555,051.42**	**8,125,923.35**
Net increase (decrease) in cash and cash equivalents	(432,654.11)	2,812,657.98
Cash and cash equivalents at beginning of period	3,366,232.58	553,574.60
	2,933,578.47	**3,366,232.58**
Composition of cash and cash equivalents at end of period:		
Cash and bank balances and cheques	**2,933,578.47**	**3,366,232.58**

Consolidated statement of changes in fixed assets in 2013

		Acquisition and production costs					Accumulated depreciation				Book values	
		1 Jan 2013 EUR	Additions EUR	Reclassifications EUR	Disposals EUR	31 Dec 2013 EUR	1 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	3,666,407.74	266,547.60	0.00	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	0.00	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	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	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	0.00	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**	**0.00**	**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**

Consolidated statement of changes in fixed assets in 2012

		Acquisition and production costs					Accumulated depreciation				Book values	
		1 Jan 2012 EUR	Additions EUR	Reclassifications EUR	Disposals EUR	31 Dec 2012 EUR	1 Jan 2012 EUR	Additions EUR	Disposals EUR	31 Dec 2012 EUR	31 Dec 2012 EUR	31 Dec 2011 EUR
I.	**Tangible assets**											
	Operating and business equipment	4,795,734.01	90,909.71	0.00	1,220,235.98	3,666,407.74	4,552,252.25	45,162.63	1,219,157.70	3,378,257.18	288,150.56	243,481.76
II.	**Intangible assets**											
1	Software and licenses	1,045,723.17	0.00	0.00	562,062.34	483,660.83	914,368.92	10,863.74	562,062.34	363,170.32	120,490.51	131,354.25
2.	Usage rights	5,537,968.45	81,057.78	283,255.11	0.00	5,902,281.34	1,645,300.40	587,264.00	0.00	2,232,564.40	3,669,716.94	3,892,668.05
3.	Prepayments made	283,255.11	0.00	(283,255.11)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	283,255.11
		6,866,946.73	81,057.78	0.00	562,062.34	6,385,942.17	2,559,669.32	598,127.74	562,062.34	2,595,734.72	3,790,207.45	4,307,277.41
		11,662,680.74	**171,967.49**	**0.00**	**1,782,298.32**	**10,052,349.91**	**7,111,921.57**	**643,290.37**	**1,781,220.04**	**5,973,991.90**	**4,078,358.01**	**4,550,759.17**

Explanatory Notes to the Consolidated Financial Statement of 31 December 2013

Information about the company

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

The Biofrontera Group was the first German startup company to receive a centralised European drug approval for an independently developed drug, Ameluz®. In December 2011, Ameluz® was approved for the treatment of mild and moderate actinic keratosis. Two further clinical development projects, one dermatological project and one for the prevention of migraines, are in the pipeline but are not being actively pursued at the present time. In addition, a range of cosmetic products is to be expanded; the first product in this range, Belixos®, was launched in the autumn of 2009. In early 2014, a Belixos® hair tonic was launched, and a Belixos® gel is to be launched during 2014.

The product Ameluz® (development name BF-200 ALA), which was approved at the end of 2011, has been tested in one phase II and two phase III clinical trials for the treatment of actinic keratosis. Ameluz® is a combination of the drug aminolevulinic acid (ALA) and a nano-emulsion (BF-200), which chemically stabilises the ALA and promotes good 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.

In November 2012, Biofrontera's BF-RhodoLED® PDT lamp was approved for use as a medical device and is sold in parallel with Ameluz®.

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

The third project (BF-1) is an innovative substance intended for use as a 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 showed that the substance is almost completely absorbed in the intestine and after about two days is 50% degraded or excreted. These results provide excellent conditions for the development of the substance as a drug to be administered in tablet form. As this project has huge market potential but is not related to the field of dermatology, it is to be licensed out for further development at the latest at the end of the phase II clinical trials.

The development of both BF-derm1 and BF-1 shall be financed independently of Biofrontera's normal budget, by funds that are specifically sought for and directly allocated to the development of these products.

For this reason, the two projects were acquired by the holding company Biofrontera AG and then transferred as a partner's investment in December 2012 to two newly established subsidiaries - Biofrontera Development GmbH and Biofrontera Neuroscience GmbH. 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.

Thus, short-term financial plans can focus on the market launch of Ameluz® in North America and the expansion of its areas of application, 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 2013 to 31 December 2013 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 on 31 December 2013.

Standards, interpretations and amendments to standards and interpretations that were to be applied for the first time in the consolidated financial statement of 31 December 2013

Standard / Interpretation	First mandatory use according to IASB	First mandatory use in the EU
Amendments to IAS 1 "Presentation of Financial Statements": Presentation of Items of Other Comprehensive Income	1 July 2012	1 July 2012
Amendments to IAS 12 "Income Taxes": Deferred Tax: Recovery of Underlying Assets	1 January 2012	1 January 2013
Revision of IAS 19 "Employee Benefits"	1 January 2013	1 January 2013
Amendments to IFRS 1 "First-time Adoption of IFRS": Hyperinflation and Removal of Fixed Data	1 January 2013	1 January 2013
Amendments to IFRS 1 "First-time Adoption of IFRS": Government Loans	1 January 2013	1 January 2013
Amendments to IFRS 7 "Financial Instruments – Disclosures": Offsetting of financial assets and liabilities	1 January 2013	1 January 2013
IFRS 13 "Fair Value Measurement"	1 January 2013	1 January 2013
Annual improvement project cycle 2009-2011	1 January 2013	1 January 2013
IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine"	1 January 2013	1 January 2013

Unless details of their effects are given below, the listed standards and interpretations that are mandatory for the first time have no effect on the Biofrontera Group, in the absence of relevant facts and circumstances.

IFRS 13 – Fair Value Measurement

In May 2011, the IASB published IFRS 13 "Fair Value Measurement", which summarises the provisions for measuring fair value in a single standard and replaces them with one unified provision. IFRS 13 is to be applied prospectively for financial years beginning on or after 1 January 2013. The first application of this standard had no significant effects on the measurement of assets and liabilities in 2013. In particular, there were amendments in the explanatory notes regarding the representation of fair values of financial assets and liabilities.

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 2013 financial year. The group will not apply these standards and interpretations prematurely.

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
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

We do not expect any of the optional standards and interpretations listed to have any effect on the Biofrontera Group, in the absence of relevant facts and circumstances.

The IASB published the standards and interpretations listed below, which were not yet mandatory in the 2013 financial year. These standards and interpretations were not previously recognised by the EU and are not applied by the group.

Standard / Interpretation	First mandatory use according to IASB	First mandatory use in the EU
Amendments to IAS 19 "Employee Benefits": Employee Contributions	1 July 2014	Not yet known
IFRS 9 "Financial Instruments"	Open	Not yet known
Amendments to IFRS 9 "Financial Instruments" and IFRS 7 "Financial Instruments - Disclosures": Mandatory Effective Date and Transitional Provisions	Open	Not yet known
Amendments to IFRS 9 "Financial Instruments", IFRS 7 "Financial Instruments – Disclosures" and IAS 39 "Financial Instruments – Recognition and Measurement": Hedge Accounting	Open	Not yet known
IFRS 14 "Regulatory Deferral Accounts"	1 January 2016	Not yet known
IFRIC 21 "Levies"	1 January 2014	Not yet known
Annual improvement project cycle 2010-2012	1 July 2014	Not yet known
Annual improvement project cycle 2011-2013	1 July 2014	Not yet known

The listed standards and interpretations that do not yet have to be applied have no effect on the Biofrontera Group, in the absence of relevant facts and circumstances.

The accounting and valuation principles applied are generally consistent with those applied on 31 December 2012 except for the new and revised standards described above, which had to be applied mandatorily for the first time in the financial year 2013.

The consolidated financial statement of 31 December 2013 is presented in 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, which are partiallybroken down in the notes to the consolidated financial statement of 31 December 2013 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, general and administrative costs and research and development costs.

The consolidated financial statement of 31 December 2013 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 contained 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.

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

Basis for consolidation

The consolidated financial statement of 31 December 2013 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 the possibility of exerting control. The following companies have been included in the consolidated financial statement:

1. Biofrontera Bioscience GmbH, Leverkusen, with a direct holding of 100% of the shares
2. Biofrontera Pharma GmbH, Leverkusen, with a direct holding of 100% of the shares
3. Biofrontera Development GmbH, Leverkusen, with a direct holding of 100% of the shares
4. 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 formed by the annual financial statements (or HBII pursuant to IFRS) of 31 December 2013 for these companies. The consolidated financial statement of 31 December 2013 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 2013 is drawn up in euros (EUR), 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 2013 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 exercising 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. These are continuously monitored, but may differ from the actual values.

Transactions with related parties

With regard to transactions with shareholders, particularly with regard to capital increases and the issuing of Biofrontera AG bonds, we refer to our comments in the appendix note "Equity".

With respect to the issue of stock options to employees of the Biofrontera Group we refer to our comments on the "Stock Option Plan" in the appendix note "Equity".

With regard to the remuneration of Management Board members we refer to our comments in the appendix note "Members of the Management Board".

With regard to the remuneration of the Supervisory Board we refer to 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
- Office and laboratory facilities 10 years, linear
- Laboratory equipment 13 years, linear

Low value assets with acquisition costs between €150 and €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 purchased is valued at cost and depreciated linearly over a useful lifespan of three years.

Intangible assets acquired consist of licenses and other rights purchased. These 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 were 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. Liquidity of the company is secured beyond 31 December 2015 since the measures to acquire additional capital initiated in 2013 were successfully implemented already in February 2014.

On 31 December 2013, Biofrontera held no financial positions that were exposed to interest rate risks.

Financial assets available for sale

As of 31 December 2013, because of the sale of own warrant bonds held by the company, there are no current asset securities belonging to the category "available-for-sale financial assets" as defined in IAS 39.9. On the balance sheet dated 31 December 2012, Biofrontera had its own warrant bonds 2011/2016 with a nominal value of EUR 388 thousand and its own warrant bonds 2009/2017 with a nominal value of EUR 113 thousand; however, these were reported net with the corresponding bond debt, in accordance with 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.

Receivables from goods and services

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 book value reported 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.

Stock options

Stock options (share-based remuneration transactions settled via equity instruments) are valued at the market value at 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 issued, 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 at the time of the transaction to the liability and equity components of the instrument. The method for 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 taxes

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 where there is a right of set-off and where they are being collected by the same taxation 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". Insofar 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 primarily through the sale of its products. Income from milestone and licensing agreements with third parties is realised once the underlying contract conditions apply. It is always possible for turnover to be received immediately and in full and to be recorded as income, provided that 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 research and development are accounted for in accordance with IAS 38 "Intangible Assets". Research costs are booked as expenses when they 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, because of the approval process and other 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 company has received approval for the product, 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 recognised as expenses in the period in which they are incurred.

Notes on the balance sheet

1 Tangible and intangible assets

The development of fixed asset items in the 2013 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 additions to tangible assets in the reporting period resulted primarily from the activation of PDT lamps held by the company as retained samples and for advertising purposes (EUR 228 thousand; previous year: EUR 0). Furthermore, additions to intangible assets amounting to EUR 75 thousand (previous year: EUR 81 thousand) were activated.

The disposal of tangible fixed assets at acquisition cost amounting to EUR 537 thousand (31 December 2012: EUR 1,220 thousand) and of intangible fixed assets amounting to EUR 104 thousand (31 December 2012: EUR 562 thousand) resulted from the reviews conducted in 2013 regarding the usability of tangible and intangible fixed assets. This involved assets that had already been written off to a great extent. The derecognition resulted in a book loss of just EUR 9 thousand.

Asset analysis for 2013

		Acquisition and production costs					Cumulated depreciation				Book values	
		1 Jan. 2013 EUR	Additions EUR	Reclassifications EUR	Disposals EUR	31 Dec. 2013 EUR	1 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	3,666,407.74	226,547.60	0.00	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	0.00	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	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	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	0.00	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**	**0.00**	**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**

Asset analysis for 2012

		Acquisition and production costs					Cumulated depreciation				Book values	
		1 Jan. 2012 EUR	Additions EUR	Reclassifications EUR	Disposals EUR	31 Dec. 2012 EUR	1 Jan. 2012 EUR	Additions EUR	Disposals EUR	31 Dec. 2012 EUR	31 Dec. 2012 EUR	31 Dec. 2011 EUR
I.	Tangible assets											
	Operating and business equipment	4,795,734.01	90,909.71	0.00	1,220,235.98	3,666,407.74	4,552,252.25	45,162.63	1,219,157.70	3,378,257.18	288,150.56	243,481.76
II.	Intangible assets											
	1. Software and licenses	1,045,723.17	0.00	0.00	562,062.34	483,660.83	914,368.92	10,863.74	562,062.34	363,170.32	120,490.51	131,354.25
	2. Usage rights	5,537,968.45	81,057.78	283,255.11	0.00	5,902,281.34	1,645,300.40	587,264.00	0.00	2,232,564.40	3,669,716.94	3,892,668.05
	3. Prepayments made	283,255.11	0.00	(283,255.11)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	283,255.11
		6,866,946.73	81,057.78	0.00	562,062.34	6,385,942.17	2,559,669.32	598,127.74	562,062.34	2,595,734.72	3,790,207.45	4,307,277.41
		11,662,680.74	**171,967.49**	**0.00**	**1,782,298.32**	**10,052,349.91**	**7,111,921.57**	**643,290.37**	**1,781,220.04**	**5,973,991.90**	**4,078,358.01**	**4,550,759.17**

2 Inventories

Inventories encompass finished products, unfinished products, and raw materials and supplies.

Inventories amounted to EUR 1,585 thousand (31 December 2012: EUR 1,212 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 Receivables from goods and services

The receivables from goods and services relate mainly to the sale of Ameluz® and license revenues from the European licensing partners, 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 of EUR 46 thousand (previous year: EUR 0) were recorded. There were overdue, not revalued receivables amounting to EUR 33 thousand(31 December 2012: EUR 38 thousand) on the balance sheet date. Of these, EUR 25 thousand were up to 30 days overdue, and EUR 8 thousandwere more than 30 days overdue. At the time of preparation of the consolidated financial statement, EUR 24 thousandof these receivables was still unpaid. Payment of the unpaid receivables was promised.

4 Other financial and miscellaneous assets

Miscellaneous assets primarily include prepayments for trials (EUR 465 thousand; 31 December 2012: EUR 0), VAT reimbursement claims (EUR 77 thousand; 31 December 2012: EUR 48 thousand) and travel expense advances amounting to EUR 5 thousand(31 December 2012: EUR 0).

5 Income tax reimbursement claims

These consist of claims for tax refunds relating to withheld capital gains tax plus solidarity surcharges (EUR 22 thousand; 31 December 2012: EUR 17 thousand).

6 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 2,934 thousand(31 December 2012: EUR 3,366 thousand). The book values of the cash and cash equivalents correspond to their fair value due to the short-term nature of these investments.

7 Deferred tax assets

The Biofrontera Group recorded a net loss before tax on 31 December 2013 and on 31 December 2012. 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%. Including a solidarity surcharge of 5.5% 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 16.1%).

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 2013		31 December 2012	
	Loss carried forward	Deferred tax assets	Loss carried forward	Deferred tax assets
	EUR thousand	EUR thousand	EUR thousand	EUR thousand
Corporation tax including solidarity surcharge	82,105	12,993	73,816	11,663
Business tax	74,035	12,308	66,603	10,723
Total		**25,301**		**22,386**

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 25,301 thousand; 31 December 2012: EUR 22,386 thousand) and active deferred tax differences in an amount of EUR 136 thousand (31 December 2012: EUR 232 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 December 2013 EUR thousand	31 December 2012 EUR thousand
Group income before income taxes	(8,067)	(4,103)
Expected income tax refund at the tax rate of the parent company	**2,618**	**1,313**
Differences resulting from differing tax rates	(42)	(3)
Tax reductions due to tax-free income resulting from permanent differences	0	0
Tax increases due to non-deductible expenses	(119)	(258)
Change in active deferred taxes not on balance sheet		
- from active temporary differences	(31)	(720)
- from losses carried forward	(2,477)	(415)
Other effects	51	68
Income taxes according to statement of comprehensive income	**0**	**(15)**

8 Equity

On 31 December 2013, the Biofrontera Group's share capital amounted to a total of 17,753 thousand (31 December 2012: EUR 16,143 thousand), sub-divided into common stock with a total nominal value of EUR 17,753 thousand (31 December 2012: EUR 16,143 thousand). The quantities of shares held by the shareholders are as follows:

	31 December 2013 EUR	31 December 2012 EUR
MM Familien KG, Hanover, Germany MM Familien KG has a direct holding amounting to 175,497 voting rights, and it is indirectly assigned 2,018,896 voting rights, pursuant to § 22, paragraph 1, sentence 1, no. 1 WpHG (German Securities Trading Act), by Alternative Strategic Investments GmbH, Hanover.	2,194,393	2,017,896
Professor Ulrich Abshagen, Germany Professor Abshagen has a direct holding of 52,293 voting rights, and he is indirectly assigned 976,056 voting rights, pursuant to § 22, paragraph 1, sentence 1, no. 1 WpHG (German Securities Trading Act), by Heidelberg Innovation BioScience Venture II GmbH & Co.KG (in liquidation) via Heidelberg Innovation Asset Management GmbH & Co. KG, of which he is one the managing partners.	1,028,349	1,009,806
Universal-Investment-Gesellschaft mbH, Frankfurt	981,438	981,438
Professor Hermann Lübbert, Leverkusen	664,512	646,010
Maruho Deutschland GmbH, Düsseldorf	1,610,000	0
Free float	11,274,476	11,488,018
	17,753,168	**16,143,168**

The company's capital management body regularly reviews the equity ratio of the group and of the group subsidiaries. The management's aim is to keep the appropriate equity base in line with capital market expectations and to maintain creditworthiness in relation to domestic 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. A further 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. The company carried out several capital market transactions during the period covered by the report in order to secure financing for development costs.

A capital increase from approved capital I was carried out against cash contributions in March 2013. On 22 March, 1,610 thousand new shares were issued in this process, and the operation was registered in the Commercial Register on 4 April 2013. This resulted in an inflow of EUR 1,610 thousand to the subscribed capital and EUR 5,925 thousand to the capital reserve.

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 2013:

	31 December 2013 EUR	31 December 2012 EUR
Long-term financial debt (at amortised cost)	12,030,950.38	11,170,614.38
Short-term financial debt (accrued interest from nominal interest rate	435,750.00	435,750.00
Capital reserve (equity component 2009/2017 warrant bond)	1,750,227.12	1,676,713.96
Capital reserve (equity component 2011/2016 warrant bond)	1,160.754.03	1,153,234.00

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 secondtranche 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 2013 financial year,

costs of raising equity totalling EUR 91 thousand (31 December 2012: EUR 448 thousand) were recognised in connection with the capital increase carried out.

In the event that the company achieves 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 the placement, the other surplus reserves would exceed half of the share capital. The shareholders' dividends are calculated according to the size of their holding of the share capital.

2010 Stock Option Programme

At the Annual General Meeting on 2 July 2010, the Management Board and Supervisory Board proposed a stock 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 stock 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 to the 2010 Stock 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. As of 31 December 2010, 106,400 shares options had been granted based on signed option agreements. On 30 September and on 7 October 2011, a further 96,400 options were granted. A further 65,000 options were granted on 23 March 2012, and 51,500 options were granted on 11 May 2012. On 2 September 2013, a further 179,500 options were granted.

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 corresponds to the arithmetical mean (not weighted) of the closing prices of the company's shares determined on the Frankfurt Stock Exchange, on the trading floor and the Xetra platform, on the ten trading days before the issue date. 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.

This resulted in an exercise price of EUR 1.91 / share option on the issue date 24 November 2010; an exercise price of EUR 2.48 / share option on the issue date 30 September/7 October 2011; an exercise price of EUR 3.30 / share option on the issue date 23 March 2012; an exercise price of EUR 4.09 / share option on the issue date 11 May 2012; and an exercise price of EUR 3.373 / share option on issue date 2 September 2013.

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 (i) at the beginning of the respective exercise period, the price (hereinafter "reference price") of a share in Biofrontera Aktiengesellschaft exceeds the exercise price by at least 20%, and (ii) a minimum reference price (hereinafter "minimum reference price") of at least EUR 5.00 is achieved. The reference price corresponds to the arithmetical mean (not weighted) of the closing prices of the company's shares determined on the Frankfurt Stock Ex-

change, on the trading floor and the Xetra platform, between the 15th and the 5th trading days (inclusive in both cases) before the beginning of each respective exercise period. The minimum reference price is adjusted in the following cases in order to bring the 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 are issued compared to existing shares. In the event of a capital increase from company funds taking place without the issuing of new shares (§ 207 paragraph 2 clause 2 AktG), the minimum reference price remains unchanged.

- No adjustment is made to the minimum reference price in the event of a capital reduction taking place, 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 exercise 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 day of issue, i.e. on 24 November 2016. Any options not exercised by that date are forfeited without compensation.

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 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 119,536.00 was determined. For the two tranches of options granted in 2012, fair values of EUR 104,000.00 and EUR 106,090.00 respectively were calculated. For the additional share options granted in 2013, a fair value of EUR 192,065 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, and a factor of 39.2% was used 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 and 0.71% in 2013, and a uniform annual fluctuation of beneficiaries of 20%.

On 24 November 2010, 106,400 options (first tranche) of the possible 839,500 share options 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. A further 65,000 were issued on 23 March 2012 with an exercise price of EUR 3.30, and 51,500 options were issued on 11 May 2012 with an exercise price of EUR 4.09. On 2 September 2013, 179,500 options (fourth tranche) were issued with an exercise price of EUR 3.373. Due to the retention periods involved, so far none of these have been exercised or forfeited. Therefore, there were still 340,700 options outstanding on 31 December 2013. The expenditure booked in the reporting period was EUR 88 thousand (31 December 2012: EUR 64 thousand).

9 Financial debt

Biofrontera announced the placement of a warrant bond on 26 June 2009 with a term lasting until 31 December 2017. As part of this corporate financing measure, an option bond was placed ("**Warrant Bond I**"). The warrant bond has a total nominal value of EUR 10,000,000 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 bond bears **interest** on the following scale:

- from 1.9.2009 to 30.12.2010: annual rate of 4%;
- from 31.12.2010 to 30.12.2011: annual rate of 6%;
- from 31.12.2011 to 31.12.2017 annual rate of 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 4,195 thousand on 31 December 2013 (previous year: EUR

3,909 thousand). The short-term portion of the financial liability, i.e. debts payable within one year, amounts to EUR 394 thousand (31 December 2012: EUR 394 thousand). The nominal interest rates were already paid on 31 December 2013.

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**").

The warrant bond II has a total nominal value of up to 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 warrants are 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 I at any time at 100% of the nominal amount (plus accrued interest). Bondholders may terminate the 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 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. Warrant Bond II pays 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. The short-term portion of the financial liability, i.e. debts payable within one year, amounted on 31 December 2013 to EUR 436 thousand (31 December 2012: EUR 436 thousand) and is reported as current financial liabilities.

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 2013 to 31 December 2013 were paid on the interest due date of 2 January 2014; these payments amounted to EUR 436 thousand (31 December 2012: EUR 436 thousand). On 31 December 2013, the interest debt payable for the period from 1 January 2013 to 30 December 2013, 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:

in EUR thousand	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

The situation was as follows in the previous year:

in EUR thousand					31 December 2012
	2013	2014	2015	2016	2017
Warrant bond 2009/2017:					
Repayment					
Interest payment	385	385	385	385	385
Warrant bond 2011/2016:					
Repayment					8,328
Interest payment	415	416	416	416	416

EUR					31 December 2012
	2018	2019	2020	2021	Total
Warrant bond 2009/2017:					
Repayment	5,226				5,226
Interest payment					1,925
Warrant bond 2011/2016:					
Repayment					8,328
Interest payment					2,079

10 Liabilities for goods and services

Liabilities for goods and services (EUR 713 thousand; 31 December 2012: EUR 749 thousand) have not changed significantly.

11 Other provisions

The other provisions have developed as follows:

Biofrontera Group in euros	01 January 2013	Utilisation	Reversal	Additions	31 December 2013
Bonuses for employees	145,170.00	145,170.00	0.00	77,990.33	77,990.33
Outstanding holiday	36,915.03	36,915.03	0.00	62,181.78	62,181.78
Outstanding invoices	320,354.29	41,974.36	210,000.00	537,288.45	605,668.38
Audit costs	54,600.00	52,837.50	1,762.50	93,484.00	93,484.00
Other	96,402.71	14,606.22	50,789.10	8,894.79	39,902.18
Total provisions	**653,442.03**	**291,503.11**	**262,551.60**	**779,839.35**	**879,226.67**

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.

12 Miscellaneous financial and other liabilities

	31 December 2013 EUR thousand	31 December 2012 EUR thousand
Payroll tax	61	58
Financial leasing	30	40
Other	23	10
	114	**108**

13 Reporting on financial instruments

In the ordinary course of business, the group faces interest rate change and credit risks as well as liquidity risks that may have an effect on the financial position, cash flows and results of operations.

Interest rate risk: The interest rate risk is considered negligible, as normally the existing interest rate arrangements for the relevant financing of the Biofrontera Group can be adapted to meet short to medium-term market conditions.

Credit risk: The group is exposed to a credit risk when transaction partners are unable to fulfil their obligations in accordance with the usual terms of payment. The maximum default risk is presented in financial terms by the book value of the relevant financial asset. The development of the receivables is monitored in order to identify possible default risks at an early stage and initiate appropriate measures. Individual write-down provisions of EUR 46 thousand (31 December 2012: EUR 0) have been created.

Financial instruments recognised in the consolidated balance sheet at fair value can be classified in the following valuation hierarchy, which reflects to what extent the fair value can be observed:

Level 1: fair value measurements using prices (unadjusted) quoted on active markets for identical assets or liabilities.

Level 2: fair value measurements using input data for the asset or the liability that can be observed either directly (as prices) or indirectly (derived from prices) and that does not represent quoted prices according to level 1.

Level 3: fair value measurements using input data for the asset or the liability that is 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 2013 financial year. All the financial assets measured at fair value listed in the following are classified as level 1. With regard to the financial liabilities, the full amount (EUR 12,467 thousand; 31 December 2012: EUR 11,606 thousand) is allocated to level 2. This involves financial debt arising from the two warrant bonds.

The financial assets and liabilities can be broken down into assessment categories with the following book values:

Financial Assets on 31 December 2013 (EUR)	Fair value	Book values				
		Cash and cash equivalents	Loans and receivables	Financial instruments recognised at fair value in profit or loss (excluding "held for trading")	Financial assets available for sale	TOTAL BOOK VALUES
Liquid assets	2,933,578	2,933,578				2,933,578
Receivables from goods and services	578,411		578,411			578,411
Other short-term financial receivables and assets	767,225		767,225			767,225
TOTAL	4,279,214	2,933,578	1,345,636	0	0	4,279,214

Financial liabilities Liabilities on 31 December 2013 (EUR)	Fair value	Book values				
		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
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

Financial Assets at 31.12.2012 (EUR)	Fair value	Book values				
		Cash and cash equivalents	Loans and receivables	Financial instruments recognised at fair value in profit or loss (excluding "held for trading")	Financial assets available for sale	TOTAL BOOK VALUES
Liquid assets	3,366,233	3,366,233				3,366.233
Receivables from goods and services	251,778		251,778			251,778
Other short-term Financial receivables and assets	61,981		61,981			61,981
TOTAL	3,679,992	3,366,233	313,759	0	0	3,679,992

Financial liabilities as of 31 December 2012 (EUR)	Fair value	Book values				
		Other liabilities	Financial instruments recognised at fair value in profit or loss (excluding "held for trading")			TOTAL BOOK VALUES
Financial liabilities	435,750	435,750				435,750
short-term Liabilities from goods and services	749,370	749,370				749,370
Other financial liabilities short-term	8,946	8,946				8,946
Other financial liabilities long-term	11,170,614	11,170,614				11,170,614
TOTAL	12,364,680	12,364,680	0			12,364,680

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 of EUR 2,934 thousand (31 December 2012: EUR 3,366 thousand) were available to cover the liquidity requirements. Additionally the company was provided with further liquid funds in an amount of the net proceeds of a capital increase placed in February 2014 of EUR 15.3 Mil.

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 2013

14 Turnover

Biofrontera succeeded in further increasing its revenues from product sales in comparison with the previous year. Total turnover in the 2013 financial year amounted to EUR 3,115 thousand. In the 2012 financial year, total turnover amounted to EUR 3,431 thousand, but this included one-off payments made by licensees amounting to EUR 1,550 thousand, which means that comparable turnover increased by EUR 1,234 thousand. This represents a 66% increase in turnover in comparison with the previous year. Consolidated turnover resulted only from the subsidiary, Biofrontera Pharma GmbH. Biofrontera Pharma realised its turnover primarily through sales of Ameluz® amounting to EUR 2,657 thousand and sales of BF-RhodoLED® PDT lamps amounting to EUR 439 thousand.

15 Expenses

Research and development expenses increased from EUR 1,384 thousand in the previous year to EUR 3,186 thousand in the 2013 financial year. In line with its strategy, Biofrontera has increased its investment in research and development in order to enable an expansion of indications as well as approval for Ameluz® in the US. Primarily because of the international market launches of Ameluz®, distribution and administration expenses increased by EUR 1,428 thousand compared with the previous year, to a total of EUR 5,520 thousand.

16 Financial result

The financial result consists primarily of the interest payable for the 2009/2017 warrant bond (EUR 575 thousand, 31 December 2012: EUR 555 thousand) and for the 2011/2016 warrant bond placed in 2011 (EUR 695 thousand, 31 December 2012: EUR 637 thousand), calculated using the effective interest method. In connection with the convertible bond that has since been repaid, a further EUR 292 thousand in interest payable, calculated using the effective interest method, was reported in the financial result in the previous year.

In the previous year, income of EUR 815 thousand was achieved in the financial result through the premature termination of the convertible bond and the associated termination of the agio; there is no comparable income in the financial result for the 2013 financial year.

17 Other income (expenses), net

In the 2013 financial year, other operational income or expenses increased by EUR 200 thousand to EUR 304 thousand in the account balance. This is largely attributable to the reversal of provisions amounting to EUR 263 thousand.

18 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 2013	31 December 2012
Number of weighted ordinary shares in circulation (on average)	17,342,948.82	14,998,799.97
Net loss in EUR thousand	(8,067)	(4,118)
Undiluted earnings per share in EUR	(0.47)	(0.27)

When calculating diluted earnings per share for the 2012 and 2013 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 2012 and 2013 financial years, no diluted earnings per share were reported, as the conversion or subscription rights for the periods shown counteracted any dilution.

19 Additional information regarding the consolidated statement of comprehensive income

Below the profit and loss account on 31 December 2012 and 31 December 2013, 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.

The materials expenses included in the turnover expenses amounted to EUR 591 thousand for the 2013 financial year (31 December 2012: EUR 657 thousand).

Depreciation

The depreciation of tangible and intangible assets of EUR 742 thousand on 31 December 2013 and of EUR 643 thousand on 31 December 2012 is included in the following items in the statement of comprehensive income:

	31 December 2013 EUR thousand	31 December 2012 EUR thousand
Research and development costs	670	606
General administrative costs	72	37
Depreciation/amortisation of tangible and intangible assets	**742**	**643**

Personnel costs

	31 December 2013 EUR thousand	31 December 2012 EUR thousand
Salaries and wages	2,840	2,413
Social security charges	356	286
Total	**3,196**	**2,699**

20 Staff

On average, the Biofrontera Group employed 35 employees in the 2013 financial year (2012: 30 employees).

21 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:

	2013	2012	2013	2012	2013	2012
	≤ 1 year		1 year to 5 years		> 5 years	
Operating leases						
Leases for business premises	141,400.44	139,865.46	655,463.82	722,954.58	0.00	73,909.68
Leases for cars	149,826.09	133,635.44	100,791.16	139,700.42	0.00	0.00
Leases for operating and office equipment	15,809.29	15,300.20	58,430.96	27,661.25	0.00	0.00
Consultancy contracts	135,666.67	145,666.67	0.00	17,666.67	0.00	0.00

Lease-related expenses for the reporting period amount to EUR 175 thousand (2012: EUR 155 thousand).

On the balance sheet date, there was a **financial lease** for a server leased by Biofrontera AG with a book value of EUR 30 thousand (previous year: EUR 40 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.

On the balance sheet date of 31 December 2013, the present value of the sum of future minimum lease payments is shown as follows:

All figures stated in EUR	Minimum lease payments	Discount	Present value
Less than 1 year:	11	2	9
Between 2 and 5 years:	29	7	22
Longer than 5 years:	0	0	0

22 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 830 thousand (2012: EUR 1,142 thousand). This change results from the ending of interest payments for the 2009/12 convertible bond, which was repaid prematurely during the previous year. The interest payments received amounted to EUR 19 thousand (31 December 2012: EUR 34 thousand).

23 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 Board contract was renewed in March 2010 and extended for another five years.

Mr Werner Pehlemann was the company's Chief Financial Officer; his contract ended on 3 June 2013. Thomas Schaffer was appointed Chief Financial Officer as of 1 June 2013.

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.

During the period from 1 January to 31 December 2013, 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 892 thousand (2012: EUR 892 thousand). Of this amount,

Professor Hermann Lübbert received	- Salary / Bonus	EUR 412 thousand (31 December 2012: EUR 417 thousand)
	- Stock options	135,000 (fair value when granted: € 153,250 (previous year: 105,000, fair value when granted: € 121,150), *of which 30,000 options were granted in 2013 (2012: 40,000).*
Werner Pehlemann	- Salary / Bonus	EUR 211 thousand (31 December 2012: EUR 278 thousand)
	- Stock options	0 (because of the restrictions on exercising options, as stated in the option conditions, all options were forfeited; previous year: 65,000, fair value when granted: € 76,200), *of which 0 were granted in 2013 (previous year: 25,000)*
Thomas Schaffer	- Salary / Bonus	EUR 100 thousand (31 December 2012: EUR 0)
	- Stock options	15,000 (fair value when granted: € 16,050 (previous year: 0, fair value when granted: € 0), *of which 15,000 options were granted in 2013 (previous year: 0)*

The salaries / bonuses are classified as short-term employee benefits as defined in IAS 24.17 (a).

24 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	Chairman of the Supervisory Board, expert in the field of sales and marketing of pharmaceuticals, Monheim, Germany
Professor Bernd Wetzel	Deputy Chairman 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 Director of klugeconcepts GmbH in Cologne, resident in Cologne, Germany
Andreas Fritsch	Managing Director of Finance System GmbH & Co. KG, Munich and Managing Director of Fritsch & Fritsch GbR, Seefeld, resident in Seefeld near Munich, Germany
Alfred Neimke	Managing Director of Kopernikus AG in Zurich, Switzerland, resident in Zurich, Switzerland

In the 2013 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 benefits as defined in IAS 24.17 (a).

During the reporting period, additional advisory services were acquired by the company from two members of the Supervisory Board, Dr. Ulrich Granzer and Ms Ulrike Kluge. These services went beyond the normal activity of a Supervisory Board member. Dr. Granzer assisted the company with key issues relating to the preparation of the application for approval by the supervisory authorities. In the 2013 financial year, advisory services amounted to EUR 0 (previous year: EUR 0.4 thousand), and liabilities to Granzer Regulatory Consulting & Services on 31 December 2013 amounted to EUR 6.1 thousand (31 December 2012: EUR 1 thousand). During the course of the financial year, advisory services amounting to EUR 32 thousand (previous year: EUR 50 thousand) were provided by Granzer Regulatory Consulting & Services. Ms. Kluge advises the company with regard to business development. In the 2013 financial year, advisory services amounted to EUR 21 thousand (previous year: EUR 20.4 thousand), and liabilities to klugeconcepts GmbH on 31 December 2013 amounted to EUR 4.4 thousand (31 December 2012: EUR 3.8 thousand).

The amounts stated here do not include VAT at the current rate of 19%. The consultants' underlying contracts were approved after assessment of the statutory provisions.

25 Statement regarding relationships with related companies and persons

In the 2013 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 23 and 24. The group of related persons and companies is limited to those referred to therein.

As a result of the underlying holding structure involved, Biofrontera AG is responsible for management and administrative tasks in the group. 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.

26 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.

27 Fees and services of the auditor

The total fee invoiced by the auditor Warth & Klein Grant Thornton AG for the 2013 financial year consists of the following:

	2013 EUR thousand	2012 EUR thousand
Audit services	105	74
of which for the previous year	51	0
Other certification services	50	27
Tax advisory services	0	0
Other services	0	0
	206	101

28 Events occurring after the balance sheet date

In January 2014, a distribution and licensing agreement was concluded with Perrigo Israel Agencies LTD. Pursuant to this, Perrigo will be responsible for the sales and distribution of Ameluz in Israel and will apply for its own drug approval there.

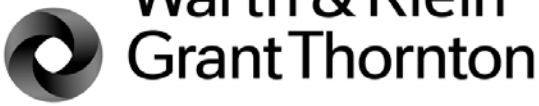
In February 2014, a further capital increase was implemented. In a pre-emptive rights offering, all shareholders were given the opportunity to subscribe to new shares, with the possibility of an additional subscription. In total, 4,438,292 shares were issued at an issue price of EUR 3.50. The implementation of the capital increase was recorded in the Commercial Register on 6 February 2014. The net revenue from the issue amounted to EUR 15.3 million. Thereof EUR 10.0 Mil. were subscribed by Maruho Deutschland GmbH alone.

In late February 2014, an additional product in the Belixos range was launched: Belixos Liquid. This product is designed especially to care for itchy, irritable and flaky scalp.No further events subject to mandatory reporting occurred after the balance sheet date.

Leverkusen, Germany, 25 March 2014

Professor Hermann Lübbert
Chief Executive Officer

Thomas Schaffer
Chief Financial Officer



The following repetition of the auditor's opinion in English language is **for translation purposes only**:

"Audit Certificate:

We have audited the consolidated financial statement prepared by Biofrontera AG, consisting of balance sheet, consolidated statement of overall result, statement regarding changes in equity, cash-flow statement and notes — as well as the combined company and group management report for the fiscal year from 1 January up to 31 December 2013. Preparation of the consolidated financial statement and the combined company and group management report in accordance with IFRS as applicable in the EU, and with the supplementary commercial law provisions applicable pursuant to § 315a para. 1 HGB, is the responsibility of the company's legal representatives. Our task is to submit an assessment of the consolidated financial statement and the combined company and group management report based on the audit carried out by us.

We carried out our audit of the consolidated financial statement in accordance with § 317 HGB, taking into account the German principles for orderly auditing specified by the German Institute for Auditors (IDW). According to these, an audit must be planned and completed in such a way that inaccuracies and irregularities that substantially affect the representation of the assets, finances and earnings provided by the consolidated financial statement, taking into account the applicable accounting regulations, and by the combined company and group management report can be recognised with a sufficient degree of certainty. Knowledge about business activities and about the economic and legal environment of the group, as well as expectations of any incorrect statements, were taken into account in determining the audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statement and the combined company and group management report are examined primarily on a spot check basis within the framework of the audit. The audit includes the assessment of the annual financial statements of the companies included in the consolidated financial statement, the delimitation of the scope of consolidation, the accounting and consolidation principles used, and the main estimates made by legally authorised representatives, as well as an evaluation of the overall presentation of the consolidated financial statement and the combined company and group management report. We believe that our audit provides a reasonable basis for our assessment.

Our audit did not give rise to any objections.

In our opinion, based on the findings of our audit, the consolidated financial statement for Biofrontera AG, Leverkusen, for the business year from 01.01.2013 to 31.12.2013 complies with the IFRS applicable in the EU and the additional requirements of German commercial law pursuant to § 315a para. 1 HGB, and give a true and fair view of the assets, finances and earnings of the group in accordance with these requirements. The combined company and group management report is consistent with the consolidated financial statement and, as a whole, provides an accurate view of the group's position and presents the opportunities and risks for future business performance in a suitable manner."

Düsseldorf, 25 March 2014

Warth & Klein Grant Thornton AG
Wirtschaftsprüfungsgesellschaft

Dr. Thomas Senger
Wirtschaftsprüfer
[German Public Auditor]

Renate Hermsdorf
Wirtschaftsprüferin
[German Public Auditor]

On publication or further submission of the financial statements and the management report in a form other than that certified by us (including translations into other languages), a further statement will be required from us if our audit opinion is cited or reference is made to our audit; we refer hereby in particular to section 328 HGB

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 assets, finances and earnings 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, 25 March 2014

Biofrontera AG

Professor Hermann Lübbert
Chief Executive Officer

Thomas Schaffer
Chief Financial Officer

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