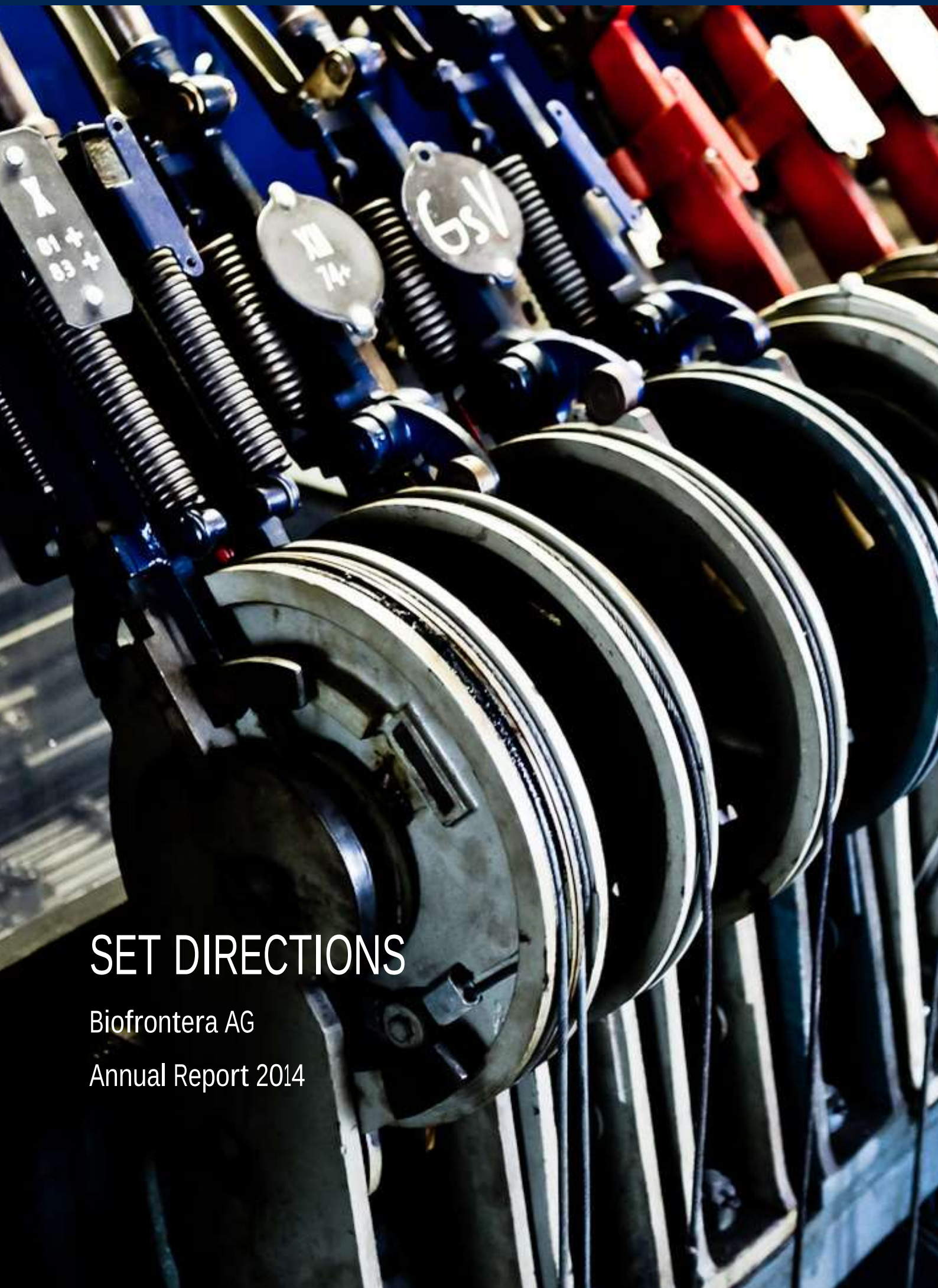


SET DIRECTIONS

Biofrontera AG

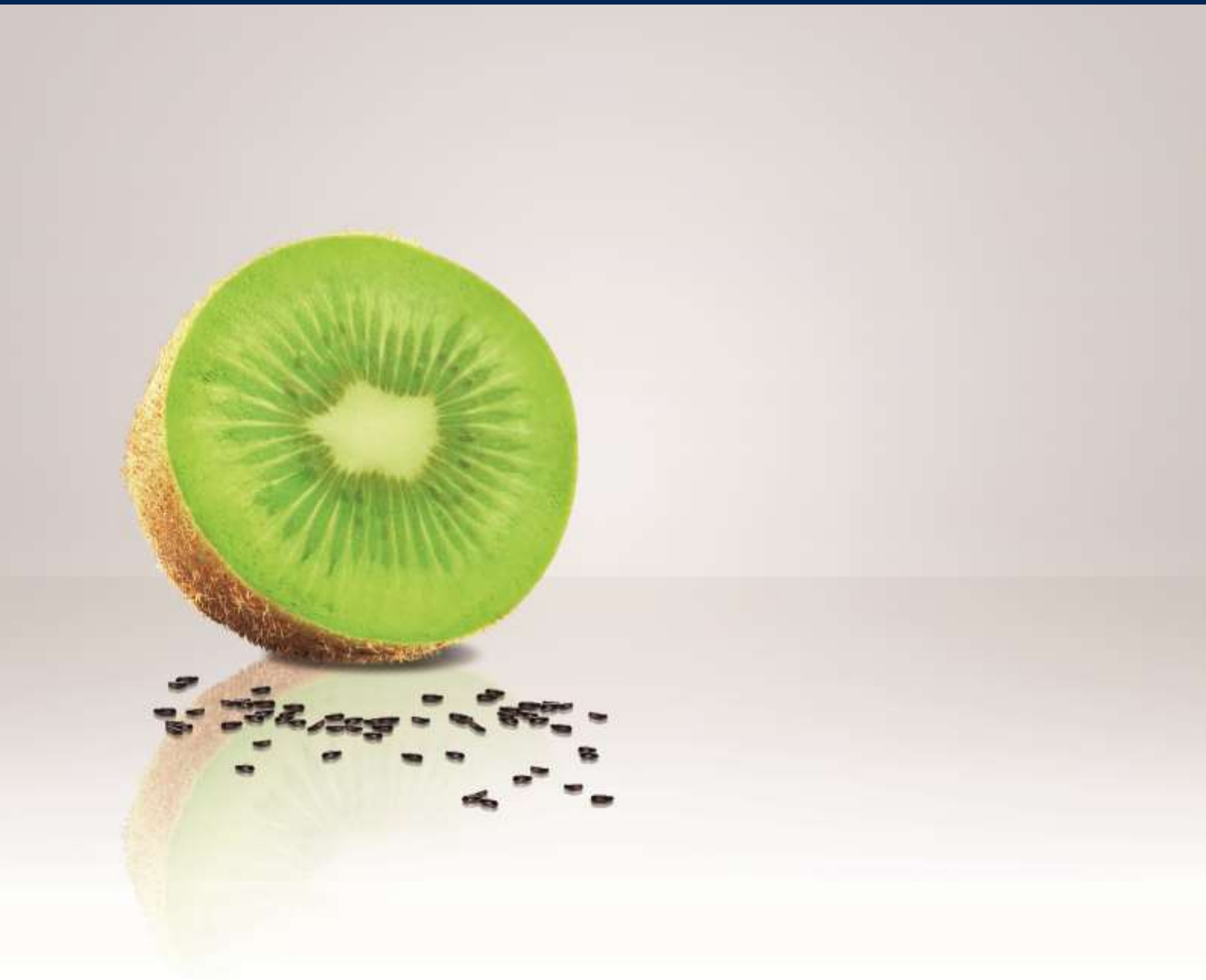
Annual Report 2014

- Courtesy translation of the German document -

Key figures 2014

Key consolidated figures calculated in accordance with IFRS

In EUR thousands	31 Dec 2014	31 Dec 2013	Change
Results of operations (earnings)			
Revenue - Germany	2,379	1,867	27.4%
Revenue - foreign markets	647	1,248	-48.2%
One-time payments	70	0	100%
Other income/expenses	(95)	304	131.2%
Sales and General administrative costs	(6,972)	(5,462)	27.6%
Research and development costs	(4,534)	(3,186)	42.3%
Operating profit (EBIT)	(9,622)	(6,834)	40.8%
Profit/loss before tax	(10,721)	(8,067)	32.9%
Net income/loss	(10,721)	(8,067)	32.9%
Cash flow statement			
Cash flow from operating activities	(7,928)	(7,225)	9.7%
Cash flow from investing activities	79	(323)	-124.5%
Cash flow from financing activities	13,425	7,116	88.7%
Key balance sheet figures			
Cash and cash equivalents	8,509	2,934	190.0%
Balance sheet total	14,010	9,637	45.4%
Current liabilities (excl. provisions)	2,305	1,262	82.6%
Long-term liabilities	10,774	12,031	-10.4%
Equity (subscribed capital & capital reserve)	98,599	83,352	18.3%
Equity ratio	(0.14%)	(47.2%)	-99.7%
Number of staff on 31 December	46	38	21.1%
Biofrontera stock			
Total number of shares outstanding on 31 December	22,196,570	17,753,168	25.0%
Share price (Xetra closing price) in EUR	2.30	3.45	



Products

Ameluz® - treatment for actinic keratosis

Ameluz® 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 some European countries. Ameluz® combines the active ingredient 5-aminolevulinic acid (ALA) with a patent-protected nano-emulsion, which increases chemical stability and improves skin penetration.

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.

BF-RhodoLED® PDT lamp

The light exposure used in conjunction with Ameluz® requires a powerful lamp that emits red light with a wavelength of approximately 635 nm. The phase III clinical trials of Ameluz® demonstrated that different lamp types achieved widely varying levels of treatment success. Therefore, Biofrontera 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

The special cosmetic Belixos® was developed for the intensive treatment of itchy, reddened and flaky skin caused by inflammatory changes. Belixos® uses a special combination of traditional medicinal plant extracts and plant-based modern biocolloids, which enables it to achieve optimal skin penetration. Belixos® products contain a root extract from the medicinal plant *mahonia aquifolium*, which is still used today in North American and Canadian natural medicine, and which numerous studies have proven to be a clinically effective treatment for skin disorders. As well as anti-inflammatory mahonia root extract, Belixos® Creme also contains healing chamomile and soothing tannins extracted from the tea plant. Belixos® Liquid is a tonic for the treatment of itchy and flaky scalps in cases of psoriasis, sebhorrhoeic eczema and other scalp problems, and it has been available since February 2014. As well as mahonia extract, it also contains calming oats and a zinc PCA complex, which is very skin-friendly, effectively counteracts the causes of skin flaking and regulates the sebum production of greasy scalps. In December 2014, Belixos® Gel was added to the Biofrontera cosmetics range. This pleasant, cooling gel is specially designed to treat skin inflammation, reddening and impurities, so it is the ideal basic treatment for rosacea and acne. Its formula contains mahonia and antiseptic cinnamon, and it is limited to a small number of high-quality ingredients in order to minimise the risk of skin impurities and irritation in the case of highly sensitive skin. Other products in the Belixos® range are currently in the pipeline.

Highlights 2014

- Sales agreement with Perrigo for Ameluz® in Israel
- Licensing agreement for Ameluz® in Switzerland and Liechtenstein with Louis Widmer SA
- Launch of new products in the Belixos® care range
- Final report on the Ameluz® safety trials required by the FDA
- Ameluz® outstandingly effective in phase III trial on area therapy
- Start of patient recruitment for the phase III trial on the expansion of indications to include basal cell carcinoma
- Positive pre-NDA meeting with the FDA regarding the submission of approval documents for Ameluz® in the USA
- Agreement with Allergan with regard to Biofrontera taking over sales activities in Spain
- Upgraded to Prime Standard on the German stock exchange, and shares listed on the AIM Market of the London stock exchange (AIM)
- Successful capital increase with proceeds of EUR 15.3 million

Letter to the Shareholders

Dear Shareholders,

There is a good reason why we have given our business report a title this year. We have had many discussions about the company strategy pursued this year.

And, in short, we have now set a strategic course.

It is the right course to enable Biofrontera to mature into a strong company, and to fully equip it for the future. We have set Biofrontera on a path that places great emphasis on growth, and which reflects our endeavours to establish a healthy, sustainable and independent pharmaceutical company. We are convinced that a pharmaceutical company can survive only if it unifies research and development, regulatory requirements and marketing in a single entity. By launching a product that it developed itself, the company has a rare opportunity to establish itself on the market independently. Biofrontera has already successfully taken this opportunity. Ameluz® is an excellent product, and it offers enormous potential for growth, thanks to its wide range of therapeutic applications. It would be extremely negligent to leave this potential unused, thus depriving the company of its foundation for independent growth. Particularly in the niche market for dermatological products, innovations are somewhat rare, and it would be almost criminal for a small company to accept that product out-licensing is the only way to ensure sustainable growth. Consequently, we have set a course for the wider promotion of Ameluz® on the market. Regional expansion into the US pharmaceutical market has been the company's stated objective for many years. This was a major reason for Biofrontera developing the BF-RhodoLED® PDT lamp - in order to initiate the approval of a drug/medical product combination. In the reporting year, we compiled the final clinical data for approval documentation for the USA. As a small company, we believed that it was essential for us to prepare thoroughly so that we could face the considerable challenge and ever more rigorous standards of FDA approval. The successful pre-NDA meeting in October was the last hurdle that Biofrontera had to clear. Thanks to our excellent data and comprehensive compliance with the FDA requirements, only a telephone conference was required for the meeting. This has greatly reinforced our confidence in our approach. When preparing an approval

application, it is indispensable to take this level of care and not to risk any failure or omission because of time pressure. We now feel that we are in the best possible starting position to submit an application for US approval in the near future.

However, obtaining the necessary approvals for regional expansion is only part of Biofrontera's growth strategy. The second driver of our company's growth is our clear intention to obtain approval for Ameluz® for further indications. We have also set the necessary course for this objective, which will not only make fuller use of the product's potential, but will also increase its marketability for existing indications. A drug's life cycle is determined by the term of its patent. Therefore, in order to be able to realise the product's potential, it is necessary to initiate expansions of indications within a tight schedule. Hence, in early 2014, we took the necessary steps in order to enable the company to use Ameluz® to its full potential. This is indispensable for our European business, as the lack of approval for the indication basal cell carcinoma is currently impairing sales of Ameluz® in many European countries, such as Great Britain. Because of the seriousness of the disease and on account of the existing data, it was extremely difficult to design the underlying phase III trial, which meant that, in the end, we decided upon a highly complex trial design. Although the trial's complexity will ensure that it obtains high-quality data, thus increasing the likelihood of a positive approval decision, it also runs the risk of making it more difficult to carry out the trial and include suitable patients. We have accepted that the conclusion of the trial will be delayed in order to ensure that high-quality data are obtained, and to ensure that the company does not run the risk of obtaining a negative approval decision. One major reason for adopting this approach was the reaction of the American approval authority, which has never approved photodynamic therapy of basal call carcinoma. If Ameluz® becomes the first product in this class to be approved (and there is a very good chance that it will be), we will open up a massive additional market for the drug. Approximately three million basal cell carcinomas are currently treated in the USA each year, most of which are treated surgically.

Thanks to the capital increase in early 2014 and the resulting inflow of funds, we have been able to pursue these medium-term company objectives. The investment made by Maruho Deutschland GmbH as part of this capital increase clearly demonstrates that our company strategy has earned recognition in the healthcare market, and that large and successful companies now regard Biofrontera as a serious partner. We see great potential in close cooperation with Maruho, which will certainly be even more apparent in Biofrontera's long-term corporate development.

Nevertheless, we must face the fact that sales of Ameluz® have still not matched our expectations. Ameluz® is sold in an extremely heterogeneous market environment, which means that sales approaches need to be repeatedly scrutinised and revised. Furthermore, the actinic keratosis market is dominated by topical treatments. Although these are significantly less effective than Ameluz®, prescribing them is less expensive and therefore considerably easier for many physicians. So the product must be promoted in a way that successfully challenges well-established approaches, which is an extremely protracted and sensitive process. Nevertheless, we achieved a 30% increase in sales in Germany. The fact that actinic keratosis has been recognised as an occupational disease has not yet had any relevant effects, as the relevant billing figures have not yet been determined. Therefore, one must assume that the inclusion of patients on the basis of an occupational disease will increase considerably in future.

So the course has been set. And we have set out on the path.

And we will continue to strive assiduously to realise the enormous potential of Ameluz®, so that Biofrontera can develop into an independent pharmaceutical company. This is the only way in which we can ensure that we achieve the greatest possible added value for our shareholders.

Our Belixos® range has also made progress. The expansion of the range, and the positive evaluations of customers who have obtained Belixos® products via Amazon and have written about their experiences on the Amazon website, have increased sales of Belixos® several times over. Although total sales of Belixos® are still somewhat limited, we have established the foundations for future profitable growth with this product range.

Obtaining FDA approval for a new drug is a supreme challenge for every research-based pharmaceutical company, but

we feel that we are equal to this challenge. Our staff's expertise and dedication enable the company to aim high. Biofrontera owes its flexibility to that of its staff, who never shy away from new challenges and are never afraid to take on the responsibilities with which the company entrusts them. We are very grateful that we can be part of such an outstanding team. So we hope that our staff's excellent work will ultimately be reflected in the evaluation of the company. We will continue to work tirelessly towards this objective.

Yours sincerely,

On behalf of the Management Board

Professor Hermann Lübbert

Chief Executive Officer

Thomas Schaffer

Chief Financial Officer

Biofrontera securities

Key details of the Biofrontera share	
Stock exchanges	Düsseldorf, Frankfurt, Berlin, Munich, Stuttgart, Xetra, Tradegate, London, UK (AIM)
WKN (German securities ID number)	604611
ISIN	DE0006046113
Shares in circulation on 31 December 2014	22,196,570
12-month high (19 February 2014)*	EUR 4.12
12-month low (17 September 2014)*	EUR 2.00
Closing price 30 December 2014*	EUR 2.299
Marked capitalisation as at 30 December 2014	EUR 51 million

*(Price data from Xetra)

Key details for warrant bond I with warrant*	
Stock exchanges	Düsseldorf
WKN (German securities ID number)	A0Z169
ISIN	DE000A0Z1690
Term, final maturity	8 years, 31 December 2017
Coupon staggered interest	4% (2010), 6% (2011), 8% (2012)
12-month high (21 January 2014)	EUR 100.00
12-month low (23 October 2014)	EUR 83.11
Closing price 30 December 2014	EUR 88.88

*(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
Term, final maturity	5 years, 31 December 2016
Coupon	5%
12-month high (11 July 2014)	EUR 99.50
12-month low (November 2014)	EUR 84.80
Closing price 30 December 2014	EUR 90.00

*(Price data from the Düsseldorf Stock Exchange)

Investor Relations

In the past financial year, Biofrontera has made good progress with important objectives such as the US approval and the successful completion of the associated phase III study. At the same time, however, sales revenues, especially in Europe, have not developed as dynamically as hoped. This could be a reason for the drop in the share price in 2014. The shares lost over 30% in value as per the reporting date. The share price performance thus lagged significantly behind the Tec-Dax benchmark.

At the beginning of the year we were able to initially record a stable or even slightly increasing share price. After completion of the financing round, there was a continuous drop in the share price. A significant leap in the share price was only visible in October after the publication of the very positive Phase III trial results on field therapy. This trend was, however, set against a sell-off by a large private investor, which resulted in a decrease in the share price until the end of the year.

In the financial year, 17,898 shares[1] were traded on average daily. At the beginning of October, the shares reached a provisional high in daily turnover with a volume of 100,222 shares[1], which coincided with the publication of positive data from the Phase III study on field therapy with Ameluz®. A peak in trading volumes was recorded shortly afterwards, on 08 October 2014, with a volume of 212,754 shares[1] being traded after publication of the positive outcome of the pre-

[1] Xetra data

NDA meeting with the FDA.

In February of the reporting year, a capital increase at a subscription ratio of 4:1 was offered to existing shareholders at 3.50 EUR and was successfully placed. As part of this capital measure, the strategic investor Maruho increased its existing holding in order to end up with just over 20% of the Biofrontera shares.

The management stepped up its efforts to improve the attractiveness of shares for institutional investors during the course of the year. This is one of the main reasons for the change from the regulated market to the Prime Standard segment on the Frankfurt Stock Exchange and the admission of the shares for trading on the Alternative Investment Market (AIM) of the London Stock Exchange. These measures were accompanied by increased investor relations activities. In many meetings institutional investors, financial analysts and business media were constantly kept informed about the company's performance. Furthermore, company presentations at investor conferences also highlighted Biofrontera's presence on the international capital markets. In addition, telephone conferences as part of the annual reporting offered a platform for direct interaction with the Management Board.

The company's considerable operational progress could unfortunately not be reflected in a steadily increasing valuation, as large selling pressure still exists. Biofrontera will, however, continue to work intensively on the company's communication and presentation, so that the share potential becomes more manifest.

Research studies from Lang & Schwarz Broker GmbH and Performaxx Research GmbH provided support for the Biofrontera shares. The renowned London investment house Shore Capital will also provide support to the company for the British market.

Date	Analysis	Recommendation	Share price target
Mar 15	SMC research	buy	4.05
Jan 15	Shore Capital		GBP 3.89
Dec 14	L&S Broker GmbH	buy	4.43
Oct 14	L&S Broker GmbH	Buy	4.43
Sep 14	Performaxx research update	Buy	4.53
Apr 14	Performaxx follow-up study	Buy	5.15
Apr 14	L&S Broker GmbH	Buy	5.36

Lang & Schwarz Broker GmbH and M.M.Warburg & CO. assumed responsibility for providing the liquidity required by the stock exchange for Xetra computer trading and the role of designated sponsor. Biofrontera terminated the contract with M.M.Warburg & CO as at 31 December 2014. In London, initially Finncap Limited and from October 2014 Shore Capital Corporate Ltd. held the function of Nomad (Nominated Advisors).

In the reporting year, the recorded prices of our warrant bonds were consistently lower than the issue price. Trading volumes for both bonds are, however, extremely small and therefore only considerably distorted price determinations were possible, which were frequently set by stock exchange computers without any sales having taken place.

At the end of 2014, about 52% of the issued shares were held by private investors, and roughly 25% of the shares were held by institutional investors. The Management Board's share holding amounted to approx. 3%. At the end of 2014, the majority of the issued shares were held by shareholders in Germany. Larger blocks of shares are also located in Great Britain, Austria, Switzerland and Luxembourg.

The 2014 Annual General Meeting took place on 27 June 2014 in Leverkusen. With a presence of 50.16% of the share

capital, all resolutions were passed with a large majority. The annual shareholders' evening, which was first held in 2010, took again place in December 2014 at the company's premises in Leverkusen. This evening event has now become a tradition and is keenly attended by many shareholders. Interested investors sought dialogue with the company's directors and could articulate their questions and aspirations, so that once again a lively exchange of ideas took place in an informal setting.

Corporate Governance Report for the 2014 Financial Year

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

Declaration by the Management Board and 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 2013, 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 24 June 2014, 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, such a deductible is not needed in order to ensure the motivation and sense of responsibility of the Supervisory Board members. A deductible would, however, probably undermine the company's aspirations to attract eminent persons from Germany and abroad to serve on its Supervisory Board. The Supervisory Board has therefore been expressly exempted from the new provisions regarding the deductible in the German Act regarding the Appropriateness of Management Board Remuneration (VorstAG) (§ 116 AktG).

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.

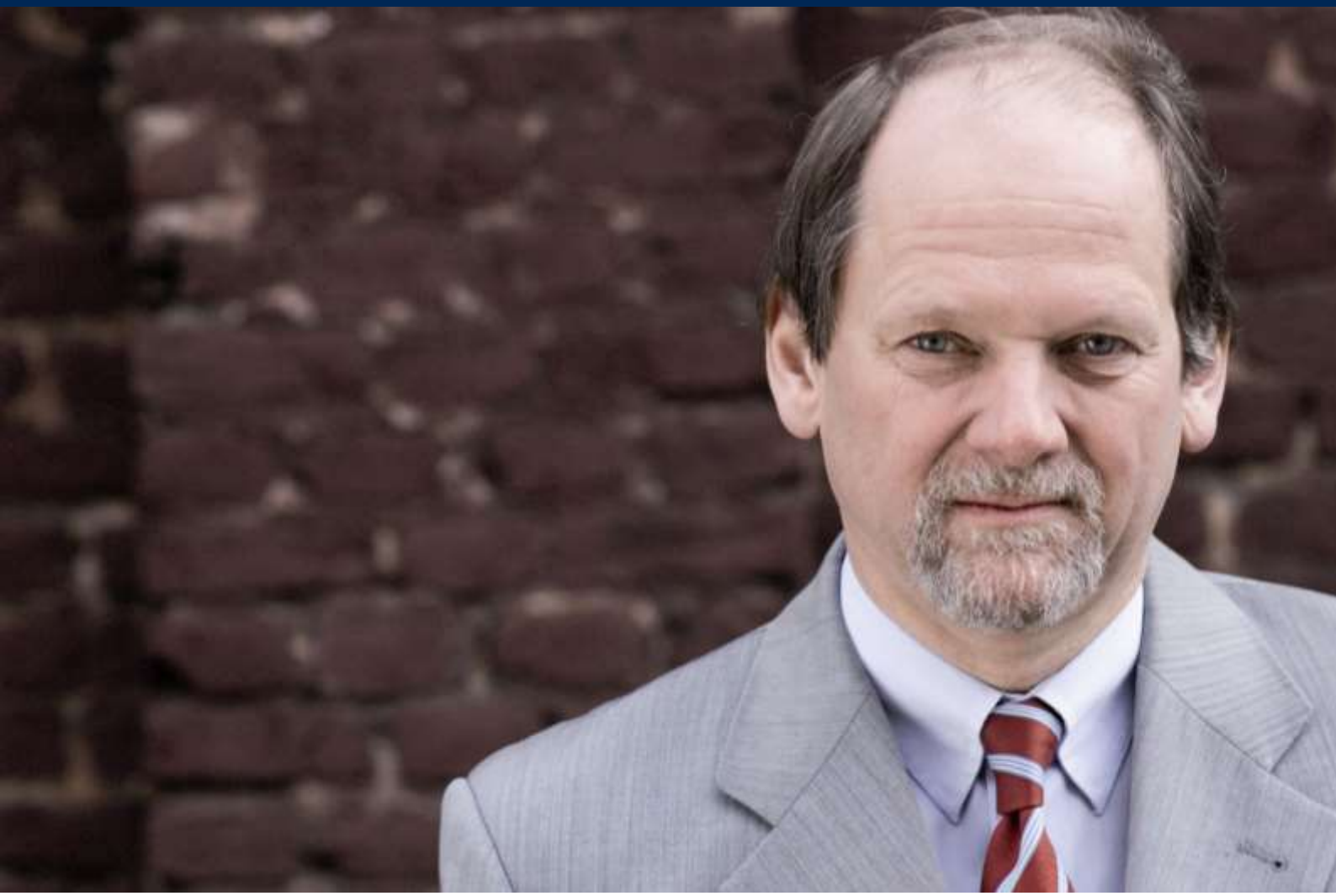
Leverkusen, December 2014

Prof. H. Lübbert / T. Schaffer
Management Board Biofrontera AG

J. Baumann
Chairman of the Supervisory Board

II. Corporate Governance Report

The current corporate governance report is available on the Company's website at www.biofrontera.com in the section "Investors", sub-section "Corporate Governance".



Report of the Supervisory Board of Biofrontera AG for the 2014 financial year

Dear Shareholders,

We have again managed to achieve important objectives for the company's further development during the 2014 financial year.

We were able to move forward with the desired approval in the US relating to our Ameluz® medication. After completion of the required clinical studies, the application will be submitted to the Food and Drug Administration (FDA) in the coming weeks. Further progress has been made with the desired extension of indications, which should facilitate the approval of Ameluz® for the treatment of basal cell carcinoma and also field therapy for actinic keratosis with Ameluz®. On the sales side, licensing agreements for Ameluz® have been concluded in Switzerland and Liechtenstein as well as in Israel. In March 2015, our partner Bipharma NV carried out the marketing launch in Belgium.

On the financial side, further investments associated with the described activities in the company's operational development were backed by a capital increase carried out in February 2014, which led to proceeds of roughly EUR 15.3 million. To increase the transparency standard on the capital markets, a listing of shares in the Prime Standard of the Frankfurt Stock Exchange was also initiated and the company's international nature was strengthened by achieving a listing on the Alternative Investment Market (AIM) of the London Stock Exchange.

In the context of these developments, the Supervisory Board again discharged the responsibilities imposed upon it by the law, the Articles of Association, the German Corporate Governance Code (Kodex) and the Rules of Procedure during the 2014 financial year. In the process, the Supervisory Board's activities included monitoring and advising the Management Board regarding the management of the company and the group. The Supervisory Board monitored the Management Board's activities and discussed future-orientated business decisions. These were always based on Management Board reports, and also involved reviewing and taking into consideration business documents and templates. In particular, the Supervisory Board also reviewed the legality, regularity and expediency of measures proposed by the company's management team, as well as the economic feasibility of these measures.

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. Deviations of the ongoing course of business developments from the plans were discussed in detail with and dealt with thoroughly by the the Supervisory Board. Furthermore, the Chief Executive Officer and the Chairperson of the Supervisory Board regularly exchanged information and ideas. Also, 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.

Whenever approval from the Supervisory Board was required for decisions made by the Management Board, as a result of 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.

Meetings and areas of focus

In fulfilling its responsibilities, the Supervisory Board held four meetings during the reporting year: 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. Ms Kluge, Mr Fritsch and Prof Dr Wetzel were each prevented from participating at one meeting due to external circumstances beyond their control. Attendance of the members at the Supervisory Board's meetings was thus around 88%

25 March 2014

This meeting was a balance sheet meeting. After discussing the annual financial statements, the consolidated financial statements and the combined company and group management report, the Supervisory Board approved the reports of the auditor present at the meeting, raised no objections on the basis of the results of its own review and approved the annual financial statements and the consolidated financial statements. The annual financial statements of Biofrontera Aktiengesellschaft for the 2013 financial year was thus adopted. In the same meeting, the points of the agenda were set for the Annual General Meeting, including the election of the auditor. These resolutions were based on the preliminary work and recommendations of the Audit Committee. At the meeting, the current status of the marketing activities and ongoing activities relating to further licensing and extension of the indications were also discussed. Furthermore, the liquidity position and financial planning were discussed.

26 June 2014

At this meeting, the Management Board reported on the status of the marketing activities for Ameluz®, and the future sales and marketing strategy was discussed in detail. Furthermore, the Management Board reported on the progress of the US approval of Ameluz®, the clinical studies relating to Ameluz® and ongoing licensing activities. The company's financial situation was also discussed.

05 September 2014

The Management Board reported on the sales revenue and earnings performance in the first half of the year and during the period until the end of August. Furthermore, it discussed the current outlook for the entire financial 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 and the US approval for Amelux® were another major topic in the meeting.

8 December 2014

At this meeting, the Supervisory Board dealt with the outlook provided by the Management Board regarding the annual profit/loss for 2014 and adopted, after extensive discussion, the 2015 budget, including the liquidity planning, which was also discussed in detail. The Management Board reported once again on the status of the approval of Ameluz® in the US. Marketing and distribution in Germany, Spain and the other EU countries was also discussed. The 2014 compliance statement was adopted.

We also passed resolutions outside of meetings. These related to the capital increase, the admission of the shares to the Prime Standard of the Frankfurt Stock Exchange, the listing of the shares on the Alternative Investment Market (AIM) of the London Stock Exchange, the final draft resolutions submitted to the Annual General Meeting and the resolution of a legal dispute with a supplier.

Committees of the Supervisory Board

Currently, the Supervisory Board's permanent committees are its Audit Committee, Personnel Committee, Research & Development Committee, Business Development Committee and Nomination Committee. 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. These requirements are taken into account when making appointments. The chairs of the committees report regularly to the Supervisory Board about the committees' work. With one exception, at a meeting of the Research & Development Committee, all committee members participated in the committee meetings in 2014.

Audit Committee

The Audit Committee focuses in particular on issues relating to accounting and risk management, the auditor's mandatory independence and the issuing of the audit mandate to the auditor, as well as the overseeing of the audit of the company's annual financial statement. In companies as defined in § 264d of the German Commercial Code (HGB), which includes Biofrontera Aktiengesellschaft, the Supervisory Board's nomination for the election of the auditor must be based on the Audit Committee's recommendation. Furthermore, in companies as defined in § 264d of the German Com-

mercial 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 once during the financial year, which was with the auditor in order to prepare for the Supervisory Board's balance sheet meeting on 25 March 2014. In so doing, the committee also made a recommendation to the plenum regarding the election of the auditor for the 2014 financial year.

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, in order to prepare a Supervisory Board resolution on the variable salary components and the share options that had been granted.

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 during 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 fourth meeting concerning strategic business development was held together with the Business Development Committee.

Business Development Committee

The Business Development Committee assesses the 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, in order to discuss the various licensing negotiations that were conducted during the course of the year. In addition, the committee took part in a meeting with the Research & Development Committee, in which future strategic business development was discussed.

Nomination Committee

In addition to the chairperson, the Nomination Committee includes two further Supervisory Board members, who are elected to the committee. The Nomination Committee currently comprises: Jürgen Baumann (chairperson), Dr. rer. nat.

Ulrich Granzer and Prof. Dr. rer. nat. Bernd Wetzel.

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

Annual and consolidated financial statements for 2014

The auditing company Warth & Klein Grant Thornton AG, Dusseldorf, was approved by the Annual General Meeting on 27 June 2014 as auditors and group auditors appointed for the 2014 financial year and subsequently instructed accordingly 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 Aktiengesellschaft, which were compiled by the Management Board, and the abridged management report for the 2014 financial year, and it issued unqualified audit opinions for these. 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 at an early stage any developments that might endanger the continued existence of the company.

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

The statement documents were discussed in detail by the Audit Committee on 09 April 2015 and in the subsequent balance sheet meeting of the Supervisory Board, which also took place on 09 April 2015 – 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 drawn up 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 took note of the audit reports, the annual and consolidated financial statements and the combined company and group management report.

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 and the result of the audit, raised no objections on the basis of the results of its own review and approved the annual financial statements and the consolidated financial statements.

The annual financial statements of Biofrontera Aktiengesellschaft were thus adopted.

The Supervisory Board report was adopted at the balance sheet meeting held on 09 April 2015.

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 in line with the recommendations of the German Corporate Governance Code for 2014. Further information on corporate governance is available in the corporate governance report and online at www.biofrontera.com, in the "Investors"/"Corporate Governance" section. Details of the Supervisory Board's objectives regarding its composition and the status of implementation are also provided there.

Conflicts of interest

Ms. Kluge and Dr. Granzer advised the company in 2014 in capacities going beyond their membership of the Supervisory Board. Ms. Kluge provided support to the company in particular regarding preparation of marketing activities in the US. Dr. Granzer assisted the company with the implementation of the US approval's regulatory processes, in particular during the preparation of meetings with the FDA and the creation of the registration dossier. When deciding on the assignment of such tasks, Ms. Kluge and Dr. Granzer abstained from voting respectively, in order to avoid any appearance of a conflict of interest. There is no evidence of any conflicts of interest, which the Supervisory Board must be notified of 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 Aktiengesellschaft and the Biofrontera Group for their great dedication during the past financial year.

Leverkusen, 09 April 2015

Jürgen Baumann

- Chairman of the Supervisory Board -

Combined Company and Group Management Report on 31 December 2014

1. Fundamentals of the Group

1.1. Group structure and business model

The report for the 2014 financial year, compiled in accordance with DRS 20, reports on the company's and the group's position and describes the business development of the group (hereinafter also referred to as "Biofrontera" or "Biofrontera Group"). This group consists of a parent company, Biofrontera AG, and four wholly owned subsidiaries, Biofrontera Bioscience GmbH, Biofrontera Pharma GmbH, Biofrontera Development GmbH and Biofrontera Neuroscience GmbH. All companies are based at Hemmelrather Weg 201, 51377 Leverkusen, Germany.

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

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

Biofrontera pursues the traditional business model of a pharmaceutical company, thus covering the entire value creation chain, from research and development through to the marketing of its own products. Cooperation partners have taken over marketing activities in other European countries for the most part. The production of the products is outsourced.

1.2. Group strategy

The strategic objective of the Biofrontera Group is to establish the company as a pharmaceutical company specialising in the dermatological sector. In addition to further expansion of business in Germany, the main priorities are to increase the range of indications for existing products and to expand international sales activities.

Biofrontera was the first smaller German company to receive a centralised European drug approval for a completely independently developed drug, Ameluz®. In the months prior to the market launch of Ameluz®, the company's own sales division was gradually developed, and since its launch in February 2012, Biofrontera has been selling Ameluz® to dermatologists in

Germany through its own field sales team. The drug is distributed in other European Union member states, Israel and Switzerland by licensing partners.

Biofrontera has thus established itself as a specialist pharmaceutical company with unusually high research and development expertise compared to the industry as a whole. The focus of the Group's strategy is to further expand its business in Europe, achieve market entry of Ameluz® in the US and extend the indication to include basal cell carcinoma, first in the EU and in a further step in the USA.

The approval for Ameluz® in the USA was prepared for submission in the reporting year. The clinical part of the registration package was successfully completed. Since Ameluz® and BF-RhodoLED® must be approved in the USA as a combination of a drug product and a medical device, the approval application is unusually complex. The submission of the registration dossier to the FDA (food and drug administration = licensing authority in the USA) is scheduled for Q2 2015. Once the approval has been issued, which is expected approximately 12 months after submission of the application, Biofrontera will have access to the largest healthcare market in the world.

The extension of the indication of Ameluz® to basal cell carcinoma was also initiated in 2014. The clinical testing of phase III is currently ongoing in direct comparison with the competitor product Metvix®. The latter has a competitive advantage over Ameluz® with its approval to treat both basal cell carcinoma and actinic keratoses. In particular in those European countries, in which PDT is mainly established as hospital discipline and less in the registered physician's sector, the market success of Ameluz® is significantly reduced as a result. With the desired indication expansion, Biofrontera thus promises a significantly improved market position. Biofrontera is striving to achieve extension of the indication in the first half of 2016.

1.3. Products

1.3.1. Ameluz®

Ameluz® 78 mg/g Gel ("for those who love light", development name: BF-200 ALA) received a first centralised European approval for the treatment of mild and moderate actinic keratoses on the face and scalp in December 2011. Actinic keratoses are superficial forms of skin cancer, and there is a risk that they can spread to deeper layers of skin. The combination of Ameluz® with light treatment is an innovative approach that constitutes a form of photodynamic therapy (PDT). The product information approved by the European approval authority, the EMA, explicitly mentions the significant superiority of Ameluz® compared to its direct competitor product in terms of removing all of a patient's keratoses.

In the phase III trials relevant to approval, Ameluz® showed excellent healing rates and demonstrated significant superiority to the approved comparison medication, which was tested in parallel to it. In the first phase III trial, which involved the drug being combined with an LED lamp, all keratoses were completely removed for more than 87% of patients treated with Ameluz® (all values specified here are ITT, *Intent to Treat* values). When counting individual keratosis lesions, no fewer than 96 % were completely eradicated. In the second phase III trial relevant to approval, the effectiveness of Ameluz® was tested in comparison with an already approved standard medication. The results of the trial provided evidence that Ameluz® was clearly superior to the competitor drug available in Europe. Based on the average for all lamps used in the treatment, Ameluz® resulted in complete healing of actinic keratoses in 78% of patients, whereas the already approved rival product at that time achieved a healing rate of only 64%. With LED lamps, the healing rates were as high as 85% for Ameluz® and 68% for the competitor product. The side effect profile was comparable for both preparations.

Since approval in the USA requires a combination of medication and lamp therapy, Biofrontera has its own PDT lamp, BF-RhodoLED®, developed and CE-certified in the EU. In preparation for the USA approval, a phase III study with the combina-

tion of Ameluz® and BF-RhodoLED® was carried out and completed in the reporting period. With this combination, 91% of patients were completely cured of keratoses. When counting individual lesions, no fewer than 94 % were completely eradicated. As it has been reported in the literature that PDT has pronounced skin rejuvenating properties, in particular with regard to sun-damaged skin, the medication was applied over large surface areas and the cosmetic result was determined in a phase III study on PDT which was the first of its kind in the world. In the double-blind comparison with the placebo group, very significant skin rejuvenation was detectable after the Ameluz® treatment. Although the skin appearance was rated as good or very good in only 35% of the patients in the placebo group, this was the case in 67% of the patients after treatment with Ameluz®. Conversely, an unsatisfactory or damaged skin appearance was only found in 10% of the patients after the Ameluz® treatment, while this was still the case in 42% of the patients in the placebo group.

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

Actinic keratosis is classified as a tumour that requires treatment, and the international treatment directives list photodynamic therapy as the gold standard for the removal of actinic keratosis, particularly for patients with large areas of keratoses. The latest statistics show that actinic keratosis is becoming a widespread disease, with 8 million people affected in Germany alone, and that there is a marked upward trend in cases. Subclinical and mild actinic keratosis can develop into life-threatening squamous cell carcinomas, and this happens to the relevant lesions within two years on average. The fact that doctors are taking actinic keratosis more and more seriously is illustrated by the fact that actinic keratosis has been recognised as an occupational illness since summer 2013. Since then, occupational insurance associations have been obligated to cover the treatment costs of patients who have mainly worked outdoors for a long period and who fulfil certain criteria, for the duration of these patients' lives. However, to date, the remuneration process has not yet been defined, but this is expected to happen in 2015.

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

The market for topical creams continues to grow and the use of legally questionable PDT formulations remains at a high level. Because Ameluz® has a leading position with dermatologists based in Germany, with over 70% of the market share in the PDT proprietary medicinal product market, an increase in sales can and must result from taking market share from the above-mentioned sectors.

By means of intensive information campaigns about the manufacturing and liability risks for both physicians and pharmacists when using formulations, these formulations will be gradually replaced in the medium-term by proprietary medicinal products. Using an awareness plan to provide further training to doctors, physicians with a preference for topical applications will be given a better understanding of PDT as a treatment option. Both marketing concepts are geared to long-term success.

The overall advantages of Ameluz® in terms of effectiveness, handling, user friendliness and cosmetic results, as well as the clear superiority of PDT in the treatment of actinic keratoses, will encourage dermatologists to focus on this treatment option in the future. This will be helped by the expansion of the range of indications to include basal cell carcinoma, which

the company is currently striving to achieve, as the vast majority of PDT treatments are for this indication, particularly in Great Britain and Spain.

Biofrontera is currently carrying out a phase III study for the extension of the European approval to include the indication basal cell carcinoma (BCC). BCCs are the most common invasive tumours that affect humans and account for approximately 80% of all invasive white skin cancers. About 30% of all Caucasians develop at least one BCC in their lifetime, and cases are increasing rapidly worldwide due to increased exposure to UV light. Surgical removal is the most frequent treatment in Germany but can lead to clearly visible scarring, whereas treatment with photodynamic therapy (PDT), which is an alternative particularly in the treatment of thin BCCs, produces excellent cosmetic results. In the clinical trial, Biofrontera will compare Ameluz® with the competitor product approved for BCC, Metvix®. It has already been demonstrated in the approval studies for the treatment of actinic keratosis that the overall healing rates for patients treated with Ameluz® were significantly higher than those for Metvix®-patients. Patient recruitment for this study is going more slowly than originally planned, but should, however, be completed by April 2015. Thus the clinical part of the study would end in October 2015 and the approval extension could be submitted to the EMA by the end of the year. Such an extension will theoretically take three months. This period may, however, be interrupted by questions from the EMA.

1.3.2. BF-RhodoLED®

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

1.3.3. Belixos®

Belixos® is a medical skin care product with herbal ingredients for the regeneration of damaged skin. The Belixos® skin cosmetics range combines selected extracts of traditional medicinal plants with a modern formulation technology.

In October 2009, Belixos® cream was launched in this range - it was initially available from an online shop and later in pharmacies. The Belixos range was extended in February 2014 with the addition of Belixos® liquid and in December 2014 with the addition of Belixos® gel. In conjunction with this expansion, sales via the dedicated online shop were discontinued. Instead, the products are now available for sale at the largest German online retailer Amazon.

The innovative biocolloid technology and specific combination of high-quality herbal ingredients should set new standards in the very competitive medicinal cosmetics market. The combination of caring and regenerative effects should reduce the need for medical treatment and its side effects in people who suffer from itchiness or chronic ailments, such as atopic dermatitis or psoriasis.

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

Belixos® Liquid treats the problems of itchy and flaky scalp with a combination of anti-inflammatory mahonia, moisturising oats and a zinc PCA complex, which effectively fights the causes of itching and flaky scalp. Zinc PCA also helps to regulate

sebaceous buildup on the scalp, which is highly susceptible to greasiness. Urea moisturises the skin, and panthenol has soothing and regenerative properties.

The new Belixos® gel with mahonia and cinnamon bark was developed for the care of skin that is vulnerable and prone to redness and skin blemishes. In the case of rosacea and acne, it cools the skin and reduces redness. The cinnamon extract in Sepicontrol A5 complex opens closed pores and prevents new blemishes.

The development pipeline for further expansion of the Belixos® range currently includes Belixos® Protect, a day cream with protective anti-aging properties designed especially for photo-damaged skin, and Belixos® to go, a roll-on pen for people on the move that is thus available at any time for treating insect bites or incipient Herpes cold sores.

1.4. Sales and marketing

With its central European approval, Ameluz® can be sold and distributed in all EU countries as well as in Norway, Iceland and Liechtenstein. In many European countries, however, the price and reimbursement status must still be established before market launch, which can be a very lengthy process. To date, the company has commenced sales and distribution in Germany, UK, Spain, Austria, The Netherlands, Denmark, Sweden, Norway and Slovenia. The new drug is available in these countries at a pharmacy retail price of between just under EUR 200 and approx. EUR 280 per 2g tube.

In Germany, Ameluz® is marketed by Biofrontera's own sales force, while in other European countries it is promoted with the help of marketing partners. Biofrontera resumes distribution activities in the UK and Slovenia, but is supported in local marketing by companies based there. Distribution to public pharmacies takes place via pharmaceutical wholesalers, whereas hospital pharmacies are supplied directly. In addition to regular sales force visits to dermatologists, Biofrontera has presented Ameluz® at the major dermatological conferences in Germany since it was launched. The response from dermatologists has been extraordinarily positive. A comparison of 2013 and 2014 shows that Biofrontera has achieved a significant increase in sales of more than 27% in Germany. The market share of tube-based Ameluz® is now consistently at over 70%, with the remaining roughly 30% being held by the competitors, Metvix® and Alacare®. In spite of this, Ameluz® still only has a small share of the actinic keratosis market as a whole, because, according to Biofrontera's own estimate, only approximately 5% of patients are treated with proprietary medicinal products for photodynamic therapy (PDT). However, although PDT achieves by far the highest healing rates, the complexity of the treatment and the time required by medical practices to administer it have so far prevented significant market penetration in the public health insurance industry, as physicians do not receive any compensation for performing PDT in this industry. An information video for patients on this subject has been uploaded to YouTube (in German at http://www.youtube.com/watch?v=aK4a3R5kqMA, and in English at http://www.youtube.com/watch?v=2xEO8DWCO8o).

Approval for basal cell carcinoma is a pre-requisite for the distribution of Ameluz® to hospitals, as basal cell carcinoma is mainly treated there, whereas this is less the case for actinic keratosis. This indication plays an essential role for the breakthrough of Ameluz®, in particular in European countries. Basal cell carcinoma is the most common infiltrating tumour in humans: in the US alone, approx. 2.8 million basal cell carcinoma treatments are carried out annually, and European figures are comparable. As basal cell carcinoma is also triggered by lifelong UV exposure, this number is rapidly rising. Compared with the surgical procedures that are most commonly used today, photodynamic therapy offers significant advantages, particularly for thin tumours. According to a market study recently published by Technavio, the international pharmaceutical market for actinic keratosis is expected to grow by approx. 8% annually, from its current level of USD 546 million to USD 942 million in 2020. However, during the same period, the pharmaceutical market for basal cell carcinoma is expected to

grow at a phenomenal rate from approx. USD 236 million today to nearly USD 5 billion, because the availability of new pharmaceuticals (Ameluz® is mentioned in this context) will mean that fewer and fewer patients undergo operations.

Ameluz® is marketed by Desitin Arzneimittel GmbH in Denmark, Sweden and Norway, by BiPharma N.V. in Benelux, and by Pelpharma Handels GmbH in Austria. Biofrontera carries out distribution activities itself in the UK and Slovenia and is supported in marketing aspects by Spirit Healthcare Limited in the UK and by PHA Farmed in Slovenia. Distribution in Spain was run by Allergan in the reporting year, but from March 2015 Biofrontera will be directly responsible for distribution there. Louis Widmer SA has been granted the Ameluz® distribution licence for Switzerland and Liechtenstein, and the Ameluz® distribution licence for Israel has been allocated to Perrigo Israel Agencies LTD. Both agreements were concluded in the reporting period. In these countries, it is necessary to obtain an independent approval, which the above-mentioned distribution partners are currently preparing in cooperation with Biofrontera.

The contracts with the responsible distribution partners have been concluded in such a way that Biofrontera has received no or only a modest down-payment, and the regional partners purchase Ameluz® from Biofrontera at a price that is coupled to their own sales price. Depending on the market conditions, Biofrontera's share of the sales price varies considerably from country to country, ranging between 30% and 65% of net sales.

Biofrontera previously signed a distribution agreement with Allergan Pharmaceuticals for Spain. As part of the acquisition of Allergan S.A. by Actavis in autumn 2014, Allergan and Biofrontera have agreed that the distribution rights to all Biofrontera products in Spain will return to Biofrontera with effect from 17 March 2015. In light of previous experience, Biofrontera has decided to carry out distribution in Spain from that time onwards with its own branch under the name of Biofrontera Pharma GmbH, sucursal en España.

For France, Biofrontera has prepared the application for eligibility of Ameluz® with the help of a specialised consulting company and will submit the application after the responsibilities for the pharmacovigilance of this application have been clarified.

A decision on the business model for sales in the USA is to be taken in the course of the 2015 financial year. With the help of a "Market Access" consulting company and a scientific advisory team, Biofrontera has started analysing the drug market for actinic keratoses and the reimbursement schemes in the American health care system. In so doing, Biofrontera can fall back on experience with a competitor product Levulan Kerastick® from the company Dusa Pharmaceuticals Inc. Whether the distribution is carried out in the form of a collaboration with another company or by Biofrontera itself depends on the commercial conditions that are achievable with suitable partners, and on the availability of the required assets to build a US branch. Although the second approach would first require further investment, Biofrontera could record all sales and profits in its own profit and loss account in such a model in the long term, and could thus probably lay the foundation for a considerably higher company valuation. A decision should be taken at such a time that preparations can be made to enter the market in good time after receiving the approval.

In conjunction with the expansion of the Belixos® product range, marketing efforts have been gradually realigned and intensified. In addition to promotion among physicians by Biofrontera's field service staff and selected print advertisements in target group-oriented professional magazines, focus will be placed on content marketing and trading on the Internet. Since February 2014, Belixos® has been promoted on Facebook (www.facebook.com/belixos) and now has over 6000 fans there, who regularly receive informative posts concerning topics relating to healthy and beautiful skin, in addition to the offers on the Belixos homepage. Furthermore, Facebook is also being used to advertise Belixos® products to target groups beyond the fan base there. In addition to this, topics relating to Belixos® have been posted on Pinterest, a high-quality image content-based social network, since August 2014. The online trading platform Amazon has established itself as an important distribution channel for the product range, with it enjoying continuously increasing sales figures since the sales launch of Belixos® via that channel in July 2014. The extremely high customer satisfaction is reflected on the site in

the continuous excellent ratings on the Belixos® products, which contribute significantly to the strengthening of brand trust and awareness.

1.5. Research and development

1.5.1. Ameluz®

In research and development (R&D), Biofrontera has focussed on Ameluz® to the greatest extent possible, so as to optimise this product's market potential before other products are developed. The Ameluz® development programme is thus being advanced further through further clinical trials with which a better market positioning can be achieved. Biofrontera expects this to produce an increase in the value of Ameluz®, as the cost/risk ratio in trials involving a drug that has already been approved is considerably more favourable than in development programmes involving new active ingredients.

The study on the indication expansion for basal cell carcinoma already mentioned earlier is currently being carried out.

In addition, Biofrontera is working on preparing the application for approval of Ameluz® in the USA. Following initial exploratory talks with the FDA in July 2012, the next steps in the process have been defined and the time frame along with the costs associated with the approval have been estimated. The trials required by the FDA regarding sensitisation and pharmacokinetics have already been completed. A phase III study required for the FDA approval has also been completed.

In October 2014, a pre-NDA (NDA = New Drug Application) meeting was held with the US Food and Drug Administration. Pre-NDA meetings with the FDA are the final talks held by companies with the authorities prior to the filing of the approval package for a drug product. In preparation of the meeting, the FDA will typically be presented with a summary of the approval documents and possible questions with suggested answers, together with justifications, in writing. Since Ameluz® and BF-RhodoLED® must be approved in the USA as a combination of a drug product and a medical device, the approval application is unusually complex. Accordingly, the company submitted 12 sets of questions to the authorities concerning regulatory, clinical, pre-clinical, manufacturing and quality aspects. Due to the high quality of the documents submitted in preparation for the meeting however, only a few discussion points remained following the assessment of the proposed answers by the FDA. The pre-NDA meeting was thus held as a conference call at the request of the FDA. Agreement was reached on all points during this discussion. In particular, no additional studies were needed. Since then, Biofrontera has been working on the required analyses and their incorporation into the approval dossier.

1.5.2. BF-derm1

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

1.5.3. BF-1

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

After the first results involving humans, which proved the excellent bioavailability and pharmacokinetics of the active agent, further preclinical investigations were carried out concerning the tissue distribution, metabolism and toxicology of the substance. These trials did not yield any critical findings, so there is no reason why further tests on humans should not be carried out. The chemical manufacturing process has been optimised, and the active ingredient required for clinical development has been synthesised, in accordance with the Good Manufacturing Practice (GMP) quality standards.

1.6. Patent and trademark developments since the end of 2013

Biofrontera has a broad portfolio of patents and brands protecting its products from competition. A detailed list is available in the securities prospectus issued on 20 January 2014 on the company's website. Specifically, the patent portfolio was changed in the following ways in 2014:

1.6.1. Ameluz®

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

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

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

1.6.2. Migraines

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

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

1.6.3. Brand development

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

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

2. Economic report

2.1. Market for AK and BCC

According to a market study published a few months ago by Technavio, the worldwide market for medication used to treat actinic keratoses was USD 546 million in 2013. The annual growth rate up until 2010 is estimated at 8% per annum. The largest share by far is applicable to topical medications; medication for treatment with photodynamic therapy plays a lesser role, despite its superior efficacy and better cosmetic results.

The pharmaceutical market for the treatment of basal cell carcinoma (BCC) is set to develop with considerably more dynamism. Although the world market was only USD 236 million in 2013, it is expected to increase to nearly USD 5 billion by 2020. It is expected that the majority of operations performed today will be made redundant and will be replaced by a more cost-effective medical treatment with much better cosmetic results, due to the availability of new medication. This will open up considerable market opportunities for Ameluz® in particular.

2.2. Business Development

2014 financial year for the Biofrontera Group:

- Growth in sales revenue in Germany exceeded 27%
- Only limited sales revenue performance in other European countries as existing stocks of the product were sold-off
- EBIT -9.6 million (-2.8 million compared with previous year)
- Consolidated result before taxes – 10.7 million (-2.7 million compared with previous year)
- Undiluted earnings per share amounted to -0.49€ (previous year: -0.47€)

Sales: Sales increased by 27% in Germany. That nearly corresponds to the desired increase for the whole year in German sales of approximately 30%. Especially in the fourth quarter, significant increases in sales revenue could be achieved compared to the same period in the previous year. Only low sales were recorded in the rest of Europe, as our distribution partners have to order large production volumes with labelling in their respective national languages, and they only make new orders once these quantities have been sold in the respective countries. In 2014, smaller quantities were delivered to our European partners than in the previous year. Overall sales growth outside Germany has therefore declined due to technical reasons and will pick up again considerably in 2015. We expect significant improvements as a result of the extension of approval to include basal cell carcinoma, as PDT in other European countries is carried out primarily in hospitals.

Belixos®: The Belixos® liquid hair tonic has been available in pharmacies and via Amazon since February. The Belixos® gel was introduced in December as well. Sales have increased significantly due to parallel promotion on Facebook. Sales of the Belixos® range roughly quadrupled compared to the previous year, which is well above the internal planning expectations, but the overall volume is still of relatively little relevance to the total sales in the reporting year.

Preparation of the approval application for Ameluz® in the USA: Three clinical trials have been carried out and concluded with the desired result in preparation for submission of the approval application file to the FDA (Food and Drug Administration). These included two safety studies required by the FDA and a phase III study on field therapy of actinic keratosis with Ameluz® in combination with the PDT lamp BF-RhodoLED®. According to FDA rules, it is still necessary to reformat the data

and jointly analyse all the clinical results for the dossier. The submission of the dossier is now envisaged for the second quarter of 2015. Approval is expected to be issued about one year later. The so-called pre-NDA (New Drug Application) meeting, at which significant issues relating to the approval dossier are discussed again, was held at the beginning of October 2014.

Sales and licensing agreements: Biofrontera concluded a licensing agreement with Perrigo Israel Agencies LTD for the approval application and the sale of Ameluz® in Israel in January 2014. Because of Israel's relatively small population, a smaller down payment was agreed here, which will be paid in several instalments. Biofrontera will subsequently receive a transfer price for Ameluz® of a similar size to that obtained in Europe. In May 2014, another licensing agreement was concluded for Switzerland and Liechtenstein with Louis Widmer SA. Biofrontera has also agreed an appropriate down payment and a comparable transfer price with this licensee.

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

2.3.1. Revenue

The Biofrontera Group achieved turnover of EUR 3,096 thousand in the 2014 financial year (previous year: EUR 3,115 thousand). Downpayments of EUR 70 thousand (previous year: 0) are included in this. Revenues from the sale of our products in Germany amounted to EUR 2,379 thousand and foreign turnover was EUR 647 thousand. Sales revenue outside Germany developed only modestly in 2014, as many of our distribution partners had not fully sold off their production lots purchased in 2013 and we therefore received only a few new orders. Although significant progress was made in key countries, and the necessary reimbursement agreements and other agreements were concluded there, the increase in turnover was behind expectations in 2014. We do, however, expect the performance to significantly improve in 2015.

2.3.2. Cost of Sales

The cost of sales amounted to EUR 1,117 thousand and thus 36% of revenues (previous year: EUR 1,604 thousand or 51% of revenues). The structural improvement is primarily attributable to cost savings in the production area. In addition, start-up costs for the fulfilment of requirements for the EMA and the qualification of new suppliers that were incurred in 2013 still had an effect in 2014, but were lower.

2.3.3. Research & Development Costs

Research and development costs increased by 42%, from EUR 3,186 thousand in the previous year to EUR 4,534 thousand in the 2014 financial year. In line with its strategy, Biofrontera has increased its investment in research and development in order to enable an expansion of the above-mentioned indications as well as approval for Ameluz® in the USA.

2.3.4. Sales & Marketing Costs

The sales & marketing costs amounted to EUR 3,847 thousand in 2014 (previous year: EUR 3,036 thousand). Cost increases arose from investments in the market access for other European countries and for marketing preparation in the USA.

2.3.5. General Administration Costs

General administration costs increased by EUR 698 thousand compared to the previous year, to EUR 3,124 thousand, primarily due to financing costs.

2.3.6. Financial result

The interest expenses included in the financial result, which amount to EUR 1,290 thousand, are almost entirely the result of interest payments for the two warrant bonds, and of the compounding of interest on the two warrant bonds using the effective interest method. Interest payments for the 2014 calendar year for the warrant bonds I and II occurred in January 2015.

2.3.7. Investments

The increases in intangible assets and property and equipment in the reporting period resulted primarily from the acquisition of further rights of use in connection with the prototype of the PDT lamp (EUR 77 thousand, previous year: EUR 1 thousand) as well as the capitalisation of the expenses associated with the storage facility (EUR 22 thousand; previous year: EUR 0).

2.3.8. Inventories

Inventories amounted to EUR 1,394 thousand (31 December 2013: EUR 1,585 thousand). These included: finished products (Ameluz®) amounting to EUR 284 thousand, the BF-RhodoLED® lamps and Belixos® products recorded in the company's own inventories, which amounted to EUR 245 thousand and EUR 46 thousand respectively, and unfinished products, raw materials and supplies amounting to EUR 792 thousand.

2.3.9. Receivables

Receivables were reduced by EUR 269 thousand, from EUR 578 thousand on 31 December 2013 to EUR 309 thousand. This reduction is partly the result of the restructuring of receivables with shorter payment terms. It is also attributable to consistent receivables management.

2.3.10. Share capital

On 31 December 2014, the fully paid-up share capital of the parent company, Biofrontera AG, was EUR 22,196,570.00. It was divided into 22,196,570 registered shares, each with a nominal value of EUR 1.00.

On 31 December 2013, the share capital amounted to EUR 17,753,168.00, and it was increased in the course of 2014 by EUR 4,443,402.00, divided into 4,443,402 registered shares (see subsection 7.3, "Share capital"). Biofrontera AG shares have been listed on the Regulated Market of the Düsseldorf Stock Exchange since 2006 and on the Regulated Market of the Frankfurt Stock Exchange since August 2012. In addition, since 03 June 2014, the company's shares have been traded in the Prime Standard segment of the Frankfurt Stock Exchange. They are also admitted to trading on the Alternative Investment Market (AIM) of the London Stock Exchange, and are traded on the computer trading system Xetra and all other German stock exchanges.

2.3.11. Group Equity and Equity

According to IFRS, the group has negative equity amounting to EUR -21 thousand. As at 31 December 2014, Biofrontera AG had positive equity of EUR 65,847 thousand. There is no over-indebtedness in the legal sense at the two subsidiaries Biofrontera Bioscience GmbH and Biofrontera Pharma GmbH, as their balance sheet insolvency is remedied by qualified letters of subordination from Biofrontera AG.

2.3.12. Financial position and cash flows

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

For more details of the development of the company's equity capital, see the equity reconciliation statement.

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

In both 2013 and 2014, capital increases were implemented in order to provide further financing for the company. Equity proceeds were significantly higher in 2014 than in 2013. Therefore, cash flow from financing activities rose from EUR 7,116 thousand to EUR 13,425 thousand.

For more details of the consolidated cash flow statement, see Annex 4.

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

A capital increase against cash contribution was implemented in the reporting period. 4,438,292 new shares were issued as part of this, and the increase was registered in the commercial register on 06 February 2014. The capital increase was offered to all shareholders as a rights offering with the option to oversubscribe, and it was fully subscribed.

Furthermore, the share capital was increased by the issuing of 5,110 shares from the exercising of warrants from the 2011-2016 warrant bond.

2.4. Achievement of objectives in 2014

Achievement of objectives in 2014:

	Outlook for 2014	Reduced outlook in Nov 2014	Achievement of objectives on 31 Dec 2014
Revenues	EUR 5-6 million	EUR 3.0-3.5 million	EUR 3.1 million
Research and development costs	EUR 7-8 million	less than EUR 7 million	EUR 4.5 million
Net profit/loss before tax	EUR -10 million to -11 million	EUR -10 million to -11 million	EUR -10.7 million

In the forecast for 2014, turnover of EUR 5 to 6 million was expected. In Germany, revenue from product sales increased by more than 27% compared with the previous year, so the objective in the plan was nearly achieved. However, it was also planned that there would be a one-time license payment from other European licensees, amounting to EUR 1 million in the year as a whole. In France in particular, the restrictive conditions imposed by local health authorities meant that it was not possible to conclude a licensing agreement under economically reasonable conditions as planned. Therefore, Biofrontera decided to submit its own application for reimbursement coverage, and then to decide upon its marketing strategy and the necessity for a licensee. Furthermore, there were still problems with market penetration in other European countries. The continuing absence of the indication basal cell carcinoma for Ameluz® represents a greater impediment to sales performance in some European countries than either the company or its licensees assumed at the beginning of the year. Hence, sales in other European countries were lower than expected in 2014.

Biofrontera also continued to invest heavily in research and development and regulatory affairs in 2014, in order to expand the indications for Ameluz® - to include basal cell carcinoma in particular - and to obtain approval in the USA. However, thanks to our cost savings, our research and development expenses increased far less than had been forecasted at the beginning of the year.

Our net loss before taxes of EUR -10.7 million lay within the predicted range.

2.5. Staff

2.5.1. Management Board

The Management Board comprises Professor Hermann Lübbert (Chief Executive Officer) and Mr Thomas Schaffer (Chief Financial Officer).

The remuneration of the Management Board members consists of a fixed salary that is paid in twelve equal monthly instalments. In addition, an annual performance bonus is provided for directors, and long-term remuneration components are provided to participants in the company's stock option programme. Company cars are also available to the directors for business and private use.

2.5.2. Staff

On 31 December 2014, 46 employees worked for the Biofrontera Group (31 December 2013: 38). Of these, 16 were employed at Biofrontera AG (31 December 2013: 13), 6 at Biofrontera Bioscience GmbH (31 December 2013: 4) and 24 at Biofrontera Pharma GmbH (31 December 2013: 21). No staff are employed at Biofrontera Development GmbH or Biofrontera Neuroscience GmbH.

2.5.3. Employee stock option programme 2010

In order not to be at a disadvantage in the future regarding staff recruitment and retention, the company must continue to be able to offer share and/or securities-based remuneration. Moreover, in accordance with the German act concerning the appropriateness of management board remuneration, such schemes must be linked to the long-term success of the company. As the stock option programme approved by the Annual General Meeting of the company on 24 May 2007 could not be used, the Annual General Meeting held on 02 July 2010 granted the Management Board and the Supervisory Board the authorisation to issue, within the next 5 years, up to 839,500 options to directors and employees. Further provisions and conditions of this programme were specified in the invitation to the Annual General Meeting and are available on the company's website.

On 24 November 2010, 106,400 options (first tranche) were issued with an exercise price per share of EUR 1.91. On 30 September and on 07 October 2011 (second tranche) a further 96,400 options were issued with an exercise price of EUR 2.48 each. On 23 March 2012 and 11 May 2012 (third tranche) 65,000 options were issued with an exercise price of EUR 3.30 each, and 51,500 options were issued with an exercise price of EUR 4.09 each. On 02 September 2013, 179,500 options were issued (fourth tranche) with an exercise price of EUR 3.373 each. On 02 April 2014 159,350 options were issued at an exercise price of EUR 3.43 each. Altogether, 115,750 options were forfeited by employees leaving the company. There were therefore still 181,350 options outstanding on 31 December 2014. Recorded expenses for the 2014 financial year amounted to EUR 113 thousand.

2.5.4. Supervisory Board

As a result of the resolution passed by the Annual General Meeting held on 10 May 2011, the following Supervisory Board members were appointed for five years:

Jürgen Baumann	Chairperson of the Supervisory Board, expert in the field of sales and marketing of pharmaceuticals, resident in Monheim, Germany
Prof. Bernd Wetzel	Deputy Chairperson of the Supervisory Board; advisor, resident in Biberach/Riss, Germany
Dr Ulrich Granzer	Owner and Managing Director of Granzer Regulatory Consulting & Services, resident in Krailling, near Munich, Germany
Ulrike Kluge	Managing partner of klugeconcepts GmbH, Cologne; resident in Cologne, Germany
Andreas Fritsch	Sales/strategy manager of Alfred Wieder AG, Pullach, and managing director of Unternehmensberatung Fritsch, Seefeld; resident in Seefeld, near Munich, Germany
Alfred Neimke	Managing director of Kopernikus AG in Zurich, Switzerland, resident in Zurich, Switzerland

3. Supplementary report

Events of special significance occurring since 31 December 2014

On 17 March 2015, the rights to sell Biofrontera products in Spain were transferred back to Biofrontera by Allergan. Since then, Biofrontera has sold its products in Spain through its own branch, Biofrontera Pharma GmbH, sucursal en España.

March 2015 also saw the establishment of a subsidiary in America, Biofrontera Inc., which is based in Wilmington, DE.

Following a decision of the Supervisory Board on 27 March 2015 the service contract with the CEO Prof Hermann Lübbert was extended by five years until 31 October 2020.

4. Risk, opportunity and forecast report

4.1. Risk management system

The risk and opportunity management system for the Biofrontera Group applies equally to Biofrontera AG. By virtue of its holding function, Biofrontera AG manages all legally independent entities within the Biofrontera Group. Therefore, risks and opportunities need to be assessed on a uniform basis throughout the entire group.

The primary objective of the Biofrontera Group is to grow sustainably and thus to increase the company's value on a consistent basis. Risk management plays a major role in the achievement of this objective. At Biofrontera, risk management involves the identification of risks that could do lasting or significant harm to the company's financial position, cash flows and results of operations, as well as the responsible analysis and monitoring of these risks, and the adoption of suitable countermeasures. To this end, it is necessary to establish guidelines, organisational structures and measuring and monitoring processes that are specifically geared to the Biofrontera Group's activities.

Correspondingly detailed risk prevention measures are a prerequisite for fully exploiting the opportunities that arise from the risks to Biofrontera's business activities. In the 2014 financial year, Biofrontera's existing risk management structures were developed further, within the framework of the quality management system required for pharmaceutical manufacturers and entrepreneurs and medical device manufacturers. This system incorporates sales and marketing activities, as well as the international responsibilities of a recipient of approval for the manufacture and sale of drugs, medical devices and cosmetics.

4.2.The management of opportunities and risks at Biofrontera

The Biofrontera Group's risk management system is incorporated into the group's corporate processes and decisions, so it is an integral part of the entire group's planning and controlling processes. Risk management and control mechanisms are harmonised with each other. They ensure that risks relevant to the company can be identified and assessed at an early stage. At the same time, they enable the company to seize possible opportunities quickly.

Biofrontera's approach to risk management is both centralised and decentralised. Risks and opportunities are regularly identified, evaluated and analysed at every hierarchical level. All managers in the group are involved in the company-wide risk policy and the associated reporting tasks. This includes the Management Board, the general managers of the group affiliates, and the process and project managers.

The Risk Management Team, under the leadership of the Chief Executive Officer, is responsible for the centrally organised risk management system. It coordinates the individual governing bodies, and it ensures that they continually receive the information that they need in a timely manner. The Risk Management Team is also responsible for the continuous monitoring of risk profiles, for initiating risk prevention measures, and for the corresponding monitoring instruments. The Biofrontera Group management holds regular meetings in which the group's central and operational departments can exchange information relevant to risk management at all levels.

The Risk Manager is the contact person for the entire group, as well as being a member of the Risk Management Team. If unforeseen risks arise, he/she immediately adopts the necessary measures to counteract these risks.

It is his/her responsibility to develop the risk management system further, and to ensure that it is properly documented in the risk manual. Furthermore, the Risk Manager sets uniform standards and ensures that similar types of risk management processes are implemented throughout the Biofrontera Group. Regular analysis of key business performance figures helps to ensure that any possible discrepancies from expected performance levels can be identified and assessed at an early stage, and that necessary countermeasures can be adopted in good time. Sales activities for Ameluz®, including the PDT lamp, and Belixos® are subjected to comprehensive monitoring. In this context, risk planning and identification are implemented in cooperation with the relevant department managers. The structure and function of the early risk detection system are assessed by the auditor.

4.3. Risks and opportunities for future business performance

The Biofrontera Group is striving to achieve its strategic objectives - in particular, to sell its own products in a number of countries, to identify sales partners, and to obtain approval for its development projects. It has already obtained European approval for Ameluz®, which gives it the opportunity to grow rapidly and become highly profitable.

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

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

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

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

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

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

4.3.1. Patent protection

Patents guarantee the protection of our intellectual property. If our products are marketed successfully, the resulting profits can be used for sustainable ongoing investment in research and development activities. Because of the long intervening period between the patent application and the launch of a product, Biofrontera generally has only a few years to earn reasonable income reflecting its intellectual input. This makes it all the more important for the group to receive effective and secure patent protection. The majority of our products are subject to patent protection. If a patent expires, or we cannot successfully defend it, we generally face the prospect of increased competition and price pressure resulting from the market entry of generic drug suppliers. Moreover, third-party claims regarding Biofrontera's potential infringement of patents or other protective rights may hinder or completely prevent the development or manufacturing of certain products, and may obligate us to pay damages or royalties to third parties. Our patent department regularly reviews the current patent situation, in cooperation with the relevant operational departments, and monitors possible patent infringement attempts, so that it can take suitable legal steps if necessary. We consider it unlikely that patent risks will arise. Biofrontera is not aware of any patent infringement claims lodged by third parties.

4.3.2. Products and product stewardship

Biofrontera assesses potential environmental and health risks associated with a product along the entire value creation chain. This includes every stage from research and development to disposal, including production, marketing and customer use. Although comprehensive trials are carried out prior to approval, it is possible that some or all of our products will subsequently be withdrawn from the market for various reasons, including the occurrence of unexpected side effects. Sales may be stopped voluntarily or as a consequence of legal or official measures. Possible payments of damages associated with the risks described above could have a considerable negative effect on the company's result. Because no previously unknown drug side effects have appeared, we consider it highly improbable that risks of this kind will arise.

4.3.3. Procurement

Commodity purchase prices may vary considerably, and they cannot always be passed on to our customers through price adjustments. The safety and tolerance of our products, and the protection of our employees and of the environment, are key priorities. Risks associated with the manufacturing, bottling, storage and transport of products may result in personal injury or material or environmental damage, and may give rise to an obligation to pay damages. In this regard, Biofrontera is dependent to some extent on individual suppliers. Using our own audit and monitoring system, we regularly ensure that the manufacturing conditions at our most important suppliers meet the required standard. This enables us to avoid such risks and damages. We have already found two new suppliers of the agent aminolevulinic acid, whose manufacturing processes have been approved by the EMA. Biofrontera is the owner of the Drug Master Files for one of the two manufacturers. This will ensure that the company continues to receive a reliable supply of aminolevulinic acid.

4.3.4. Staff

Qualified and dedicated staff are a key prerequisite for the company's success. To this end, competitive remuneration and extensive training and development opportunities are essential. Furthermore, we have adopted a diversity-orientated HR policy in order to tap the full potential of the labour market. To date, Biofrontera has always succeeded in acquiring the qualified staff necessary for the company, so the company also regards this area as having a low risk.

4.3.5. Information technology

The group's business processes and internal and external communication are increasingly based on global IT systems. A significant technical malfunction or total failure of IT systems could result in the severe impairment of our business processes. It is of fundamental importance to us that both internal and external data must be confidential. If the confidentiality, integrity or authenticity of data or information is lost, this could result in the manipulation and/or uncontrolled outflow of data and know-how. We have adopted appropriate measures to counteract this risk, e.g. a comprehensive rights concept. The measures adopted by the company have always proven to be adequate to date, so this risk must also be regarded as low.

4.3.6. Law and compliance

The group may be subjected to legal disputes or proceedings in the future. In particular, this includes risks arising from product liability, antitrust law, competition law, patent law, tax law or environmental protection. Inquiries and investigations on grounds of infringements of statutory or regulatory provisions may result in criminal and civil sanctions, including considerable fines or other financial disadvantages, and these may damage the company's reputation and ultimately have a negative effect on the company's success.

4.3.7. Liquidation risk

Liquidation risks arise from the possibility that the group will be unable to fulfil existing or future payment obligations on account of insufficient funds. We calculate and manage the liquidity risk in our weekly and medium-term liquidity planning sessions. Payment obligations arising from financial instruments are defined separately, based on their due dates, in the consolidated financial statement.

In order to ensure the ability to make payments, liquid funds are kept available so that all the group's scheduled payment obligations can be fulfilled on their respective due dates. The size of this liquidity reserve is regularly reviewed and, if necessary, adjusted in line with current circumstances.

To date, Biofrontera has always succeeded in providing the necessary financing for business operations through injections of equity. Thanks to the capital increase in 2014, the company currently has sufficient liquidity at its disposal. However, until the company has reached the break-even point, and particularly with regard to US approval, the company will continue to require further capital increases.

The value of the group's receivables and other financial assets may be impaired if transaction partners do not meet their payment obligations or other fulfilment obligations.

Because of the Management Board's successful experiences with corporate capital actions, the Management Board acts on the assumption that the necessary liquidity for further business development is guaranteed for the forecasting horizon and

beyond. In the case and against all expectations that this valid estimations could not be realized, this could lead to a fact endangering the going concern assumption.

4.4. Legal disputes

After the business relationship with the Swiss-based company, Biosynth AG, had been terminated, the latter asserted claims against Biofrontera AG. Biosynth used to supply the Biofrontera Group with the agent 5-aminolevulinic acid hydrochloride (ALA). In late 2011, as part of the approval process, the European Medicines Agency (EMA) formulated requirements for the ALA used in Ameluz®. These requirements referred to the GMP (Good Manufacturing Practice) standards required by the EMA for the ALA manufacturing process. The EMA sets deadlines for the implementation of the necessary manufacturing standards.

Even now, however, Biosynth has still not fulfilled these requirements.

Therefore, the Biofrontera Group was forced to rely on other suppliers, which are now GMP-certified suppliers of ALA. The changeover was accomplished without any problems, and there have been no supply shortages.

On 20 August 2014, the Management Board of Biofrontera AG filed an action for a declaration of non-infringement against Bioysnth. By filing this action, Biofrontera AG refuted Biosynth's claims that a joint enterprise had been established for the production and marketing of Ameluz®. Biosynth had asserted claims to this effect, albeit only after the business relationship had been terminated by Biofrontera in 2014, even though the terminated business relationship was based only on a supply agreement which did not subject the Biofrontera Group to any obligation to accept delivery. Hence, in the view of the Management Board of Biofrontera AG, Biosynth had tried to put pressure on Biofrontera AG by asserting groundless claims, in order to obtain excessive financial concessions. In order to provide the necessary protection for the interests and assets of the company and its shareholders, Biofrontera had no choice but to resolutely oppose these claims.

After the action was filed, the two parties engaged in dialogue, which enabled them to reach an out-of-court settlement. Biosynth claimed that the requirements set by the European Medicines Agency (EMA), as included in the ad-hoc communication of 20 August 2014, were formally addressed to the Biofrontera Group as the applicant, and not to Biosynth. After its collaboration with the Biofrontera Group was terminated in February 2014, Biosynth did not follow up the EMA's requirements for the approval of Ameluz®. In Biosynth's view, the EMA's GMP restrictions affect the agent manufactured by Biosynth, 5-aminolevulinic acid hydrochloride (ALA), only insofar as it is used in Ameluz®, the Biofrontera Group's drug, because Biosynth holds a GMP certificate issued by the competent Swiss authority, Swissmedic, which also applies to the EU pursuant to agreements between the EU and Switzerland. As part of the resulting agreement, the Biofrontera Group and Biosynth renounced all claims against each other. The agreement does not subject either the Biofrontera Group or Biosynth to any mutual financial obligations. The previous business relationship was terminated by mutual agreement. Consequently, Biofrontera withdrew the non-infringement action filed against Biosynth.

4.5. Forecast report (outlook)

In order to support the further expansion of sales of Ameluz® in the European Union, Biofrontera is currently working towards the objective of extending the European approval to include broad area therapy and the indication basal cell carcinoma (BCC). To this end, the necessary phase III trial on field therapy has already been concluded, and it obtained very good results. In addition, the phase III trial on the treatment of basal cell carcinoma will probably be concluded before the end of the year. According to the current schedule, we expect to apply for the approval of the inclusion of field therapy by mid-2015, and for the approval of the inclusion of BCC during the first half of 2016.

We have already reached the first milestones on the path towards drug approval in the USA. The first consultation session with the American approval authority, the FDA, took place in 2012, and in October 2014 we had the final discussion before the submission of the approval application, i.e. the pre-NDA meeting. The approval application is currently being prepared and is scheduled for submission in the second quarter of 2015. As already discussed at length in subsection 1.4, Biofrontera will decide upon the business model to be adopted for the US market during 2015.

Forecast of key financial figures

For the 2015 financial year, Biofrontera expects to achieve turnover of approximately EUR 4 to 5 million, though this is still subject to significant planning uncertainties relating primarily to the speed of market penetration. In Germany, as in 2014, we envisage an increase in turnover of approximately 30% compared with the previous year. It is still very difficult to predict the increase in sales in other European countries, which means that the achievable revenue could be anywhere within a wide spread. The turnover forecast here does not include any additional licensing agreements with possible one-time payments. Moreover, the plans for 2015 do not take into consideration any down payment that may be made by a possible US sales partner, nor do they consider any additional costs that may be incurred if the company establishes its own sales division in the USA.

In order to extend the range of indications, and to receive approval for the USA, Biofrontera will continue to invest heavily in research and development and regulatory affairs in 2015. Therefore, we expect development expenses to remain at the same level, i.e. EUR 4 - 5 million.

Biofrontera does not plan to make any significant investments in tangible assets in 2015.

The financial result reflects the interest payments and compounding of interest using the effective interest method for the two warrant bonds. Therefore, this will not significantly change in 2015 compared with 2014.

With the above-mentioned conditions and forecasts, the company will achieve a net result of EUR -9 to - 10 million in 2015. The achievement of this result depends heavily on progress in terms of turnover.

5. Remuneration report

The total remuneration paid to members of the Management Board in the 2014 financial year, and the total accumulated stock options issued to the Management Board, were as follows on 31 December 2014:

Professor Hermann Lübbert	- Salary / Bonus	EUR 405 thousand (31 December 2013: EUR 412 thousand)
	- Stock options	151,850 (fair value when granted: EUR 167,236 (previous year: 135,000; fair value when granted: EUR 153,250)), of which 16,850 options were granted in 2014 (2013: 30,000 options).
Thomas Schaffer	- Salary / Bonus	EUR 202 thousand (31 December 2013: EUR 100 thousand)
	- Stock options	35,000 (fair value when granted: EUR 32,650 (previous year: 15,000; fair value when granted: EUR 16,050)), of which 20,000 options were granted in 2014 (2013: 15,000 options).

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

Company cars are also available to the directors for business and private use. The existing employment contracts stipulate that - depending on the achievement of targets to be mutually agreed - an annual bonus is payable. In the event of targets being exceeded, the maximum amount of the annual bonus payable is capped. In the event of up to 70% of the agreed target value being reached, the bonus payments are reduced linearly. If less than 70% of the target value is reached, no bonus is payable. The calculation factors are set at the end of each financial year for the following financial year in a mutually agreed target agreement.

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

In order to further increase the long-term incentive effect of variable remuneration, and thus to gear it even more effectively to sustainable business development, the Management Board members have pledged to match the stock options granted as part of the 2010 stock option plan by holding ordinary shares of the company as private investors, thereby undertaking a personal commitment for a period of three years, starting one month after the date of issue of the options (restricted shares). Different levels of commitment are specified for the different Management Board members. If such restricted ordinary shares are sold prematurely, which is an occurrence which is to be reported to the Chairperson of the Supervisory Board without delay, the company can request a free-of-charge return transfer of an equivalent number of stock options within a month of receiving such notification, with the most recently granted options being those that must be returned first (last in, first out). A return transfer will not be required if the Management Board member can demonstrate that the sale of the restricted shares was necessary in order to meet urgent financial obligations. In 2010, the Chief Executive Officer was granted 35,000 options, and the other board member was granted 20,000 options. In 2011, the Chief Executive Officer was granted 30,000 options, and the other board member was granted 20,000 options on this basis. In 2012, a further 40,000 options were granted to the Chief Executive Officer, and an additional 25,000 options were granted to the other board member. In the 2013 financial year, the Chief Executive Officer was granted 30,000 options, and the other board member was granted 15,000 options. In the 2014 financial year, a further 16,850 options were granted to the Chief Executive Officer, and an additional 20,000 options were granted to the other board member.

All the Supervisory Board members held their positions throughout the entire 2014 financial year. In the financial year, the remuneration of the Supervisory Board members amounted to EUR 113 thousand (2013: EUR 113 thousand).

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

Management Board members are appointed and removed pursuant to §§ 84 and 85 of the German Stock Corporation Act (AktG). The composition of the Management Board is specified in more detail in § 9 paragraph 3 of the Articles of Association. Pursuant to this, the Management Board must consist of one or more members. At the present time, it consists of two persons. The Supervisory Board appoints Management Board members and determines their number. The Supervisory Board may appoint a Chief Executive Officer.

The employment contract of the Chief Executive Officer includes a compensation agreement in the form of a special right of termination, for example in the case of a takeover bid as defined in the Securities Acquisition and Takeover Act (WpÜG). If the Chief Executive Officer's activity as CEO is terminated as a consequence of this special right of termination, the severance pay will amount to 150% of the severance cap.

Pursuant to §119 paragraph 1 number 5, §179 and §133 of the German Stock Corporation Act (AktG), amendments to the Articles of Association must be made by a resolution of the General Meeting. Where legally permissible, a simple majority of the share capital represented at the vote is sufficient for such a resolution, in accordance with § 179 paragraph 2 sentence 2 AktG inconjunction with § 22 paragraph 2 of the Articles of Association, instead of the majority of three-quarters of the represented share capital stipulated in § 179 paragraph 2 sentence 1 AktG. Pursuant to § 179 paragraph 1 sentence 2 AktG in conjunction with § 22 paragraph 2 of the Articles of Association, the Supervisory Board is authorised to make changes that affect only the wording of the Articles of Association.

With regard to the repurchasing of shares, the Management Board is not subject to any restrictions going beyond those specified in the German Stock Corporation Act.

During the period from 1 January to 31 December 2014, remuneration for the Management Board members consisted of a salary, a bonus and stock options. The total remuneration for Management Board members in the reporting period, including the value of stock options at the time when they were granted, amounted to EUR 807 thousand (2013: EUR 892 thousand).

6. Accounting risk management system and internal control system

Here, in addition to the risk management system already explained under subsection 4.1, the significant aspects of the internal control and risk management system relating to accounting processes for separate and consolidated financial statements, pursuant to § 289 paragraph 5 of the German Commercial Code (HGB), as amended by the German Accounting Law Modernisation Act (BilMoG), will be described.

The Biofrontera AG accounting process aims to ensure that the figures and information provided in external accounting instruments (bookkeeping, components of the annual and consolidated financial statements, and the consolidated management report) are accurate and complete, and to ensure compliance with the relevant legal requirements and provisions of the Articles of Association. The existing structures and processes for this also include the risk management system and the internal control measures relating to accounting processes. In line with the increasing sales activities, the internal accounting control system was extended to include processes that had been newly established from the 2012 financial year onwards, and it is subject to a permanent monitoring and improvement process.

The risk management system aims to identify, assess and manage all the risks that could prevent the regular preparation of the annual and consolidated financial statements. Risks that have been identified must be assessed in terms of their effects on the annual and consolidated financial statements. The purpose of the internal accounting control system is to ensure that the process of compiling financial statements complies with all the relevant laws and regulations, by implementing appropriate guidelines, processes and controls to this end.

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

Significant aspects of accounting risk management and control include the clear assignment of responsibilities and controls for the compilation of financial statements, as well as transparent accounting standards. The two-person rule and the separation of roles are also important control principles in accounting processes.

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

7. Information relevant to acquisition

7.1. Trading venue

Biofrontera shares are traded under stock abbreviation B8F and ISIN DE0006046113 in the Prime Standard segment of the Frankfurt Stock Exchange and on all other German stock exchanges. In addition, the shares are admitted to trading with the same stock ID number in the form of depositary interests (DI) on the AIM Market (AIM) of the London Stock Exchange.

7.2. Shareholders

The shares held by the shareholders as at 31 December 2014, based on the most recent compulsory disclosures by the shareholders, are as follows:

	31 December 2014 EUR	%
Maruho Deutschland Co., Ltd., Osaka Japan The total share of voting rights is assigned to Maruho Co., Ltd, Osaka, via the company Maruho Deutschland GmbH, Düsseldorf, which the former controls.	4,467,143	20.13
Dr. Carsten Maschmeyer, Germany Dr Maschmeyer is assigned all the voting rights of the companies which he controls, ALSTIN Family GmbH (former: Alternative Strategic Investments GmbH), Hanover, and MM Familien KG, Hanover.	2,282,177	10.28
Professor Ulrich Abshagen, Germany Professor Abshagen has a direct holding of 52,293 voting rights, and he is indirectly assigned 976,056 voting rights by Heidelberg Innovation BioScience Venture II GmbH & Co.KG (in liquidation) via Heidelberg Innovation Asset Management GmbH & Co. KG, of which he is one the managing partners.	1,028,349	4.63
Universal-Investment-Gesellschaft mbH, Frankfurt *Last voting rights notification on 10.02.2011. No threshold has been exceeded since then, so the actual stock as of 31 December 2014 may deviate significantly from this information.	981,438*	8.34*
Professor Hermann Lübbert, Leverkusen	685,512	3.09
Free float	12,751,951	57.45
	22,196,570	100%

7.3. Share capital

On 31 December 2014, the fully paid-up share capital of the parent company, Biofrontera AG, was EUR 22,196,570.00. It was divided into 22,196,570 registered shares, each with a nominal value of EUR 1.00.

A capital increase against cash contribution was implemented in the reporting period. 4,438,292 new shares were issued in this process, and the increase was registered in the commercial register on 06 February 2014. The capital increase was offered to all shareholders as a rights offering with the option to oversubscribe, and it was fully subscribed.

Furthermore, the share capital was increased by the issuing of 5,110 shares from the exercising of warrants from the 2011-2016 warrant bond.

7.4. Existing capital

The share capital is conditionally increased by up to EUR 845,945.00 through the issue of up to 845,945 new no-par value registered shares, each of which constitutes a share of EUR 1.00 in the share capital (Conditional Capital I). The conditional capital increase is implemented in order to grant ordinary shares to holders of convertible bonds for the fulfilment of the repayment price through the supply of shares, for the exercising of conversion rights, and for the fulfilment of conversion obligations arising from the convertible bonds, pursuant to the authorisation granted by the Management Board (with the Supervisory Board's consent) by resolution of the General Meeting of 06 July 2005. The new shares shall be issued at the conversion price set pursuant to the above-mentioned authorisation resolution.

The share capital is conditionally increased by up to EUR 500 thousand through the issue of up to 500 thousand new ordinary registered shares, each of which constitutes a share of EUR 1.00 in the share capital (no-par value shares) (Conditional Capital II). The conditional capital increase is implemented in order to enable the redemption of options, pursuant to the option conditions, to the benefit of the holders of warrants arising from warrant bonds issued pursuant to the authorisation resolution of the General Meeting of 17 March 2009. The new shares shall be issued at the warrant price set pursuant to the above-mentioned authorisation resolutions (issue amount pursuant to § 193 para. 2 no. 3 AktG).

The company's share capital is conditionally increased by EUR 839,500 by the issuing of up to 839,500 no-par value registered shares (no-par value shares) (Conditional Capital III). The sole purpose of the conditional capital increase is to fulfil options issued pursuant to the authorisation of the General Meeting of 02 July 2010 until 01 July 2015. The conditional capital increase is implemented only insofar as holders of the issued options exercise their right to purchase shares in the company, and insofar as the company does not grant any of its own shares or pay a cash settlement in order to fulfil the options.

The company's share capital is conditionally increased by up to EUR 2,494,890.00 through the issuing of up to 2,494,890 new ordinary registered shares (no-par value shares) (Conditional Capital IV). The conditional capital increase is implemented in order to ensure the granting of options and the fulfilment of warrant obligations, pursuant to the warrant bond conditions, for holders or creditors of warrants from warrant bonds, or to ensure the fulfilment of conversion rights and of conversion obligations, pursuant to the convertible bond conditions, for holders or creditors of convertible bonds issued pursuant to the authorisation of the company's General Meeting of 10 May 2011 in the period up to 09 May 2016. The conditional capital increase is implemented only in the event that warrant or convertible bonds are issued, and only insofar as the holders or creditors of warrants or convertible bonds issued by the company, pursuant to the authorisation of the General Meeting of 10 May 2011, exercise their warrant or conversion rights, or insofar as they fulfil their warrant or conversion obligations (including cases in which a relevant company voting right is exercised).

The Management Board is authorised, subject to the Supervisory Board's consent, to increase the company's share capital by up to EUR 4,438,292.00 by 17 June 2018, through the issue of up to 4,438,292 no-par value registered shares in exchange for cash contributions and/or investments in kind (Authorised Capital I).

8. Corporate governance statement pursuant to § 289a of the German Commercial Code (HGB), including the statement required by § 161 of the German Stock Corporation Act (AktG) on the German Corporate Governance Code

Pursuant to § 289a HGB, listed stock corporations must issue a corporate governance statement. This must either be included in the management report, or it must be published on the company's website. The current Biofrontera corporate governance statement and the corporate governance report are available on the company's website at www.biofrontera.com in the section "Investors", subsection "Corporate Governance".

Leverkusen, 9 April 2015

Biofrontera AG

Professor Hermann Lübbert
Chief Executive Officer

Thomas Schaffer
Chief Financial Officer

Balance Sheet Oath

Affirmation of the legal representatives pursuant to § 37y of the German Securities Trading Act (WpHG) in conjunction with § 37w para. 2 no.3 WpHG

We affirm that, to the best of our knowledge and in accordance with the applicable accounting principles, the consolidated financial statement gives a true and fair view of the financial position, cash flows and results from operations of the group, and that the consolidated management report presents the business performance, including the business results and the position of the Biofrontera Group and of Biofrontera AG, in such a way that a true and fair view is conveyed, and that the main opportunities and risks relating to the anticipated performance of the Biofrontera Group and Biofrontera AG are described.

Leverkusen, 9 April 2015

Biofrontera AG

Professor Hermann Lübbert
Chief Executive Officer

Thomas Schaffer
Chief Financial Officer

Consolidated balance sheet as at 31 December 2014

Annex 1

Assets

in EUR	Note	31 December 2014	31 December 2013
Non-current assets			
Tangible assets	(1)	339,532.00	467,323.63
Intangible assets	(1)	2,580,077.17	3,202,208.62
		2,919,609.17	3,669,532.25
Current assets			
Current financial assets			
Trade receivables	(3)	308,984.35	578,410.60
Other financial assets	(4)	726,790.94	767,224.80
Cash and cash equivalents	(7)	8,509,398.16	2,933,578.47
		9,545,173.45	4,279,213.87
Other current assets			
Inventories	(2)		
Raw materials and supplies		684,455.83	819,912.99
Unfinished products		107,784.39	141,723.44
Finished products and merchandise		601,281.83	623,559.71
Income tax reimbursement claims	(5)	62,072.99	22,280.71
Other assets	(4)	90,118.27	80,908.61
		1,545,713.31	1,688,385.46
		11,090,886.76	5,967,599.33
Total assets		14,010,495.93	9,637,131.58

Liabilities

in EUR	Note	31 December 2014	31 December 2013
Equity	(9)		
Subscribed capital		22,196,570.00	17,753,168.00
Capital reserve		76,402,715.36	65,598,778.57
Loss carried forward		(87,899,306.51)	(79,832,687.98)
Net loss for the year		(10,720,978.98)	(8,066,618.53)
		(21,000.13)	(4,547,359.94)
Long-term financial liabilities	(10)	10,774,298.38	12,030,950.38
Current liabilities			
Current financial liabilities			
Trade payables	(11)	967,437.66	713,098.17
Short-term financial debt	(9)	1,224,598.00	435,750.00
Other financial liabilities	(13)	27,012.10	22,608.18
		2,219,047.76	1,171,456.35
Other current liabilities			
Income tax provisions	(8)	0.00	11,863.00
Other provisions	(12)	951,944.41	879,226.67
Other current liabilities	(13)	86,205.51	90,995.12
		1,038,149.92	982,084.79
		3,257,197.68	2,153,541.14
Total liabilities		14,010,495.93	9,637,131.58

Consolidated statement of comprehensive income for 2014

Annex 2

in EUR	Note	1 Jan - 31 Dec 2014	1 Jan - 31 Dec 2013
Sales revenue	(15)	3,095,555.98	3,114,551.20
Cost of sales	(16)	(1,116,686.16)	(1,603,700.78)
Gross profit from sales		1,978,869.82	1,510,850.42
Operating expenses:			
Research and development costs	(17)	(4,534,181.97)	(3,186,223.66)
General administrative costs	(19)	(3,124,158.24)	(2,426,195.68)
of which financing costs		(869,733.43)	(182,134.06)
Sales costs	(18)	(3,847,487.94)	(3,036,171.70)
		(11,505,828.15)	(8,648,591.04)
Loss from operations		(9,526,958.33)	(7,137.740.62)
Financial result			
Interest expenses	(20)	(1,289,613.16)	(1,271,081.30)
Interest income	(20)	190,294.10	38,689.41
Other expenses	(21)	(280,282.13)	(90,572.22)
Other income	(21)	185,580.54	394,086.20
		(1,194,020.65)	(928,877.91)
Profit/loss before income tax	(23)	(10,720,978.98)	(8,066,618.53)
Income tax		0.00	0.00
Profit or loss for the period	(23)	(10,720,978.98)	(8,066,618.53)
Net loss for the year = Total comprehensive income for the period	(23)	(10,720,978.98)	(8,066,618.53)
Undiluted (= diluted) earnings per share	(22)	(0.49)	(0.47)

Consolidated statement of changes in equity for 2014

Annex 3

See note (9)	Ordinary shares Number	Subscribed capital in EUR	Capital reserve EUR	Accumulated loss EUR	Total EUR
Account balance on 1 January 2013	16,143,168	16,143,168.00	59,595,506.32	(79,832,687.98)	(4,094,013.66)
Capital increase	1,610,000	1,610,000.00	5,924,800.00	0.00	7,534,800.00
Costs of capital procurement	0	0.00	(90,936.75)	0.00	(90,936.75)
Changes in the capital reserve associated with the sale of own Warrant Bonds I and II	0	0.00	81,551.00	0.00	81,551.00
Changes in the capital reserve resulting from transaction costs associated with the sale of own Warrant Bonds I and II	0	0.00	(518.00)	0.00	(518.00)
Increase in the capital reserve resulting from the stock option programme	0	0.00	88,376.00	0.00	88,376.00
Net loss for the year	0	0.00	0.00	(8,066,618.53)	(8,066,618.53)
Account balance on 31 December 2013	17,753,168	17,753,168.00	65,598,778.57	(87,899,306.51)	(4,547,359.94)
Capital increase	4,443,402	4,443,402.00	11,105,950.00	0.00	15,549,352.00
Costs of capital procurement	0	0.00	(215,725.71)	0.00	(215,725.71)
Changes in the capital reserve associated with the repurchase of own Warrant Bonds I	0	0.00	(198,939.00)	0.00	(198,939.00)
Changes in the capital reserve resulting from transaction costs in connection with the repurchase of own Warrant Bonds I	0	0.00	(99.00)	0.00	(99.00)
Increase in the capital reserve resulting from the stock option programme	0	0.00	112,750.50	0.00	112,750.50
Net loss for the year	0	0.00	0.00	(10,720,978.98)	(10,720,978.98)
Account balance on 31 December 2014	22,196,570	22,196,570.00	76,402,715.36	(98,620,285.49)	(21,000.13)

Consolidated cash flow statement for 2014

Annex 4

See note (26)	01.01.-31.12.2014 EUR	01.01.-31.12.2013 EUR
Cash flows from operations		
Net loss for the year	(10,720,978.98)	(8,066,618.53)
Adjustments to reconcile the net loss for the year with cash flow into operational activity:		
Financial result	1,099,319.06	1,232,391.89
Depreciation	811,005.00	742,133.19
(Gains)/losses from disposal of assets	2,632.00	8,672.73
Non-cash expenses and income	302,084.17	(155,926.08)
Changes in operating assets and liabilities:		
Trade receivables	269,426.25	(326,632.43)
Other assets and income tax assets	(269,667.37)	(743,609.64)
Inventories	191,674.09	(372,949.98)
Trade payables	254,339.49	(36,271.67)
Provisions	132,619.86	488,336.24
Other liabilities	(385.69)	5,209.49
Net cash flow into operations:	(7,927,932.12)	(7,225,264.79)
Cash flows from (into) investment activities:		
Purchase of intangible and tangible assets	(164,082.80)	(341,980.16)
Interest received	142,588.26	19,033.42
Revenue from the sale of intangible and tangible assets	100,368.88	0.00
Net cash flow from (into) investment activities	78,874.34	(322,946.74)
Cash flows from financing activities:		
Proceeds from the issue of shares	15,333,626.29	7,443,863.25
Proceeds from the repurchase of own warrant bonds	0.00	501,875.00
Payouts from the repurchase of own warrant bonds	(1,500,750.00)	0.00
Interest paid	(454,489.62)	(830,180.83)
Increase / (decrease) in long-term financial debt	(742,357.20)	0.00
Increase / (decrease) in short-term financial debt	788,848.00	0.00
Net cash flow from financing activities	13,424,877.47	7,115,557.42
Net increase (decrease) in cash and cash equivalents	5,575,819.69	(432,654.11)
Cash and cash equivalents at beginning of period	2,933,578.47	3,366,232.58
Cash and cash equivalents at end of period	8,509,398.16	2,933,578.47
Composition of financial resources at end of period:		
Cash and bank balances and cheques	8,509,398.16	2,933,578.47

Explanatory Notes to the Consolidated Financial Statement of 31 December 2014

Information about the company

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

The Biofrontera Group was the first small German pharmaceutical company to receive a centralised European drug approval for an independently developed drug, Ameluz®. In December 2011, Ameluz® was approved for the treatment of mild and moderate actinic keratosis. Two further clinical development projects, one dermatological project and one for the prevention of migraines, are in the pipeline but are not being actively pursued at the present time. In addition, a range of cosmetic products is to be expanded; the first product in this range, Belixos®, was launched in the autumn of 2009. A hair tonic, Belixos® LIQUID, was introduced in the spring of 2014 and a Belixos® gel skin care for rosacea and acne was launched at the beginning of December 2014. Belixos® Protect, a day cream with protective anti-aging properties designed especially for lightdamaged skin, will follow during 2015.

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

In November 2012, Biofrontera's BF-RhodoLED® PDT lamp received pan-European approval for use as a medical device and has since been sold in parallel with Ameluz®. In Europe physicians can choose between various lamps approved for PDT. In the US the approval of Ameluz® will be combined with the approval of the lamp.

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

The project (BF-1) is an innovative substance that is intended to be used for migraine prophylaxis. The substance was administered to healthy subjects for the first time towards the end of 2006, by intravenous injection and in tablet form. The company received the results of this trial in early 2007.

They show that the substance is almost completely absorbed in the gut, and that it takes around two days for 50% of the substance to be broken down or excreted. These results are an excellent starting point for developing the substance to be administered in tablet form.

The intention is to finance the development of both BF-derm1 and BF-1 independently of Biofrontera's normal budget, using funds that are specifically sought for and directly allocated to the development of these products. For this reason, both projects were acquired from Biofrontera AG and allocated as a shareholder's investment to the two newly-founded subsidiaries, Biofrontera Development GmbH and Biofrontera Neuroscience GmbH, in December 2012. The product BF-derm1, which is intended for the treatment of severe chronic urticaria, is now the responsibility of Biofrontera Development GmbH, while the product BF-1, which is intended for the prophylactic treatment of migraines, is the responsibility of Biofrontera Neuroscience GmbH. This outsourcing of

development candidates has created a structure through which the financing of the further development of these two products can be uncoupled from the normal group financing. As a result, the company's short-term financial plans can focus on the market launch of Ameluz® in North America and the extension of its range of indications, as well as the establishment of the group as a specialist pharmaceutical company.

Summary of main accounting and valuation methods

Basis for preparation of the consolidated financial statement

Biofrontera AG's consolidated financial statement for the financial year from 1 January 2014 to 31 December 2014 has been prepared in accordance with the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB) that were valid on the balance sheet date and which are recognised by the European Union (EU), and the interpretations of the International Financial Reporting Standards Interpretations Committee (IFRS IC). In addition, the law pursuant to § 315a paragraph 1 German Commercial Code (HGB) has been observed.

The assets and liabilities are defined and valued in accordance with the IFRS that were mandatory as of 31 December 2014.

Standards, interpretations and amendments to standards and interpretations used for the first time in the consolidated financial statement for 31 December 2014

Standard / Interpretation	First mandatory use according to IASB	First mandatory use in the EU
Revision of IAS 27 "Separate Financial Statements"	1 January 2013	1 January 2014
Revision of IAS 28 "Investments in Associates and Joint Ventures"	1 January 2013	1 January 2014
Amendments to IAS 32 "Financial Instruments - Presentation": Offsetting of financial assets and liabilities	1 January 2014	1 January 2014
Amendments to IAS 36 "Impairment of Assets": Recoverable Amount Disclosures for Non-financial Assets	1 January 2014	1 January 2014
IAS 39 "Financial Instruments - Recognition and Measurement": Novation of Derivatives and Continuation of Hedge Accounting	1 January 2014	1 January 2014
IFRS 10 "Consolidated Financial Statements"	1 January 2013	1 January 2014
IFRS 11 "Joint Arrangements"	1 January 2013	1 January 2014
IFRS 12 "Disclosure of Interests in Other Entities"	1 January 2013	1 January 2014
Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint Arrangements" and IFRS 12 "Disclosure of Interests in Other Entities": Transitional Provisions	1 January 2013	1 January 2014
Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities" and IAS 27 "Separate Financial Statements": Investment Companies	1 January 2014	1 January 2014

Unless further explained in the following, all standards and interpretations listed above, which had to be applied mandatorily for the first time, had no effect on the Biofrontera Group. IFRS 12 was published in May 2011 and has to be applied for the first time in the fiscal year beginning on or after 1 January 2014. This standard governs mandatory reporting duties for any Group Financial reporting in a uniform way and consolidates reporting duties for subsidiaries, which were governed by IAS 27, reporting duties for

commonly controlled and associated entities, which were governed by IAS 31 and IAS 28 respectively, as well as structured entities. Since the new standard expresses new reporting requirements in addition to existing discussion duties, Group reporting to this company group has become more extensive.

The standards and interpretations listed above that have to be applied for the first time have no effect on the Biofrontera Group.

The IASB published the standards and interpretations listed below, which were already adopted in EU law through the endorsement process but which were not yet mandatory in the 2014 financial year. The group will not apply these standards and interpretations prematurely. We do not expect any of the optional standards and interpretations listed to have any effect on the Biofrontera Group, as the relevant circumstances do not apply.

Standard / Interpretation	First mandatory use according to IASB	First mandatory use in the EU
IFRIC 21 "Levies"	1 January 2014	17 June 2014
Annual improvement project cycle 2011-2013	1 July 2014	1 January 2015
Amendments to IAS 19 "Employee Benefits": Employee Contributions	1 July 2014	1 February 2015
Annual improvement project cycle 2010-2012	1 July 2014	1 February 2015

The IASB published the standards and interpretations listed below, which were not yet mandatory in the 2014 financial year. These standards and interpretations were not previously recognised by the EU and are not applied by the group. The group currently believes that the standards and interpretations that do not yet have to be applied will have no effect.

Standard / Interpretation	First mandatory use according to IASB	First mandatory use in the EU
Amendments to IAS 1 "Presentation of Financial Statements": Disclosure Initiative	1 January 2016	Not yet known
Amendments to IAS 16 "Property, Plant and Equipment" and to IAS 38 "Intangible Assets": Clarification of acceptable Depreciation Methods	1 January 2016	Not yet known
Amendments to IAS 16 "Property, Plant and Equipment" and to IAS 41 "Agriculture": Fruit-bearing Plants	1 January 2016	Not yet known
Amendments to IAS 27 "Separate Financial Statements": Equity Methods in Separate Financial Statements	1 January 2016	Not yet known
Amendments to IAS 28 "Investments in Associates and Joint Ventures" and to IFRS 10 "Consolidated Financial Statements": Sale or Contribution of Assets between an Investor and Associates or Joint Ventures	1 January 2016	Not yet known
IFRS 9 "Financial Instruments"	1 January 2018	Not yet known
Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities" and IAS 28 "Investments in Associates and Joint Ventures": Investment Companies: Application of Consolidation Exception	1 January 2016	Not yet known
Amendments to IFRS 11 "Joint Arrangements": Accounting for Acquisitions of Interests in Joint Operations	1 January 2016	Not yet known
IFRS 14 "Regulatory Deferral Accounts"	1 January 2016	Not yet known
IFRS 15 "Revenue from Contracts with Customers"	1 January 2017	Not yet known
Annual improvement project cycle 2012-2014	1 January 2016	Not yet known

Unless explained in more detail in the following, the standards and interpretations listed that do not yet have to be applied have no effect on the Biofrontera Group, as the relevant circumstances do not apply.

In May 2014 the new standard IFRS 15 was published by the IASB. It is the aim of this new standard for revenue recognition to consolidate the large number of rules contained in various standards and interpretations. At the same time standardized principles were set, which are applicable for all branches and all types of revenue transactions. The questions, in which amount and at which point in time or over which time frame respectively revenue shall be recognised, shall be answered using the 5 steps model. In addition this standard includes a number of further provisions for detailed questions as well as an increase in required notes. The new standard has to be applied for fiscal years beginning on or after 1 January 2017. The first application shall always be retrospectively, however various simplification options are granted; an earlier adoption is permitted. The adoption of changes by the EU is still outstanding. The Group is currently still in the process of examining any possible implications of the first adoption of the standard, should it be adopted by the EU in this form.

The accounting and valuation principles applied are consistent with those applied on 31 December 2013, with the exception of the new and revised standards described above that were applied from the 2014 financial year for the first time.

The consolidated financial statement as of 31 December 2014 is presented in EUR or thousands of EUR.

In accordance with IAS 1.60, the Biofrontera Group represents current and non-current assets and current and non-current liabilities as separate classifications in the balance sheet, broken down in the notes to the consolidated financial statement of 31 December 2014 according to their respective maturities. The statement of profit/loss is prepared using the cost of sales method. In this reporting format, the net turnover is set against the expenses incurred in achieving it, broken down into cost of sales, research and development costs, distribution costs and general administration costs.

The consolidated financial statement of 31 December 2014 contains no separate segment-based reporting, as the activities of the Biofrontera Group are limited to a single business segment in terms of the definition in IFRS 8. All business operations focus on the product Ameluz®, including the supplementary products BF-RhodoLED® (PDT lamp) and Belixos®, and are internally monitored and managed accordingly.

Basis for consolidation

The consolidated financial statement of 31 December 2014 includes the financial statements of the parent company, Biofrontera AG, and the subsidiary companies in which the parent company has a direct majority of the voting rights or another possibility of exerting control. The following companies have been included in the consolidated financial statement:

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 the annual financial statements (or HBII pursuant to IFRS) of 31 December 2014 for these companies. The consolidated financial statement of 31 December 2014 was prepared on the basis of uniform accounting and valuation principles (IFRS).

The subsidiaries have been fully consolidated from the date of acquisition. The date of the acquisition is the date on which the parent company acquired the control of these group companies. The subsidiaries are included in the consolidated financial statement until such time as the control of these companies is no longer exerted.

All inter-company balances and income and expenses have been eliminated on consolidation. Interim results have not been realised.

Conversion of amounts in foreign currencies

The consolidated financial statement of 31 December 2014 is drawn up in euros (EUR), which is the operational currency of all the companies included in the consolidated financial statement and of the group, and it is the group's financial statement currency.

Transactions made in currencies other than EUR are recorded using the exchange rate on the date of the transaction. Assets and liabilities are revalued for each balance sheet date at the closing rate. Profits and losses arising from these conversions are recognised in the income statement.

Use of estimates

The preparation of the consolidated financial statement of 31 December 2014 pursuant to IFRS requires the use of estimates and assumptions by the management that affect the value of assets and liabilities - as well as contingent assets and liabilities - reported on the balance sheet date, and revenues and expenses occurring during the financial year. The main areas in which assumptions, estimates and the exercising of a degree of discretion are appropriate relate to the determination of the useful lifespans of long-term assets and the establishment of provisions, for example employee pensions and other benefits, as well as income taxes. Estimates are based on historical experience and other assumptions that are believed to be reasonable under the circumstances. They are continuously monitored, but may differ from the actual values.

Transactions with related parties

With regard to transactions with shareholders, particularly in connection with capital increases and the issue of Biofrontera AG bonds, please see our comments in the appendix note "Equity".

With respect to the issue of share options to employees of the Biofrontera Group, please see our comments on the "Share Option Plan" in the appendix note "Equity".

With regard to the remuneration of Management Board members, please see our comments in the appendix note "Members of the Management Board".

With regard to the remuneration of Supervisory Board members, please see our comments in the appendix note "Members of the Supervisory Board".

Fixtures and equipment

Pursuant to IAS 16, the value of fixtures and equipment is recorded in the balance sheet based on the historical purchase or production costs minus the scheduled depreciation.

Depreciation of fixtures and equipment is generally linear over the estimated useful lifespan of assets (generally 3 to 13 years). The main useful lifespans are unchanged:

- Computer equipment 3 years, linear
- Fixtures and equipment 4 years, linear
- Fixtures and equipment 10 years, linear
- Laboratory equipment 13 years, linear

Low value assets with acquisition costs between EUR 150 and EUR 1,000 are posted to the year of acquisition from 01.01.2008, as a single item for the relevant year, and are fully depreciated over five years.

Intangible assets

Software that is purchased is valued at cost and depreciated linearly over a useful lifespan of three years.

Intangible assets that are acquired consist of licenses and other rights. They are stated at purchase or production cost minus accumulated depreciation. Only intangible assets acquired from third parties have been capitalised, as the conditions have not been met for the capitalisation of self-created intangible assets. Intangible assets are capitalised and generally depreciated linearly over the estimated useful lifespan of 4 to 10 years.

Borrowing costs are not included as part of the procurement cost of the acquired assets but rather as an expense for the period in which they arise, because the group has no qualified assets in terms of the definition in IAS 23.5.

Depreciation of assets

The company reviews assets for depreciation when there are indications that the book value of an asset exceeds its recoverable amount. The recoverability of assets held for use is assessed by making a comparison of the book value of an asset with the future cash flow expected to be generated from the asset. If the value of such an asset is considered to have depreciated, the depreciation is valued at the amount by which the book value of the asset exceeds its fair value Assets to be sold are reported at the lower value from the book value or the fair value minus the selling costs.

Financial instruments

The financial instruments held by the Biofrontera Group on the balance sheet date consisted primarily of cash and cash equivalents, short-term financial investments, trade accounts receivable and trade accounts payable, and financial liabilities. Biofrontera does not currently use derivative financial instruments. Due to the short maturities of the short-term financial investments and the trade receivables and payables, the carrying amounts correspond to the market values. The short-term financial investments are allocated to the category "available for sale", and the other accounts receivable and payable are classified as "loans and receivables". The financial liabilities are measured using the effective interest method, minus treasury stock.

The Biofrontera Group was not exposed to any significant foreign currency risks at the balance sheet date. Financial investments have been transacted in euros. The liabilities for goods and services denominated in foreign currencies are of minor significance. Receivables from goods and services are regularly reviewed for any potential risk of default.

Various criteria are applied, in terms of ensuring security, for the selection of short-term investments (for example, rating, capital guarantee, and security through the Deposit Guarantee Fund) Based on the selection criteria and on the ongoing monitoring of investments, Biofrontera does not envisage any unidentified risks in this area. The amounts reported on the balance sheet generally represent the maximum risk of default.

The monitoring and management of liquidity is carried out on the basis of short and long-term business planning. Liquidity risks are detected at an early stage, using simulations of various scenarios. Current liquidity is measured and monitored on a daily basis.

To date, Biofrontera has always succeeded in providing the necessary financing for business operations through injections of equity.

Thanks to the capital increase in 2014, the company currently has sufficient liquidity at its disposal.

No further capital measures are needed until the break even has been reached and, in particular, approval has been obtained in the USA.

On 31 December 2014, Biofrontera held no financial positions that were exposed to interest rate risks.

Financial assets available for sale

The company classifies its short-term investment securities as "available for sale" pursuant to IAS 39.9. On the balance sheet dated 31 December 2014, Biofrontera had own warrant bonds I 2009/2017 with a nominal value of EUR 1,500 thousand. The warrant bonds held by Biofrontera were depreciated by EUR 167 thousand, to EUR 1,333 thousand, as of 31 December 2014, due to a decrease in the market price. The warrant bonds were reported net with the corresponding bonded debt pursuant to IAS 32.

Inventories

Raw materials and supplies are valued at the lower of the acquisition or production cost or the market price. Borrowing costs are not capitalised. The acquisition or production costs are calculated according to the first in first out method (FIFO). An inventory valuation adjustment is made on the balance sheet date if the fair value is lower than the book value.

Trade receivables

Receivables from goods and services are reported at their nominal value. In the case of value adjustments, these are booked directly against the relevant receivable. Receivables recorded in a foreign currency have been converted at the euro exchange rate on the balance sheet date and any exchange rate conversion differences are recorded in the profit and loss account.

Cash and cash equivalents

Cash and cash equivalents include cash-in-hand, cheques and bank deposits with a maturity of up to three months at the time of acquisition, as well as short-term financial assets. These are valued at amortised acquisition cost.

Liabilities from goods and services, overdrafts

Liabilities for goods and services, from overdrafts and from other payables are capitalised at their repayment amount. Due of their short-term nature, the reported book value reflects the fair value. Foreign currency liabilities are converted at the closing rate. Exchange rate losses and gains are shown in the profit and loss account.

Provisions

Provisions are formed if an obligation to third parties resulting from a past event exists and is likely to result in an outflow of assets in the future, and if the effect on assets can be reliably estimated.

Share options

Share options (share-based remuneration transactions settled via equity instruments) are valued at the market value on the date of granting. The market value of the obligation is capitalised as a personnel expense over the retention period. Obligations arising from share-based payment transactions with cash settlements are capitalised as a liability and valued at the market value on the balance sheet date. In the event that Biofrontera AG has the right to choose between payment in cash or payment using shares when a right is exercised, an increase in the capital reserve is initially carried out pursuant to IFRS 2.41 and IFRS 2.43. The costs are compiled over the retention period. The market value of share-based payment transactions with cash compensation and of those with equity compensation is normally determined by applying internationally recognised valuation methods, insofar as the fair value of these share-based payments can be reliably determined.

Warrant bonds

In accordance with IAS 32, convertible bonds and warrant bonds are classified as compound financial instruments that represent a debt instrument with an embedded conversion or call option. The issuer of a financial instrument such as this, which contains both a liability component and an equity component, is obliged in the balance sheet to state the liability components and the equity components separately from the financial instrument originally recorded. Initially, the market value of the liability component corresponds with the cash value of future contractual cash flows, discounted at the market interest rate valid at the time for financial instruments that have a comparable credit status and which under the same conditions lead essentially to the same cash flows, but where there is no exchange or call option available. The subsequent valuation is carried out using the effective interest rate method. The liability is removed from the accounts when the liability underlying the obligation is fulfilled, discharged or has expired. The equity instrument consists of the embedded option to convert the liability into equity of the issuer. The market value of the option comprises its current value and, where relevant, its intrinsic value. The intrinsic value of an option or of another derivative financial instrument is, if any, the difference between the market value of the underlying instrument and the contract price at which the underlying instrument is to be purchased, issued, sold or exchanged. The current value of a derivative financial instrument is its market value minus its intrinsic value. The current value is determined by the length of the remaining period up until maturity or until the expiration of the derivative financial instrument.

If the warrant bonds are redeemed before maturity via early redemption or early repurchase, with the original conversion rights remaining unchanged, the fee paid and all transactions relating to the repurchase or redemption are allocated to the liability and

equity components of the instrument at the time of the transaction. The method for the allocation of the fees and transaction costs to the two components is identical to that used in the original allocation applied to the revenue received when issuing the bond.

Income tax

Biofrontera books deferred taxes as defined in IAS 12 as valuation differences between commercial and financial valuations. Deferred tax liabilities are generally stated for all temporary differences that are taxable; claims for deferred tax are only stated to the extent that it is probable that taxable profits are available for use of the claims. The book value of deferred income tax assets is reviewed on each balance sheet date and reduced to the extent to which it is no longer probable that sufficient taxable profit will be available against which the deferred tax claim can be used at least in part. Deferred income tax assets that are not accounted for are reassessed on each balance sheet date and capitalised to the extent to which it has become probable that future taxable profits will allow the realisation of the deferred tax asset.

Deferred tax liabilities and deferred tax assets are offset if there is a right to offset and if they are being collected by the same tax authority.

Current taxes are calculated on the basis of taxable income of the company during the period. They are based on the tax rates in force on the balance sheet date of the relevant company.

Earnings per share

Earnings per share are calculated by dividing net consolidated income by the weighted average number of outstanding shares during the year in accordance with IAS 33 ("earnings per share").

Leasing

Concluded lease agreements are categorised as either "finance leases" or "operating leases". If as the lessor has passed all significant opportunities and risks onto the group as a lessee, the group is assigned beneficial ownership. The companies included in the consolidated financial statement have generally concluded contracts categorised as "operating lease" contracts. The ongoing lease payments are stated as expenses where incurred. Concluded leases classified as "finance leases" are capitalised at the lower of the present value of the minimum lease payments or the fair value of the leased asset at the beginning of the lease and are depreciated over the shorter of the periods, term of lease or useful lifespan, if the transfer of ownership to the lessee at the end of the contractual term is not sufficiently certain.

Revenue realisation

The company states earnings in accordance with IAS 18 if the earnings process is complete and if the property-related risks and opportunities have been transferred to the customer. The company realises its turnover primarily through the sale of its products. Income from milestone and licensing agreements with third parties is realised once the underlying contractual conditions come into force. It is always possible for turnover to be received immediately and in full and to be recorded as income if the conditions of IAS 18 IE 20 are met in the version of a one-off contract start payment.

Research and development expenses

The costs relating to development are accounted for in accordance with IAS 38 "Intangible Assets", under certain circumstances. Research costs are booked as expenses when they are incurred. The development costs are capitalised under certain preconditions, depending on the possible result of the development activities.

The assessment of this possible result requires the management to make significant assumptions. In the management's opinion, due to uncertainties related to the development of new products, the criteria prescribed under IAS 38.57 "Intangible Assets" for capitalising development costs as assets are only fulfilled by the Biofrontera Group if the prerequisites for the expansion of the European approval and the approval in the USA are met, and if it is likely that the company will accrue a future economic benefit.

Both for the now approved drug "Ameluz®" and for the company's other research and development projects, the research and development costs are therefore recognised as expenses in the period in which they are incurred.

In 2014, the German Financial Reporting Enforcement Panel (Deutsche Prüfstelle für Rechnungslegung, DPR) audited the consolidated financial statement as of 31 December 2013 and the 2013 group management report (sample audit). The audit was concluded without any findings. Notes and suggestions for improvement from the DPR in terms of formulations and representations and breakdowns of items were still implemented in the consolidated financial statement and the group management report as of 31 December 2014 and for the previous year accordingly.

Notes on the balance sheet

1 Tangible and intangible assets

The development of fixed asset items in the 2014 financial year is shown in the asset analysis, together with an indication of the accumulated depreciation. Tangible fixed assets consist mainly of office and business equipment and laboratory facilities.

The increases in intangible assets and property and equipment in the reporting period resulted primarily from the acquisition of further rights of use in connection with the prototype of the PDT lamp (EUR 77 thousand, previous year EUR 1) as well as the activation of the expenses associated with the storage facility (EUR 22 thousand; previous year; EUR 0). The asset disposals of a total of EUR 128 thousand (previous year: EUR 537 thousand) primarily resulted from sales of the rental lamps, which gave rise to EUR 117 thousand (previous year: EUR 49 thousand).

The reported use rights, with a total net book value of EUR 2,443 thousand, relate in an amount of EUR 2,205 thousand to rights to use technology developed by the company ASAT Applied Science and Technology AG, Zug, Switzerland, in terms of the active ingredient ALA (aminolevulinic acid), including all patents and know how associated with this. The rights of use acquired are depreciated over their estimated remaining useful lifespan of 20 years, from their date of acquisition, due to their direct usability. This useful lifespan is derived from the term of the patents issued and acquired by Biofrontera AG and is reviewed annually pursuant to IAS 38.104. There are no indications for an unscheduled depreciation. In addition to this development expenses for prototypes of the lamp BF-RhodoLED® were capitalized under this position.

Consolidated statement of changes in fixed assets in 2014

		Acquisition and production costs				Accumulated depreciation				Book values	
		01 Jan 2014 EUR	Additions EUR	Disposals EUR	31 Dec 2014 EUR	01 Jan 2014 EUR	Additions EUR	Disposals EUR	31 Dec 2014 EUR	31 Dec 2014 EUR	31 Dec 2013 EUR
I.	Tangible assets										
	Operating and business equipment	3,395,985.95	74,917.75	128,134.70	3,342,769.00	2,928,662.32	99,708.50	25,133.82	3,003,237.00	339,532.00	467,323.63
II.	Intangible assets										
1	Software and licenses	410,461.51	8,434.00	0.00	418,895.51	267,487.08	14,425.00	0.00	281,912.08	136,983.43	142,974.43
2.	Usage rights	5,937,723.26	89,731.05	0.00	6,027,454.31	2,887,489.07	696,871.50	0.00	3,584,360.57	2,443,093.74	3,050,234.19
3.	Prepayments made	9,000.00	0.00	9,000.00	0.00	0.00	0.00	0.00	0.00	0.00	9,000.00
		6,357,184.77	98,165.05	9,000.00	6,446,349.82	3,154,976.15	711,296.50	0.00	3,866,272.65	2,580,077.17	3,202,208.62
		9,753,170.72	173,082.80	137,134.70	9,789,118.82	6,083,638.47	811,005.00	25,133.82	6,869,509.65	2,919,609.17	3,669,532.25

Consolidated statement of changes in fixed assets in 2013

		Acquisition and production costs				Accumulated depreciation				Book values	
		01 Jan 2013 EUR	Additions EUR	Disposals EUR	31 Dec 2013 EUR	01 Jan 2013 EUR	Additions EUR	Disposals EUR	31 Dec 2013 EUR	31 Dec 2013 EUR	31 Dec 2012 EUR
I.	Tangible assets										
	Operating and business equipment	3,666,407.74	266,547.60	536,969.39	3,395,985.95	3,378,257.18	78,701.80	528,296.66	2,928,662.32	467,323.63	288,150.56
II.	Intangible assets										
1.	Software and licenses	483,660.83	30,990.64	104,189.96	410,461.51	363,170.32	8,506.72	104,189.96	267,487.08	142,974.43	120,490.51
2.	Usage rights	5,902,281.34	35,441.92	0.00	5,937,723.26	2,232,564.40	654,924.67	0.00	2,887,489.07	3,050,234.19	3,669,716.94
3.	Prepayments made	0.00	9,000.00	0.00	9,000.00	0.00	0.00	0.00	0.00	9,000.00	0.00
		6,385,942.17	75,432.56	104,189.96	6,357,184.77	2,595,734.72	663,431.39	104,189.96	3,154,976.15	3,202,208.62	3,790,207.45
		10,052,349.91	341,980.16	641,159.35	9,753,170.72	5,973,991.90	742,133.19	632,486.62	6,083,638.47	3,669,532.25	4,078,358.01

2 Inventories

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

Inventories amounted to EUR 1,394 thousand (31 December 2013: EUR 1,585 thousand). In assessing the consumption of inventories, the sequence of consumption is assumed to be based on the first-in-first-out (FIFO) method.

3 Trade receivables

The receivables from goods and services relate mainly to the sale of Ameluz® and licence 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 were not recorded (previous year: EUR 46 thousand). There were overdue receivables not previously written down amounting to EUR 30 thousand (31 December 2013: EUR 33 thousand) on the balance sheet date. Of these, EUR 25 thousand were up to 30 days overdue, and EUR 5 thousand were more than 30 days overdue. At the time of preparation of the consolidated financial statement, no overdue receivables were still unpaid.

4 Other financial and miscellaneous assets

Miscellaneous assets primarily include prepayments for trials (EUR 586 thousand; 31 December 2013: EUR 465 thousand), VAT reimbursement claims (EUR 87 thousand; 31 December 2013: EUR 77 thousand). In the reporting year, specific provision amounting to EUR 261 thousand was made relating to a loan made available by a development partner in the short term (31 December 2013: EUR 0).

5 Income tax reimbursement claims

These consist of claims for tax refunds relating to withheld capital gains tax plus solidarity surcharge (EUR 38 thousand; 31 December 2013: EUR 22 thousand) as well as claims from commercial tax prepayments (EUR 24 thousand; 31 December 2013: EUR 0).

6 Securities

The valuation of securities is based on prices quoted in an active market. On 31 December 2014, own warrant bonds 2009/2017 with a par value of EUR 1,500 thousand (31 December 2013: EUR 0) were held. The warrant bonds held by Biofrontera were depreciated by EUR 167 thousand to EUR 1,333 thousand. The warrant bonds were reported net with the bonded debt in accordance with IAS 32.

7 Cash and cash equivalents

Cash and cash equivalents include cash-in-hand, cheques, bank deposits and money deposits with a maturity of up to three months at the time of acquisition amounting to EUR 8,509 thousand (31 December 2013: EUR 2,934 thousand). The book values of the cash and cash equivalents correspond to their fair value due to the short-term nature of these investments.

8 Deferred tax assets

The Biofrontera Group recorded a net loss before tax on 31 December 2014 and on 31 December 2013. Deferred tax assets are generally determined on the basis of the existing income tax rates in Germany. As a result of the Company Tax Reform Act 2008, corporation tax is set at 15%. When a solidarity surcharge of 5.5% is included, this results in a combined tax rate of 15.8% (previous year: 15.8%). Because of the tax rate of 3.5% for businesses and the lack of the possibility to deduct business tax as an operating expense, the resulting tax rate, taking into account the local business tax rate, is 16.6% (previous year 16.6%).

The following table provides details of the basic current deferred tax assets arising from tax loss carryforwards as they have developed within the group (the previous year's figures have been adjusted to the amounts determined for tax purposes):

	31 December 2014		31 December 2013	
	Loss carried forward Thousand EUR	Deferred tax assets Thousand EUR	Loss carried forward Thousand EUR	Deferred tax assets Thousand EUR
Corporation tax including solidarity surcharge	93,151	14,746	82,105	12,993
Business tax	84,306	14,020	74,035	12,308
Total		28,766		25,301

These losses carried forward have an unlimited carry forward period under current German law.

Due to the lack of predictability regarding future taxable profits, the full existing deferred tax assets from loss carryforwards (EUR 28,766 thousand; 31 December 2013: EUR 25,301 thousand) and active latent differences amounting to EUR 55 thousand (31 December 2013 EUR 136 thousand) were not entered in the balance sheet, in accordance with IAS 12.34.

The following provides a reconciliation between expected and actual reported income tax expense, with the output value being based on the rounded income tax rate of 32.5% currently applicable to the Biofrontera Group:

	31 Dec. 2014 Thousand EUR	31 Dec. 2013 Thousand EUR
Group income before income taxes	(10,721)	(8,067)
Expected income tax refund at the tax rate of the parent company	3,479	2,618
Differences resulting from differing tax rates	0	(42)
Tax decreases due to changes in permanent differences	70	0
Tax increases due to non-deductible expenses	(150)	(119)
Change in active deferred taxes not on balance sheet		
- from active temporary differences	55	(31)
- from losses carried forward	(3,456)	(2,477)
Other effects	2	51
Income taxes according to statement of overall profit/loss	0	0

9 Equity

On 31 December 2013, the fully paid-up share capital of the parent company, Biofrontera AG, is EUR 22,196,570.00. It is divided into 22,196,570 registered shares, each with a nominal value of EUR 1.00.

On 31 December 2013, the share capital amounted to EUR 17,753,168.00, and this was increased during the course of the 2014 financial year by EUR 4,443,402.00, divided into 4,443,402 registered shares. In a pre-emptive rights offering, all shareholders were given the opportunity to subscribe for new shares, with the possibility of an additional subscription. 4,438,292 new shares were issued in this process, and the increase was registered in the commercial register on 6 February 2014. The net proceeds from the issue amounted to EUR 15.3 million.

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

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

The shares held by the shareholders as at 31 December 2014, based on the most recent compulsory disclosures by the shareholders:

	31 December 2014 EUR	31 December 2013 EUR
Maruho Deutschland Co., Ltd., Osaka Japan The total share of voting rights is assigned to Maruho Co., Ltd, Osaka, via the company Maruho Deutschland GmbH, Düsseldorf, which is controlled by the former.	4,467,143	1,610,000
Dr. Carsten Maschmeyer, Germany Dr Maschmeyer is assigned all the voting rights of the company ALSTIN Family GmbH, which he controls (formerly: Alternative Strategic Investments GmbH), Hanover, and MM Familien KG, Hanover.	2,282,177	2,194,393
Professor Ulrich Abshagen, Germany Professor Abshagen has a direct holding of 52,293 voting rights, and he is indirectly assigned 976,056 voting rights by Heidelberg Innovation BioScience Venture II GmbH & Co.KG (in liquidation) via Heidelberg Innovation Asset Management GmbH & Co. KG, of which he is one the managing partners.	1,028,349	1,028,349
Universal-Investment-Gesellschaft mbH, Frankfurt *Last voting rights notification on 10.02.2011. Since then there was no reported threshold transgressions, thus the actual stock as of 31 December 2014 may deviate significantly from this information.	981,438*	981,438*
Professor Hermann Lübbert, Leverkusen	685,512	664,512
Free float	12,751,951	11,274,476
Total	22,196,570	17,753,168

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

For more details of the development of the company's equity capital, see the equity reconciliation statement.

As a result of the repurchase of 15,000 warrant bonds I (2009/2017) of Biofrontera AG at a price of EUR 100.00 per unit, the fees paid and the transaction costs for the repurchase are to be allocated in accordance with IFRS to the borrowed capital and equity capital components at the time of the transaction. Taking the transaction costs into consideration, the borrowed capital component was reduced by EUR 1,301 thousand and the equity capital component was reduced by EUR 199 thousand in this process.

In connection with the already issued 2009/2017 warrant bond and the 2011/2016 warrant bond issued in July 2011 (first tranche) and December 2011 (second tranche), the following items were reported on 31 December 2014:

	31 December 2014 EUR	31 December 2013 EUR
Long-term financial debt		
(at amortised cost of acquisition)	10,774,299.63	12,030,950.38
Short-term financial debt		
(accrued interest from nominal interest rate)	1,224,598.00	435,750.00
Capital reserve		
(equity component 2009/2017 warrant bond)	1,485,294.99	1.684,233.99
Capital reserve		
(equity component 2011/2016 warrant bond)	1,226,747.16	1,226,747.16

The interest effects of the warrant bonds on the long-term borrowings were initially calculated using an effective annual interest rate of 14.35% for the 2009/2017 warrant bond, of 9.8% for the first tranche of the 2011/2016 warrant bond and of 5.8% for the second tranche of the 2011/2016 warrant bond.

In accordance with IAS 32.37, the costs of raising equity were reduced in order to book any related income tax benefits as deductions from equity. As, in the opinion of the company management, the realisation of the losses carried forward is associated with a high degree of uncertainty, the costs of raising equity were deducted in full from equity. In the 2014 financial year, costs of raising equity totaling EUR 216 thousand (31 December 2013: EUR 91 thousand) were recognised in connection with the capital increase that was carried out.

In the event of the company achieving an annual surplus, the Management Board and the Supervisory Board are authorised to place all or part of the annual surplus that remains, after deduction of the sums to be placed in the legal reserves and of a loss carryforward, in the surplus reserves. It is not permissible to place more than half of the annual surplus in the surplus reserves if, after such placement, the other surplus reserves would exceed half of the share capital. The shareholders' dividends are calculated based on the size of their holding of the share capital.

2010 Share Option Programme

At the Annual General Meeting on 2 July 2010, the Management Board and Supervisory Board proposed a share option programme for employees to the Annual General Meeting, which approved the initiative. In accordance with this, the Management Board, or the Supervisory Board if the beneficiaries are Management Board members, are entitled to issue up to 839,500 share options, the exercising of which is linked to specific targets.

The programme has a total nominal value of EUR 840 thousand and a term of six years from the issue date, i.e. until 24 November 2016. To this end, conditional capital of EUR 839,500 was enacted as a result of the issuing of up to 839,500 registered shares without par value (no-par value shares) and with a stake in the share capital of EUR 1.00 per share pursuant to § 192 paragraph 1 No. 3 German Stock Corporation Act (AktG). The conditional capital was registered on 30 July 2010 in the Commercial Register of Cologne District Court as HRB 49717. Eligibility for the 2010 Share Option Programme 2010 was granted to members of the Management Board and employees of the company as well as to members of management bodies and employees of affiliates of Biofrontera AG.

The date of issue was 24 November 2010. The granting of options is made without any payment being provided in return. On 24 November 2010, 106,400 options (first tranche) were issued with an exercise price per share of EUR 1.91. On 30 September and on 7 October 2011 (second tranche) a further 96,400 options were issued with an exercise price of EUR 2.48 each. On 23 March 2012 and 11 May 2012 (third tranche), 65,000 options were issued with an exercise price of EUR 3.30 each, and 51,500 options were issued with an exercise price of EUR 4.09 each. On 2 September 2013, 179,500 options were issued (fourth tranche) with an exercise price of EUR 3.373 each. On 2 April 2014 159,350 options were issued at an exercise price of EUR 3.43 each. All in all, 115,750 option rights were forfeited by employees leaving the company. There were therefore still 181,350 options outstanding on 31 December 2014.

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

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

Exercising the options from a tranche is possible if at the beginning of the respective exercise period, the price (hereinafter referred to as the "reference price") of a share in Biofrontera Aktiengesellschaft exceeds the exercise price by at least 20%, and a minimum reference price of at least EUR 5.00 is achieved (hereinafter referred to as "minimum reference price"). The reference price is equal to the arithmetical average (unweighted) of the closing prices ascertained on the Frankfurt Stock Exchange via floor and Xetra trading for the Company's shares between the 15th and the 5th trading day (inclusive in each case) prior to the respective exercise window. The minimum reference price is adjusted in the following cases in order to bring the stated performance target into line with changed circumstances:

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

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

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

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

a) on the 6th and the next 14 banking days after the date of the Annual General Meeting (exclusive),

b) on the 6th and on the next 14 banking days after the date of issue of a half-yearly or quarterly report or an interim announcement by Biofrontera Aktiengesellschaft (exclusive),

c) in the period between the 15th and the 5th banking day before expiration of the options for each respective expiry date (exclusive).

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

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

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

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

As this share option scheme involves share-based remuneration with a choice of settlement at the discretion of the company, the company has decided, in accordance with IFRS 2.41 and IFRS 2.43, to book the transactions pursuant to the provisions for share-based remuneration settled with equity instruments (IFRS 2.10-29). Therefore, the fair value of a share from this share option programme with a granting date of 24 November 2010 was determined, on the basis of a binomial model, to have a value of EUR 0.57 / share option. For share options issued on 31 December 2010, this resulted in a total value of the options of EUR 60,648.00. For the additional share options granted in 2011, a fair value of EUR 119,536 was determined. For the two tranches of options granted in 2012, fair values of EUR 104,000.00 and EUR 106,090.00 were calculated, respectively. For the additional share options granted in 2013, a fair value of EUR 192,065 was determined. For the additional share options granted in the 2014 reporting period, a fair value of EUR 132,260.50 was determined. The booking of the pro-rata amounts is carried out proportionately as personnel expenses and as increases in the capital reserves over the period of accumulation, until the end of the retention period. Share price volatility factors of 45.78% and 51.3% were used in assessing the fair value of the options granted in 2010 and 2011, factors of 53.5% and 65% were used for the options granted in 2012, a factor of 39.2% was used for the options granted in 2013 and 32.3% for the options granted in 2013 (based on valuation date volatility). A dividend yield of 0% was used in all cases, as well as respective risk-free interest rates of 1.75%, 1.21%, 0.9% and 0.82% in 2012 as well as 0.71% in 2013 and 0.68% in 2014, and a uniform annual fluctuation of beneficiaries of 20%.

The expenditure booked in the reporting period was EUR 113 thousand (31 December 2013: EUR 88 thousand).

10 Financial liabilities

Biofrontera announced on 26 June 2009 the placement of a warrant bond with a term lasting until 31 December 2017. As part of this corporate financing measure, an option bond was placed in 2009 ("Warrant Bond I"). The warrant bond II has a total nominal value

of EUR 10,000,000.00 and is divided up into 100,000 warrant bonds with a nominal value of EUR 100.00 each. Redemption on maturity is 106% of the nominal value of the bond. The warrant bonds bear interest on the following scale:

- from 1 September 2009 to 30 December 2010: annual rate of 4%;

- from 31 December 2010 to 30 December 2011: annual rate 6%;

- from 31 December 2011 to 31 December 2017: annual rate 8%.

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

Of these warrant bonds, partial bonds were issued with a nominal value of EUR 4,930,300.00 in total.

The liability from this warrant bond was valued at the time of issue and was attributed a cash value of EUR 3,238,744.00 , and the book value of the long-term financial debts amounted to EUR 2,671 thousand on 31 December 2014 (previous year: EUR 4,195 thousand). The short-term portion of the financial liability, i.e. debts payable within one year, amounts to EUR 789 thousand (31 December 2013: EUR 394 thousand). The nominal interest rates were paid in the following financial year on 01 January 2015 and are reported under the short-term financial liabilities, along with the interest payment for the nominal interest rates that will be due on 31 December 2015. See para. 6 for details of the warrant bonds held by Biofrontera.

On 7 June 2011, the Management Board decided, with the approval of the Supervisory Board and based on the authorisation granted by the Annual General Meeting, to issue a warrant bond 2011/2016 (hereinafter referred to as "Warrant Bond II").

The warrant bond II has a total nominal value of EUR 25,000,000.00 and is divided up into 250,000 warrant bonds with a nominal value of EUR 100.00 each. Each individual warrant bond is associated with ten detachable warrants issued by the company; each warrant entitles the holder to acquire a registered share without par value in the company, with associated voting rights and with a stake in the share capital of EUR 1.00 each, at an option price of EUR 3.00. If all the option rights were to be issued and exercised, this would result in a calculated total exercise price of EUR 7,500,000.00. The issue price for each warrant bond is EUR 100.

The term of the warrant bonds begins on 20 July 2011 and ends on 31 December 2016. The company will repay the bonds on 01 January 2017 at 100% of the nominal amount. The company has the right to repay the Warrant Bond II at any time at 100% of the nominal amount (plus accrued interest). Bondholders may terminate Warrant Bond II for good reason in certain cases; normal termination on the part of the bondholders is not possible. In order to provide financing for the option rights, conditional capital of up to EUR 2,500,000.00 was approved at the company's General Meeting on 10 May 2011 and entered in the commercial register on 18 May 2011. The warrant bond II bears annual interest of 5%. Interest payments on all bonds expire on 31 December 2016. Interest is paid annually on 1 January for the previous year, commencing on 1 January 2012 with a payment of EUR 195 thousand for the period 20 July 2011 until 31 December 2011.

A nominal total of EUR 8,715 thousand of individual warrant bonds of Warrant Bond II was issued as a result of the two transactions that exchanged the convertible bonds for Warrant Bond II in July and December 2011 and the direct acquisition from the initial

issue. The resulting interest payments payable for the period from 1 January 2014 to 31 December 2014 were paid on the interest due date of 2 January 2014; these payments amounted to EUR 436 thousand (31 December 2013: EUR 436 thousand). On 31 December 2014, the interest debt payable for the period from 1 January 2014 to 31 December 2014, amounting to EUR 436 thousand (previous year: EUR 436 thousand), was reported as short-term liabilities.

The contractual interest and repayment obligations relating to warrant bonds are broken down on the balance sheet date as follows:

Thousand EUR	31 December 2014					
	2015	2016	2017	2018	2019	Total
Warrant bond 2009/2017:						
Repayment				5,226		5,226
Interest payment	788	394	394			1,576
Warrant bond 2011/2016:						
Repayment			8,715			8,715
Interest payment	436	436	436			1,308

The situation was as follows in the previous year:

Thousand EUR	31 December 2013					
	2014	2015	2016	2017	2018	Total
Warrant bond 2009/2017:						
Repayment					5,226	5,226
Interest payment	394	394	394	394		1,576
Warrant bond 2011/2016:						
Repayment				8,715		8,715
Interest payment	436	436	436	436		1,744

11 Trade payables

Liabilities for goods and services (EUR 967 thousand; 31 December 2013: EUR 713 thousand) have increased by EUR 254 thousand compared with the previous year. The increase is due to the goods and services and the underlying terms and conditions of payment billed at the end of the year.

12 Other provisions

The development of the other provisions is as follows:

Biofrontera Group	Euro 01 January 2014	Utilisation	Liquidated	Allocated	EUR 31 December 2014
- Bonuses for employees	77,990.33	55,990.33	22,000.00	106,622.00	106,622.00
- Outstanding holiday	62,181.78	62,181.78	0.00	72,262.67	72,262.67
- Outstanding invoices	605,668.38	495,442.47	42,164.82	567,703.58	635,764.67
- Financial statement and audit costs	93,484.00	85,883.70	7,600.30	93,884.00	93,884.00
- Other provisions	39,902.18	4,057.46	0.00	7,566.35	43,411.07
Total provisions	879,226.67	703,555.74	71,765.12	848,038.60	951,944.41

The remaining provisions concern various individually identifiable risks and uncertain obligations. The use of provisions classified as current is anticipated within the subsequent financial year.

13 Miscellaneous financial and other liabilities

	31 December 2014 thousand EUR	31 December 2013 Thousand EUR
Payroll tax	66	61
Financial leasing	20	30
Other	27	23
	113	114

14 Reporting on financial instruments

In the ordinary course of business, the group faces market price and credit risks as well as liquidity risks which may have an effect on the financial position, cash flows and results of operations.

Market price risk: the risk associated with interest changes is considered insignificant because, as a rule, the existing interest modalities for the relevant financing of the Biofrontera Group can be adjusted to market conditions in the short and medium term. There is no Cash Flow risk related to the option bonds with fixed yield. Due to the fixed yield no detrimental changes related to the interest payments can occur. As these liabilities are capitalized at carried forward acquisition cost and not at fair value, a fair value risk doesn't exist either.

Credit risk: A credit risk exists for the group if transaction partners cannot fulfil their obligations within normal payment deadlines. On the balance sheet, the maximum non-payment risk is represented by the book value of the relevant financial asset. The situation regarding receivables is monitored so that any possible non-payment risks can be identified at an early stage and appropriate steps taken. In the reporting year, individual value adjustments amounting to EUR 261 thousand were made for other financial assets (31 December 2013: EUR 0); No individual value adjustments were made on goods and services in the reporting year (31 December 2013: EUR 46 thousand).

Financial instruments evaluated at fair value in the consolidated balance sheet can be classified according to the following valuation hierarchy, which reflects the extent to which the fair value is observable:

Level 1: fair value evaluations using prices listed on active markets (not adjusted) of identical assets or liabilities.

Level 2: fair value evaluations using input data for the asset or liability that are either directly observable (as prices) or indirectly observable (derived from prices), but which do not constitute listed prices pursuant to Level 1.

Level 3: fair value evaluations using input data for the asset or liability that are not based on observable market data (unobservable input data).

Biofrontera only has financial instruments at levels 1 and 2. No reclassifications between level 1 and level 2 were carried out during the 2014 financial year. All the financial assets assessed at fair value and listed in the following are classified as level 1. With regard to financial liabilities, the full amount (EUR 11,999 thousand; 31 December 2013: EUR 12,467 thousand) is allocated to level 2. This involves financial debt arising from the two warrant bonds.

Biofrontera records value adjustments on trade receivables and on the other financial assets that are assigned to the category "credits and receivables", under the other expenses. Losses from currency conversion within the valuation category "loans and receivables" mainly result from liabilities for goods and services. Net income and losses include individual value adjustments and effects from currency conversion effects.

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

Financial Assets on 31 December 2014 (EUR)	Fair value	Book values					Net profits (+) or losses (-)
		Cash and cash equivalents	Credits and receivables	Financial instruments recognised at fair value in profit or loss (excluding "held for trading")	Financial assets available for sale	TOTAL BOOK VALUES	
- Financial investments							
- Liquid assets	8,509,398	8,509,398				8,509,398	61
- Receivables from goods and services	308,984		308,984			308,984	(38)
- Other short-term financial receivables and assets	726,791		726,791			726,791	(261,099)
TOTAL	9,545,173	8,509,398	1,035,775	0	0	9,545,173	(261,076)

Financial liabilities Liabilities on 31 December 2014 (EUR)	Fair value	Book values					Net profits (+) or losses (-)
		Other liabilities	Financial instruments recognised at fair value in profit or loss (excluding "held for trading")			TOTAL BOOK VALUES	
- Financial liabilities (short-term)	1,224,598	1,224,598				1,224,598	
- Liabilities from goods and services	967,438	967,438				967,438	(9,600)
- Other financial liabilities (short-term)	27,012	27,012				27,012	
- Other financial liabilities (long-term)	10,774,298	10,774,298				10,774,298	
TOTAL	12,993,346	12,993,346	0	0	0	12,993,346	(9,600)

Financial Assets on 31 December 2013 (EUR)	Fair value	Book values					Net profits (+) or losses (-)
		Cash and cash equivalents	Credits and receivables	Financial instruments recognised at fair value in profit or loss (excluding "held for trading")	Financial assets available for sale	TOTAL BOOK VALUES	
- Financial investments							
- Liquid assets	2,933,578	2,933,578				2,933,578	(25)
- Receivables from from goods and services	578,411		578,411			578,411	(45,521)
- Other short-term financial receivables and assets	767,225		767,225			767,225	0
TOTAL	4,279,214	2,933,578	1,345,636	0	0	4,279,214	(45,546)

Financial liabilities Liabilities on 31 December 2013 (EUR)	Fair value	Book values					Net profits (+) or losses (-)
		Other liabilities	Financial instruments recognised at fair value in profit or loss (excluding "held for trading")			TOTAL BOOK VALUES	
- Financial liabilities (short-term)	435,750	435,750				435,750	
- Liabilities from goods and services	713,098	713,098				713,098	(2,824)
- Other financial liabilities (short-term)	22,608	22,608				22,608	
- Other Financial liabilities (long-term)	12,030,950	12,030,950				12,030,950	
TOTAL	13,202,406	13,202,406	0	0	0	13,202,406	(2,824)

Liquidity risk: refinancing of the Biofrontera group companies is generally carried out on a central basis by Biofrontera AG. There is a risk in this regard that the liquidity reserves may be insufficient to fulfil the financial obligations on the due date. As of 31 December 2013, liquid assets and cash equivalents amounting to EUR 8,509 thousand (31 December 2013: EUR 2,934 thousand) were available. See the relevant balance sheet notes on (undiscounted) payments from financial debts due in the next few years.

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

15 Sales revenue

The Biofrontera Group achieved turnover of EUR 3,096 thousand in the 2014 financial year (previous year: EUR 3,115 thousand). A down payment of EUR 70 thousand (previous year: 0) is included in this. The revenues from the sale of our products (without the above mentioned upfront payments) amounted to EUR 2,379 thousand in Germany and revenues abroad amounted to EUR 647 thousand. Sales revenue outside Germany grew only modestly in 2014, as many of our distribution partners had not fully sold off their production lots purchased in 2013 and we therefore received hardly any new orders. Although significant progress was made in nearly all countries, and the necessary reimbursement agreements and other agreements were concluded there, the development in turnover was below expectations in 2014. We do, however, expect the performance to significantly improve in 2015.

16 Cost of sales

The cost of sales amounted to EUR 1,117 thousand and thus to 36% of sales revenue (previous year: EUR 1,604 thousand or 51% of sales revenue). A significant part of the cost of sales is the external material and production costs, which amount to EUR 841 thousand (previous year: EUR 884 thousand).

The structural improvement is primarily attributable to cost savings in the production area. In addition, start-up costs for the fulfillment of requirements for the EMA and the qualification of new suppliers were incurred in 2013, which were still incurred again in 2014 but at a lower level.

17 Research and Development costs

Research and development costs increased by 42%, from EUR 3,186 thousand in the previous year to EUR 4,534 thousand in the 2014 financial year. In line with its strategy, Biofrontera has increased its investment in research and development in order to enable both the above mentioned expansion of indications and the approval for Ameluz® in the USA.

18 Sales costs

The sales costs amounted to EUR 3,847 thousand in 2014 (previous year: EUR 3,036 thousand). Increases in costs arose from investments in the market access for other European countries and for marketing preparation in the USA.

19 General Administration costs

The General Administration costs increased to EUR 3,124 thousand, compared to EUR 698 thousand in the previous year, primarily due to the financing costs.

20 Financial result

The financial result consists primarily of the interest payable for the 2009/2017 warrant bond (EUR 446 thousand, 31 December 2013: EUR 575 thousand) and for the 2011/2016 warrant bond placed in 2011 (EUR 702 thousand, 31 December 2013: EUR 695 thousand), calculated using the effective interest method. The above mentioned interest expenses of EUR 447 thousand for the warrant bonds 2009/2017 includes the opposite effect (amounting to EUR 156 thousand) resulting from the repurchase on 28 February 2014. The interest payment for the 2013 calendar year from the warrant bond II occurred in January 2014. Interest payments for the 2014 financial year for the warrant bonds I and II occurred in January 2015.

21 Other income (expenses), net

In the 2014 financial year, other operational income decreased by EUR 208 thousand to EUR 186 thousand. This is largely attributable to the reversal of provisions amounting to EUR 72 thousand (31 December 2013: EUR 263 thousand). The other operational expenses increased from EUR 91 thousand to EUR 280 thousand compared to the previous year. This increase is largely attributable to the individual value adjustments amounting to EUR 261 thousand on a loan made available by a development partner in the short term.

22 Earnings per share (EPS)

Earnings per share are calculated on the basis of the net loss of the Biofrontera Group and the average outstanding ordinary shares in circulation in the financial year, in accordance with IAS 33.

	31 December 2014	31 December 2013
Number of weighted ordinary shares in circulation (on average)	21,757,826.65	17,342,948.82
Net loss in EUR	(10,720,979)	(8,066,619)
Undiluted earnings per share in EUR	(0.49)	(0.47)

When calculating diluted earnings per share for the 2013 and 2014 financial years, the warrant bonds already issued in 2009 (2009/2017), with a total nominal value of EUR 4,930 thousand and giving bondholders the right to acquire 246,515 shares at a price of EUR 5.00 each, as well as the warrant bonds issued in 2011 (2011/2016), with a total nominal value of EUR 8,715 thousand and giving bondholders the right to acquire 871,500 shares at a price of EUR 3.00 each, generally have be taken into account. Because the group achieved negative annual results in the 2013 and 2014 financial years, no diluted earnings per share were reported, as the conversion or subscription rights for the periods shown counteracted any dilution.

23 Additional information regarding the consolidated statement of comprehensive income

Under the profit and loss account on 31 December 2013 and on 31 December 2014, there was no "other comprehensive income (OCI)" to report, in the absence of any relevant facts or circumstances. Therefore, the net loss equates to the total profit or loss for the period.

Material costs

The material costs included in the turnover expenses amounted to EUR 841 thousand (31 December 2013: EUR 884 thousand) for the 2014 financial year.

Depreciation

The depreciation of tangible and intangible assets of EUR 811 thousand on 31 December 2014 and of EUR 742 thousand on 31 December 2013 is included in the following items in the statement of comprehensive income:

	31 December 2014 Thousand EUR	31 December 2013 Thousand EUR
Research and development costs	702	670
General administrative costs	105	72
Cost of sales	4	0
Depreciation of tangible and intangible assets	811	742

Personnel costs

	31 December 2014 Thousand EUR	31 December 2013 Thousand EUR
Salaries and wages	3,024	2,840
Social security charges	401	356
Total	3,425	3,196

The personnel costs include contribution-related expenses for pension schemes amounting to EUR 41 thousand (previous year: EUR 33 thousand).

The Net Income before Taxes is equal to the Total result for the period. There are no other comprehensive income or losses.

24 Staff

On average, the Biofrontera Group employed 37 employees in the 2014 financial year (2013: 35 employees).

25 Other information

Operating and financial leases

The group companies lease administrative and research facilities, as well as vehicles and equipment, under operating lease contracts. Future minimum obligations relating to leasing contracts are as follows:

	2014	2013	2014	2013	2014	2013
	≤ 1 year		1 year to 5 years		> 5 years	
Operating lease relationships						
Leases for business premises	142,981.44	141,400.44	512,482.38	655,463.82	0.00	0.00
Leases for cars	147,703.40	149,826.09	150,316.72	100,791.16	0.00	0.00
Leases for operating and business equipment	16,019.04	15,809.29	46,774.92	58,530.96	0.00	0.00
Consultancy contracts	71,511.48	135,666.67	0.00	0.00	0.00	0.00

Lease-related expenses for the reporting period amounted to EUR 191 thousand (previous year: EUR 175 thousand).

On the balance sheet date, there was a financial lease for a server leased by Biofrontera AG with a book value of EUR 20 thousand (previous year: EUR 30 thousand). The contract has a minimum term of 60 months to 31 July 2017. Biofrontera AG is obliged to purchase the leased asset from the lessor for a fixed residual value of EUR 2 thousand if the lessor exercises its option to sell. In the reporting year, minimum lease payments of EUR 11 thousand were recorded as expenses (previous year: EUR 11 thousand).

On the balance sheet date of 31 December 2014, the present value of the sum of future minimum lease payments was as follows:

All figures stated in thousand EUR	Minimum lease payments	Discount	Cash value
Up to 1 year:	11	2	9
Between 2 and 5 years:	16	5	11
Longer than 5 years	0	0	0

26 Notes on the cash flow statement

The cash flow statement is presented pursuant to IAS 7. The net loss is adjusted for effects of non-cash transactions, deferrals or accruals of past or future operational deposits or disbursements, and income and expense items attributable to investment or financing activities.

In the consolidated cash flow statement, cash and cash equivalents include cash-in-hand, cheques, bank deposits and money deposits with a maturity of up to three months. Current account liabilities are incorporated into the cash fund where applicable.

The interest payments made amounted to EUR 454 thousand (2013: EUR 830 thousand). The change resulted from the interest payments for the warrant bonds I on 01 January 2015 compared to the interest payment paid in the previous year that was already made in December 2013. The interest payments made amounted to EUR 143 thousand (2013: EUR 19 thousand). Of the increase of EUR

124 thousand, a total of EUR 120 thousand resulted from the interest payments received for warrant bonds I held by Biofrontera in particular.

27 Members of the Management Board

The members of the Management Board are:

Professor Hermann Lübbert was Chief Executive Officer in the reporting period. The Chief Executive Officer holds a professorship at the University of Bochum in Germany. His management contract was renewed for five years in March 2010.

Mr Thomas Schaffer is the company's Chief Financial Officer. His contract runs from 03 June 2013 to 30 November 2015.

The remuneration of the Management Board members consists of a fixed salary that is paid in twelve equal monthly instalments. In addition, there is an annual, performance-based bonus for the directors, as well as a long-term remuneration component consisting of participation in the company's share option programme. Company cars are also available to the directors for business and private use.

During the period from 1 January to 31 December 2014, remuneration for the Management Board members consisted of a salary, a bonus and share options. The total remuneration for Management Board members in the reporting period, including the value of share options at the time when they were granted, amounted to EUR 807 thousand (2013: EUR 892 thousand). Of this amount,

Professor Hermann Lübbert	- Salary / Bonus	EUR 405 thousand (31 December 2013: EUR 412 thousand)
	- Share options	151,850 (fair value when granted: EUR 167,236 (previous year: 135,000, fair value when granted: EUR 153,250), *of which 16,850 options were granted in 2014 (previous year: 30,000).*
Thomas Schaffer	- Salary / Bonus	EUR 202 thousand (31 December 2013: EUR 100 thousand)
	- Share options	35,000 (fair value when granted: EUR 32,650 (previous year: 15,000, fair value when granted: EUR 16,050), *of which 20,000 options were granted in 2014 (previous year: 15,000).*

In the previous year, Mr Werner Pehlemann, whose contract ended on 03 June 2013, received a salary/bonus amounting to EUR 211 thousand.

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

28 Supervisory Board members

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

Jürgen Baumann	Chairperson of the Supervisory Board, expert in the field of sales and marketing of pharmaceuticals, resident in Monheim, Germany
Prof. Bernd Wetzel	Deputy chair of the Supervisory Board, advisor, resident in Biberach/Riss, Germany
Dr Ulrich Granzer	Owner and Managing Director of Granzer Regulatory Consulting & Services, resident in Krailling, near Munich, Germany
Ulrike Kluge	Managing partner of klugeconcepts GmbH, Cologne; resident in Cologne, Germany
Andreas Fritsch	Sales/strategy manager of Alfred Wieder AG, Pullach, and Managing Director of Unternehmensberatung Fritsch, Seefeld; resident in Seefeld, near Munich, Germany
Alfred Neimke	Managing Director of Kopernikus AG in Zurich, Switzerland, resident in Zurich, Switzerland

In the 2014 financial year, the remuneration of the Supervisory Board members amounted to EUR 113 thousand (2013: EUR 113 thousand). The remuneration is classified as short-term employee benefits as defined in IAS 24.17 (a).

During the period under review, the company availed itself of additional advisory services from two members of the Supervisory Board, Dr Ulrich Granzer and Ms Ulrike Kluge. These services went beyond the scope of normal Supervisory Board activities. Dr Granzer assisted the company with key issues relating to the preparation of the application for approval by the supervisory authorities. During the course of the first half of the 2014 financial year, advisory services amounting to EUR 98,000 (previous year: EUR 32,300) were provided by Granzer Regulatory Consulting & Services. Accounts payable to Granzer Regulatory Consulting & Services amounted to EUR 5,800 on 31 December 2014 (31 December 2013: EUR 6,100). Ms Kluge advises the company in the area of business development. In the 2014 financial year, the advisory services provided by her amounted to EUR 6,600 (previous year: EUR 2,100), and liabilities to klugeconcepts GmbH amounted to EUR 3,800 on 31 December 2014 (31 December 2013: EUR 4,400).

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

29 Statement regarding relationships with related companies and persons

In the 2014 financial year, there were no transactions or relationships with related persons that were subject to mandatory reporting, beyond the facts and circumstances stated in subsections 27 and 28. The group of related persons and companies is limited to those referred to therein.

In the context of the underlying holding structure, Biofrontera is responsible for the administrative and management tasks. Biofrontera AG is also responsible for the financing of the currently still loss-making areas of business, as it is a listed company and therefore has the best access to the capital markets.

The funds made available to the subsidiaries as loans bear interest at market rates and are, if necessary, furnished with a subordination clause.

In light of the close cooperation between the subsidiaries, internal offsetting is applied, which is reviewed and adjusted to requirements on an annual basis.

30 Corporate governance statement pursuant to § 289a of the German Commercial Code (HGB), including the statement required by § 161 of the German Stock Corporation Act (AktG) on the German Corporate Governance Code

The Management Board and Supervisory Board of Biofrontera AG have provided the corporate governance statement as required pursuant to § 289a HGB, including the statement required pursuant to § 161 AktG, and have made these available to shareholders on the Biofrontera AG website.

31 Fees and services of the auditor

The total fee invoiced by the auditor Warth & Klein Grant Thornton AG for the 2014 financial year consists of the following:

	2014	2013
	Thousand EUR	Thousand EUR
Audit services	105	156
[of which for the previous year]	[14]	[51]
Other certification services	33	50
Tax advisory services	0	0
Other services	7	0
	145	206

32 Events occurring after the balance sheet date

On 17 March 2015, the rights to sell Biofrontera products in Spain were transferred back to Biofrontera by Allergan. Since then, Biofrontera has sold its products in Spain through its own branch, Biofrontera Pharma GmbH, sucursal en España.

March 2015 also saw the establishment of a subsidiary in America, Biofrontera Inc., which is based in Wilmington, DE.

Following a decision of the Supervisory Board on 27 March 2015 the service contract with the CEO Prof Hermann Lübbert was extended by five years until 31 October 2020.

Leverkusen, 9 April 2015

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**:

Auditor's opinion:

We have audited the consolidated financial statements prepared by Biofrontera AG – comprising a consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income for the period, consolidated statement of changes in equity, consolidated statement of cash flows and notes to the consolidated financial statements – and the combined management report of Biofrontera AG and the group for the financial year from January 1, 2014 to December 31, 2014. The preparation of the consolidated financial statements and the combined management report in accordance with IFRS, as adopted by the EU, and with the additional requirements of the German commercial law pursuant to section 315a paragraph 1 HGB are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and the combined management report based on our audit.

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

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements of Biofrontera AG for the financial year from January 1, 2014 to December 31, 2014 comply with IFRS, as adopted by the EU, and the additional requirements of the German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The combined management report of Biofrontera AG and the group is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitable presents the opportunities and risks of future development.

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

Düsseldorf, April 9, 2015

Warth & Klein Grant Thornton AG
Wirtschaftsprüfungsgesellschaft

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Wirtschaftsprüfer
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