READY TO GO

Biofrontera AG

Annual Report 2015

Key figures 2015

Key consolidated figures calculated in accordance with IFRS

In kEUR	31.12.2015	31.12.2014
Results of operations (earnings)		
Sales revenue	4,137.9	3,095.6
of which sales in Germany	3,028.0	2,379.0
of which down-payments	70.0	70.0
Sales and distribution costs and general administrative costs	-6,929,4	-7,091.6
Research and development costs	-6,204.0	-4,534.2
Operating profit (EBIT)	-10,044.1	-9,741.7
Profit/loss before tax	-11,203.4	-10,721.0
Profit/loss after tax	-11,203.4	-10,721.0
Cash flow statement		
Cash flow from operating activities	-9,717.3	-7,927.9
Cash flow from investment activities	17.0	78.9
Cash flow from financing activities	5,150.1	13,424.9

In kEUR	31.12.2015	31.12.2014
Key balance sheet figures		
Balance sheet total	9,497.7	14,010.5
Current liabilities (excluding provisions)	2,035.1	2,305.3
Long-term liabilities	11,229.9	10,774.3
Equity, subscribed capital & capital reserve	105,015.7	98,599.3
Equity ratio	-50.63%	-0.14%
Cash and cash equivalents	3,959.2	8,509.4
Number of staff on 31 December	**58**	**46**
Biofrontera shares	**31.12.2015**	**31.12.2014**
Outstanding shares	25,490,430	22,196,570
Share price (Xetra closing price)	1.85	2.30
Dividend in EUR	0	0

Products

Ameluz®: Healing with light

Ameluz® is approved in the European Union (EU) for use in the photodynamic therapy (PDT) of superficial skin cancer (actinic keratosis) and is already sold in many European countries. Ameluz® combines the active ingredient 5-aminolevulinic acid (ALA) with a patent-protected nanoemulsion, which improves skin penetration and significantly increases the chemical stability of the ALA.

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

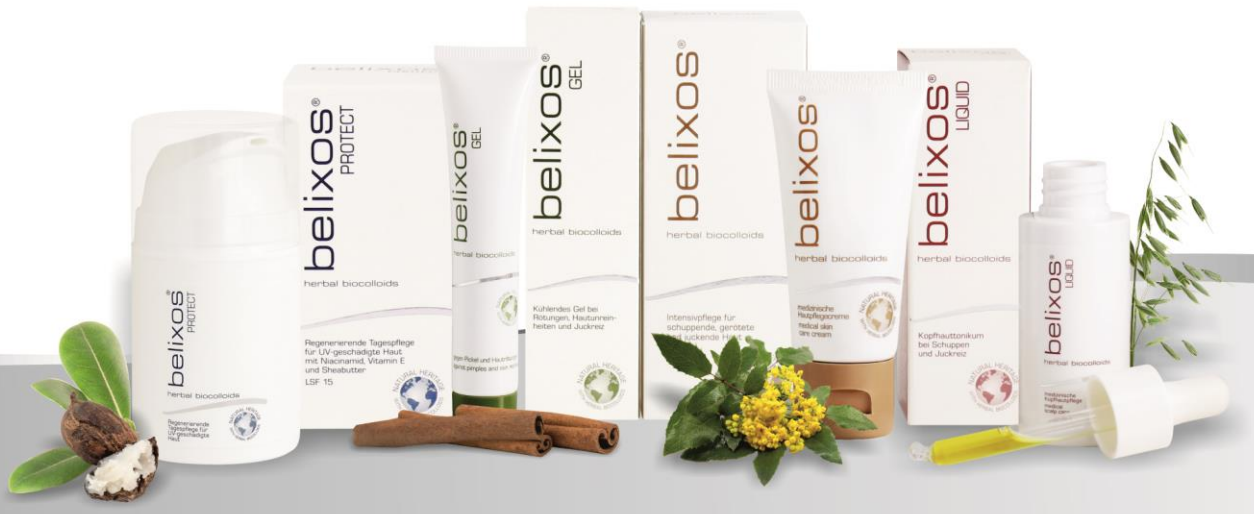
The light exposure used in conjunction with Ameluz® requires a powerful lamp that emits red light with a wavelength of approximately 635 nm. The phase III clinical trials of Ameluz® demonstrated significant differences in the treatment success achieved using different types of lamp. Biofrontera therefore developed its own PDT lamp, the BF-RhodoLED®. This is the first lamp that not only has the necessary luminous intensity at the relevant wavelength in order to ensure optimal efficiency, but which also makes it possible to counteract the pain experienced by many patients during the standard 10 minute exposure, by adjusting the light intensity and increasing the period of exposure, or by increasing ventilation of the relevant area of skin.

In November 2012, Biofrontera obtained CE certification for the BF-RhodoLED® lamp, which is manufactured in Germany. As a result, the lamp 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 in conjunction with a device, the drug and medical device are approved as a combination.

belixos®

active skin support



Active cosmetic product with active plant extracts

Social trends and external factors are leading to an increase in sensitive skin reactions. This increases the demand for skin-compatible and natural methods to promote the health of the skin.

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

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

Over the past two years, other specialist cosmetic products have been developed which provide lasting relief for a wide range of skin problems. The typical deep yellow colour is an unmistakeable mark of quality. This is derived from a traditional medicinal plant extract which is obtained from the roots of *Mahonia aquifolium* and combined with other plant extracts whose effectiveness has been clearly demonstrated in trials.

Belixos® Liquid is an innovative scalp serum with a practical pipette for dosing, which soothes scalps irritated by psoriasis or eczema, for example, and restores their balance. Itchy and flaky scalps and their causes are combated effectively and on a long-term basis with a combination of anti-inflammatory mahonia, moisturising oats, irritation-relieving panthenol and a special zinc PCA complex.

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

regulates sebum.
In summer 2015, a modern daily skincare product with exceptional lipid matrix formulation and skin-regenerating properties was added to the Belixos® range: Belixos® Protect. Highly concentrated niacinamide smooths the skin and helps repair existing photodamage. It also contains UVA and UVB broad spectrum protection with SPF15 to protect against further light-induced skin ageing and hyperpigmentation.
Irritated skin requires the highest level of care. Belixos® products are manufactured in accordance with strict quality and environmental requirements. They are free of paraffins, parabens, ethyl alcohol, animal products, dyes and fragrances that may have negative dermatological effects. Their skin-compatibility was dermatologically tested without the use of animal testing and was assessed as "very good" by the independent institute 'Dermatest'. Belixos® is available at selected pharmacies, dermatological institutes and on Amazon.
A further product will be launched in 2016.

Highlights of 2015

- Approval application for Ameluz® and BF-RhodoLED® submitted to the FDA in the USA; approval expected in May 2016
- Completion of the clinical stage of the phase III trial of Ameluz® for basal cell carcinoma
- Management strengthened by the appointment of Christoph Dünwald as Chief Commercial Officer
- Addition of Belixos® Protect, a daily skincare product for sun-damaged skin, to the dermo-cosmetic line
- The long-term results of the field therapy of actinic keratosis with Ameluz® prove the long-term skin rejuvenation effect of PDT
- Successful takeover of sales and distribution in Spain from Allergan
- Ameluz® launched in Belgium

Letter to the shareholders

Dear Shareholders,

We can look back on a very turbulent, but also exceptionally successful financial year in 2015, and certainly one of the most promising years in the company's history.

With two successfully completed phase III trials, the launch of Ameluz® in additional European countries, the successful takeover of sales and distribution in Spain, but above all the verification process for the approval application for Ameluz® with the FDA, which has proceeded smoothly so far, Biofrontera has demonstrated an exceptional track record in 2015. Sales increased considerably compared to the previous year and, with the appointment of a new Chief Commercial Officer as well as a CEO for our US subsidiary, we have significantly strengthened our staff for the forthcoming sales challenges in Europe and the USA.

We have thus reached significant milestones and laid the foundations to make Biofrontera a unique success story.

After starting two important phase III trials in 2014 to further exploit the sales potential of Ameluz®, we were able to report excellent results for both trials in the past financial year. The efficiency of the clinical development of Ameluz® is definitely one our company's greatest assets and is a prerequisite for long-term value development.

The application to extend the range of indications that can be treated using Ameluz® for field therapy was made to the European Medicines Agency in December 2015. This was in response to the recommendation for the field therapy of actinic keratosis that has been in the dermatological guidelines for several years, but for which no PDT drug has yet been approved anywhere in the world up to now. The long-term skin rejuvenation effect that occurs with field therapy

and which was proven in the same phase III trial is a strong argument when selecting a therapy for field cancerisation with actinic keratoses and extensive photodamage.

The very elaborate phase III trial for basal cell carcinoma involving a direct comparison with a competing product was also successfully completed. Once the final report has been submitted, Biofrontera is planning to apply for an approval extension. The results show excellent healing rates and excellent clinical efficacy compared to the competitor drug Metvix®, especially with thicker and nodular carcinomas. We expect that we will be able to market Ameluz® for this indication in Europe from autumn of this year.

Approval for a proprietary drug in the USA is a barely achievable pipe dream for many small pharmaceutical companies and even for big pharmaceutical corporations it is a major feat, so we are extremely proud of the speed and quality with which we have gone through the process so far. It has been a surprise even to us that up to now, the FDA has not raised any significant criticisms or found any shortcomings, and we are therefore currently expecting that the likely approval date of 10 May 2016 given by the FDA will be achieved.

We have therefore put the company in an excellent position to create substantial added value in the coming financial year.

For this, in the past year, substantial restructuring was necessary, which involved bringing the final assembly and testing of the BF-RhodoLED® PDT lamp in-house, as this was the only way to meet the considerable documentation requirements of the FDA. In the USA, we set up a subsidiary and, with the help of our American CEO, we established the necessary prerequisites for the quality and personnel management systems that are required for an American company operating in the pharmaceutical sector.

This year, we need to significantly strengthen the company's sales and marketing departments in particular. We are therefore delighted that we were able to inspire an extremely experienced and dynamic Chief Commercial Officer, Christoph Dünwald, to join our company, who will give suitable emphasis to our endeavours. Mr. Dünwald worked for Allergan in recent years and has extensive experience of launching products in the American market, and the expansion of our local sales organisation in the USA will be his main area of responsibility.

The further increase in sales of 30% in 2015 shows that we are already on the right track in Europe and Ameluz® is increasingly establishing itself as the drug of choice for photodynamic therapy to treat actinic keratoses. Our aim is now to use the extension of the indications, in particular for treating basal cell carcinomas, and the regional expansion of our sales activities to achieve significantly greater market penetration.

Unfortunately, this positive operational progress has not been reflected in an appropriate market valuation. However, the problem with the shareholder structure that had existed for about two years was remedied towards the end of 2015, and we are therefore now confident of a positive price performance in 2016.

The successes of the past year are the result of the efforts of our creative and extremely dedicated staff. We are grateful to have such colleagues. At this point, we would like not only to give them high praise but also to say a heartfelt thank you to them.

We would also like to thank you, our shareholders, sincerely for believing in Biofrontera, our products and our future strategy and for continuing to support us.

In 2016, we want to take Biofrontera to a completely new stage of company development with further growth and entry into new markets. We have been preparing for this growth step for the past few years. As the title of this Annual Report says, we are ready to go. We promise to carry on working to the best of our endeavours for a successful future for Biofrontera AG.

Yours sincerely,

Professor Hermann Lübbert | Christoph Dünwald | Thomas Schaffer

Management Board of Biofrontera AG

Biofrontera's financial instruments

Key details of Biofrontera shares	
Stock exchanges	Düsseldorf, Frankfurt, Berlin, Munich, Stuttgart, Xetra, Tradegate
WKN (German securities ID number)	604611
ISIN	DE0006046113
Outstanding shares as at 31 December 2015	25,490,430
12-month high (24 March 2015)*	EUR 2.82
12-month low (9 November 2015)*	EUR 1.60
Closing price 31 December 2015*	EUR 1.85
Market capitalisation as at 31 December 2015	EUR 47.183 million

*(Price data from Xetra)

Key details for warrant bond I with warrant*	
Stock exchanges	Düsseldorf
WKN (German securities ID number)	A0Z169
ISIN	DE000A0Z1690
Term, final maturity	8 years, 31 December 2017
Stepped coupon	4% (2010), 6% (2011), 8% (2012)
12-month high (7 January 2015)	EUR 93.9
12-month low (30 December 2015)	EUR 82.2
Closing price 31 December 2015	EUR 82.2

*(Price data from the Düsseldorf 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 (8 January 2015)	EUR 90.1
12-month low (3 December 2015)	EUR 70.0
Closing price 31 December 2015	EUR 80.2

*(Price data from the Düsseldorf Exchange)

Investor relations

2015 was marked by major advances in the company's development, which are summarised above in the letter to the shareholders. Despite all the positive corporate news, Biofrontera's shares recorded a painful loss in value.

After the sharp fall in share price at the start of the year, it increased to an annual high of EUR 2.98 in March. However, the subsequent positive news was unfortunately not able to prevent a renewed drop in price. This was largely caused by two major shareholders, who originally wanted to jointly sell the package which they held between them of approximately 25% of the shares, but then had a disagreement about the way to do this and subsequently proceeded to cause significant damage to the company by selling heavily on the stock market. In November 2015, within a space of two days in the middle of the subscription period for a capital increase, an extraordinarily large number of shares were sold on the market, resulting in a short-term price drop down to the 12-month low of EUR 1.60. Because of this, the fund raise in progress at the time was seriously disrupted, and it was therefore not possible to place the envisaged financing volume. This trend was finally brought to an end towards the end of 2015 with the sale of all the remaining shares from these two packages after this financing round.

During the reporting year, approximately 47,000 shares were traded on average each day. This is a substantial increase over the previous year which is certainly related to the selling pressure generated by the aforementioned major shareholders. The largest daily trading volume of 691,215 shares occurred on 9 November 2016. Another spike in trading volumes was registered when it was announced that the approval application had been submitted to the FDA.

The company carried out two capital measures in 2015. A first capital increase with subscription rights was completed in May, during which Biofrontera issued 1,377,272 new shares with issue proceeds of approximately EUR 3.1 million (net). This fund raise was necessary because an unscheduled filing fee had to be paid to the FDA. This fee was refunded to Biofrontera in March 2016.

In the second fund raise, which was also carried out with subscription rights, 1,916,588 shares were placed with investors in Germany and abroad, with net proceeds of approximately EUR 3.5 million.

The huge efforts of the management to restructure the shareholder base by attracting new institutional investors demonstrated positive results at the end of the year. The adjustment to the shareholder structure that has now been completed should provide a sound basis on which to build.

Currently, around 70% of Biofrontera's share capital is held by private investors and smaller institutional investors. The Management Board's shareholding currently amounts to approximately 3%. The majority of the shares are held in Germany, with further shares being held in the UK, Switzerland, Austria, Luxembourg and Belgium.

The Biofrontera share price was followed by research analysts from the firms Lang & Schwarz Broker GmbH, SMC Research and Shore Capital.

The provision of liquidity required by the stock exchange for Xetra computer trading and the role of designated sponsor were undertaken by Lang & Schwarz Broker GmbH again in this reporting year. The role of the Nomad (nominated advisor) required by the London Stock Exchange, where Biofrontera was listed on the AIM market up to 18 February 2018, was undertaken by Shore Capital Corporate Ltd.

The 2015 Annual General Meeting was held on 28 August 2015 in Leverkusen. All the resolutions proposed by the management were adopted by a clear majority, whereby approximately 43% of the share capital was represented.

In 2015, Biofrontera communicated with the capital market on a regular and ongoing basis to ensure that shareholders and the interested general public were promptly and comprehensively informed about the company's situation. Regular

meetings with analysts and investors at roadshows and in individual meetings were a key component of investor relations. In this regard, increased efforts were made to seek contacts and meetings at the financial centres of London and New York.

In addition, Biofrontera held regular teleconferences with its shareholders when publishing financial data, in order to give analysts and investors the opportunity to ask questions about the current performance of the company directly.

It also held the annual shareholders' evening again, where investors can take the opportunity to communicate with the Management Board and employees of the company outside the rigid framework of the Annual General Meeting. We at Biofrontera were delighted that this opportunity was once again taken up by many of our shareholders who came from all over Germany, some travelling long distances to be there.

Management Board interview with Christoph Dünwald, CCO

Christoph Dünwald, Chief Commercial Officer of Biofrontera AG since November 2015

The title of this 2015 Annual Report is 'Ready to go'. What does this slogan mean in terms of your work during the current financial year?

Biofrontera has changed enormously in recent years. The original research-based biotech company has grown into a well-run pharmaceutical company.

We gained our experience in Germany and increased our market presence step by step so that we are now market leaders for the PDT treatment of actinic keratosis. We then gradually expanded our in-house sales activities in Spain and the UK and are now ready to move into the world's most important pharmaceutical market, the USA. The potential for our products is enormous there.

What is your sales strategy for dealing with these challenges?

Of course we have to adopt a very selective approach in the USA. We will start by marketing Ameluz® and the BF-RhodoLED® lamp in the areas where there is a high prevalence of actinic keratosis. Since this involves sun-induced skin damage and mainly occurs in older people, areas such as Florida and California are good regions to target first. We will first work with doctors who value innovative treatments and highlight the superiority of PDT with Ameluz® over other treatment options.

Ameluz® is sold throughout Europe and the marketing for the USA is currently being planned – a big task. What does your daily work at Biofrontera look like?

The exciting thing about my job at Biofrontera is that every day looks different. Previously, I always worked in very large multinational pharmaceutical companies with large management structures and lots of departments and processes. Here at Biofrontera, everything is much quicker and more direct. Decisions are made and implemented. My main task is to set up successful international sales structures. And that is primarily about people. You have to find employees who are willing to commit to the Biofrontera project and to work on a wide range of tasks. For example, our field sales representatives are both pharmaceutical representatives and medical product consultants and must also be able to carry out training for practice or hospital staff.

Another of my areas of responsibility is managing our international distribution partnerships. In many countries we work with partners who sell Ameluz® and the BF-RhodoLED® lamp. We provide support for these partners in terms of their marketing approach and sales strategy, and via our medical/scientific department.

Where do you see the greatest growth potential for Biofrontera's product range?

In addition to the obvious growth potential resulting from our entry into the US market, our plan is to successively extend the indication areas for Ameluz® by means of clinical trials. The combination of Ameluz® and PDT offers treatment possibilities for many more skin problems in addition to actinic keratosis. Our latest trial has already shown that Ameluz® is highly effective for treating basal cell carcinoma. Approval for use in Europe is expected in the current financial year.

In addition, we also have our active cosmetic line, Belixos®. This is a great range of products that can help people suffering from skin irritations.

In general, I am convinced that the principle of using our patented nanoemulsion to carry active ingredients deep into the skin and activating them there with light offers us great scope to develop more products in the future. But that is the future. Our task at the moment is to establish ourselves in the USA

You have ambitious targets – what does that mean for your employees?

For the most part, our employees consciously chose to join Biofrontera precisely because it is a small and innovative company. Many of my colleagues have previously had experience of working in large pharmaceutical companies and can very easily see the huge potential for success inherent in our products and our company. They joined us because they can participate in a very different way here, and because they want to be part of our success story.

We are confident that we will increase our sales many times over in the next few years, and there are not many companies that can make this assumption as realistically as we can.

What could be the biggest challenge for you personally in your new position as Chief Commercial Officer?

The jet lag *(laughs)*. I expect to be spending a lot of time in the USA. It would be very difficult to manage the development of an American sales organisation from an office in Leverkusen. However, the entry into the US market was a major reason for my decision to join Biofrontera, as I have already lived in the USA for several years twice before and my family and I also feel very comfortable there.

Corporate Governance Report for the 2015 Financial Year

I. Declaration 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" ("Code"), published by the Federal Ministry of Justice in the official section of the electronic Federal Gazette, have been and are being complied with, or which recommendations were not or are not being adhered to and why this is the case ("compliance declaration"). The compliance declaration must be made permanently accessible to the shareholders.

The Management Board and the Supervisory Board hereby make the following compliance declaration:

Since the submission of its last compliance declaration in December 2014, Biofrontera AG has complied with the recommendations of the Code in the version listed in that declaration taking into account the exceptions stated there, and will comply with the version of 5 May 2015, with the following exceptions:

Deductibles in respect of the D&O insurance (No. 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 efforts to attract outstanding people 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).

General limit to be specified for the term of office on the Supervisory Board (No. 5.4.1)

As part of its diversity goals, the Supervisory Board should specify a general limit for the term of office on the Supervisory Board. However, in the company's case, specifying a general limit for the term of office is not considered to be appropriate from the current perspective. This is because, in the opinion of Supervisory Board, it is not possible to abstractly determine a length of time that could usefully be specified as a general maximum limit for the term of office. Instead, each case should be assessed individually, in terms of whether the length of membership of the Supervisory Board up to now may conflict with a proper and impartial exercise of the mandate.

Structure of remuneration for the Supervisory Board (No. 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 currently required, especially as the members generally have around the same workloads resulting from membership of the various committees.

Reporting (No. 7.1.2)

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

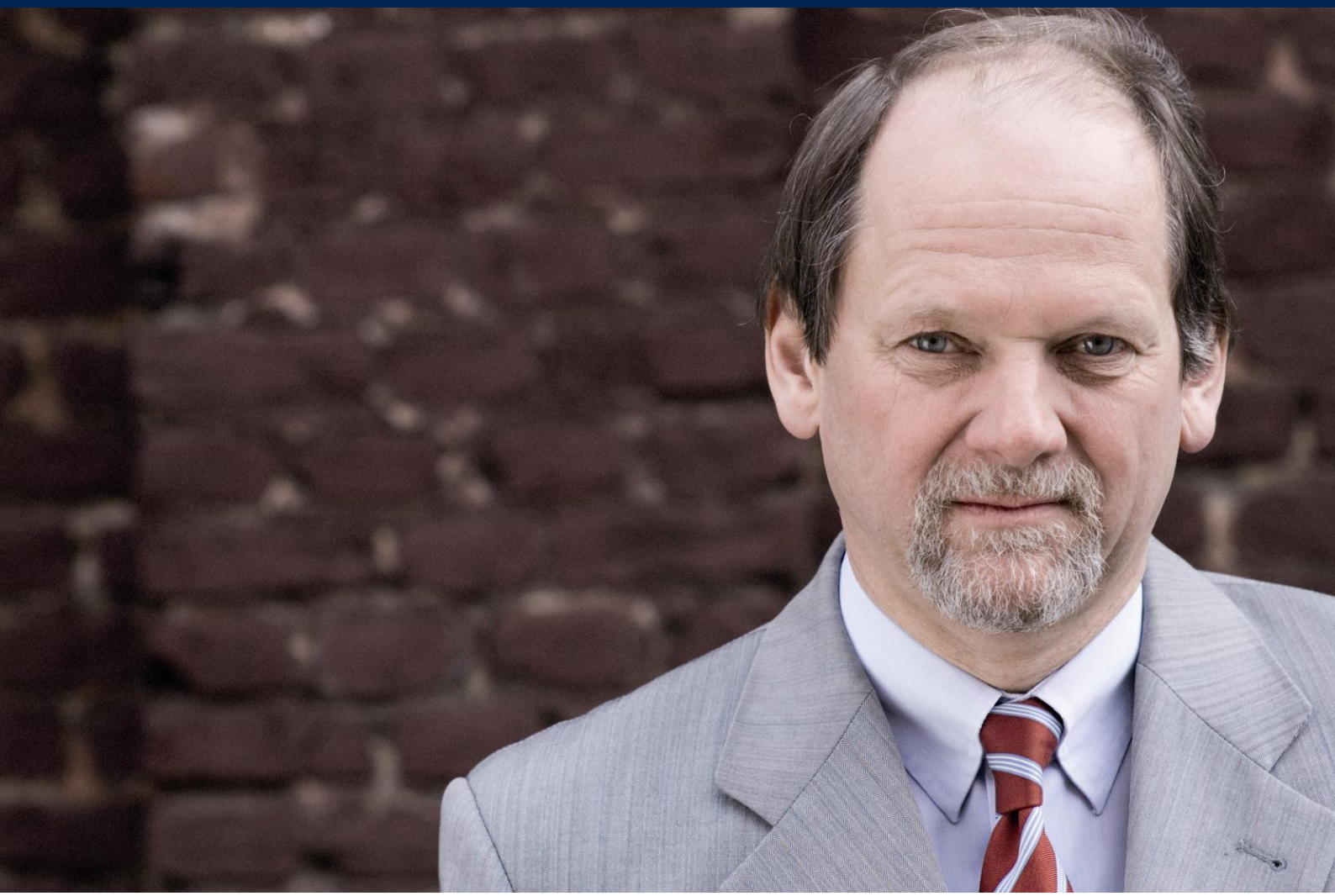
Leverkusen, December 2015

Professor Hermann Lübbert | Christoph Dünwald | Thomas Schaffer
Management Board of Biofrontera AG

Jürgen 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 2015 Financial Year

Dear Shareholders

In the 2015 financial year, significant advances were made in the development of the company. The submission of the approval application for Ameluz® in the USA in July 2015 was of key significance. Since then, the approval authority, the Food and Drug Administration (FDA), has provided positive feedback. The results of the trials for the treatment of basal cell carcinoma (BCC) with Ameluz® and field therapy using Ameluz® were also positive. In November 2015, Christoph Dünwald joined the Management Board as the member with responsibility for sales and marketing. The Management Board contracts with Prof. Dr. Hermann Lübbert and Mr. Thomas Schaffer were both extended by five years. Furthermore, on the sales side, preparations were made for entry into the US market by setting up a subsidiary and appointing a US CEO. In addition, the marketing of Ameluz® in Belgium began and market approval for Switzerland was issued.

On the financial side, around EUR 6 million was raised during the reporting period via two capital measures. A further EUR 4.4 million was raised in February 2016. In connection with the capital measures, the investor structure was also adjusted and a new anchor investor was obtained.

In the 2015 financial year, the Supervisory Board discharged the responsibilities imposed upon it by the law, the Articles of Association, the German Corporate Governance Code (Code) and the Rules of Procedure. 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 with it its future-orientated business decisions and plans. The Supervisory Board's discussions with the Management Board were always based on Management Board reports, and also involved reviewing and taking into consideration business documents and templates. 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. Regarding decisions of fundamental significance for the company, the Supervisory Board was always consulted immediately. On the basis of the Management Board's written and verbal reports, the Supervisory Board comprehensively discussed business developments and the company's situation in its meetings. Furthermore, the Chief Executive Officer and the Chairman of the Supervisory Board regularly exchanged information and ideas. Deviations in business performance from the plans were explained in detail to and discussed by the Supervisory Board. Furthermore, the Supervisory Board always examined the extent to which its decisions, proposals and recommendations were subsequently taken into account and implemented by the Management Board in running the company.

Whenever approval from the Supervisory Board was required for decisions made by the Management Board, because of the catalogue of such decisions defined by the Supervisory Board or because of legal requirements or corresponding requirements of the Annual General Meeting, or if the Management Board requested approval with regard to any other measures, the Supervisory Board was informed in advance via the 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 a circulation procedure – in or after a conference call. If necessary, the Supervisory Board also inspected the company's books and documents.

Meetings and areas of focus

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

9 April 2015

The meeting of 9 April 2015 was the 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 audit and approved the annual financial statements and the consolidated financial statements. The annual financial statements and the consolidated financial statements of Biofrontera Aktiengesellschaft for the 2014 financial year were thus adopted. At the same meeting, the agenda for the Annual General Meeting was also discussed.

The Management Board reported on the financial situation and the liquidity position, the status of sales and marketing and that of research and development. Here, emphasis was placed on the considerations regarding the marketing strategy in the US, particularly the appointment of Monica Tamborini as the future CEO of the US subsidiary. In connection with the presentation of the financial situation, the Management Board also explained their plans relating to capital measures.

Following the report on the meeting of the Personnel Committee, the Supervisory Board decided to extend the Management Board contract of Mr. Schaffer and his appointment by five years.

10 June 2015

At the meeting, the Management Board reported on the development of sales of Ameluz® and the status of the approval process with the FDA, as well as the trials relating to the approval of Ameluz® for the treatment of BCC. In addition, the Management Board also discussed the results of the capital increase and the plans for further financing, in particular the presentation of related resolution proposals at the AGM.

27 August 2015

The Management Board reported on the half-yearly financial statement, in particular on the question of when a refund of the filing fee for the approval of Ameluz® in the USA is expected. A key area is the status of sales and marketing in Germany and Europe, as well as the necessary preparations in the United States. The status of the trials for the European approval of Ameluz® for the treatment of BCC and considerations regarding further financing were also presented.

8 December 2015

The Management Board reported on the current business performance and provided an outlook for the 2015 annual results. The Supervisory Board dealt with the budget plan for 2016, which was approved, and discussed the medium-term plan with the Management Board. The financial situation as well as the progress of the approval process and the trials were another key area of consultation.

As the next regular Supervisory Board elections are due to take place at the AGM in 2016, the Nomination Committee reached agreement with the full Board on specific issues relating to its future composition and the issues relating to the functioning of the Nomination Committee.

Meeting attendance

Ms. Kluge could attend one of the four meetings only partially. Mr. Neimke was unable to attend one of the four meetings due to illness and Dr. Granzer was unable to attend two meetings, also due to illness.

Resolutions outside of meetings

The Supervisory Board also passed resolutions outside of meetings. These related in particular to capital increases, the establishment of the US subsidiary Biofrontera Inc., and Management Board issues.

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 to the Supervisory Board about the committees' work.

All the committee members participated in all the committee meetings in 2015.

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 overseeing the audit of the company's annual financial statements. In companies as defined in § 264d of the German Commercial Code (HGB), which includes Biofrontera Aktiengesellschaft, the Supervisory Board's nomination for the selection of the auditor must be based on the Audit Committee's recommendation. Furthermore, in companies as defined in § 264d of the German Commercial Code (HGB), at least one independent member of the Supervisory Board must have expertise in the fields of accounting or auditing and be a member of the Audit Committee. In the reporting year, the Audit Committee comprised the following individuals: Jürgen Baumann, Andreas Fritsch and Alfred Neimke. Mr. Fritsch is the current chairperson.

The committee met twice during the reporting year, the first time with the auditor in order to prepare for the Supervisory Board's balance sheet meeting on 9 April 2015, and the second time in the run-up to the budget meeting on 8 December 2015. At the first meeting, the committee also made a recommendation to the plenum regarding the selection of the auditor for the 2015 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 is 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 four times during the reporting year to prepare a resolution of the Supervisory Board regarding the variable remuneration components of Management Board members, to prepare the resolution to extend the Management Board contract of Prof. Dr. Hermann Lübbert, to prepare the resolution to extend the Management Board contract of Mr. Thomas Schaffer and to prepare the appointment of Mr. Christoph Dünwald as a member of the Management Board.

Research & Development Committee

The Research & Development Committee deals with key issues related to product development. After discussions within the Research and Development Committee, it makes appropriate recommendations to the Management Board and the Supervisory Board. In the reporting year, the Research & Development Committee comprised the following individuals: Dr. rer. nat. Ulrich Granzer, Ulrike Kluge and Prof. Dr. rer. nat. Bernd Wetzel. Prof. Dr. rer. nat. Bernd Wetzel is the current chairperson The Research & Development Committee worked intensively at three meetings and outside the meetings on all aspects of the clinical trials and the approval strategy.

Business Development Committee

The Business Development Committee assesses the opportunities for licensing deals and related contractual terms, advises the Management Board on specific negotiations and prepares resolutions for the Supervisory Board on matters requiring approval. In addition, resolutions regarding licensing or direct selling are also discussed in the Business Development Committee. 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. During the financial year, three meetings of the Business Development Committee were held, usually in conjunction with the R & D Committee meetings.

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 to the Supervisory Board for its nominations of future members of the Supervisory Board at the Annual General Meeting. In so doing, the Nomination Committee considers the balance and diversity of knowledge, skills and experience of all the Supervisory Board members, and creates candidate profiles. In addition, the Nomination Committee makes recommendations to or informs the Supervisory Board of results from its 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 it deems appropriate and also on external consultants within the necessary framework. During the financial year, the Nomination Committee met once to prepare a proposal to the Supervisory Board regarding which skills should be represented on the Supervisory Board as of 2016 and how new members should be sought.

Annual and consolidated financial statements for 2015

The audit company Warth & Klein Grant Thornton AG, Düsseldorf, was appointed Group auditor for the 2015 financial year by the Annual General Meeting on 28 August 2015 and was subsequently given the corresponding mandate by the Supervisory Board. The auditor's declaration of independence was received before the nomination was made at the Annual General Meeting. Warth & Klein Grant Thornton AG audited the annual and consolidated financial statements of Biofrontera Aktiengesellschaft, which were compiled by the Management Board, and the summary management report for the 2015 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 suitable, both in terms of its design and operation, 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 9 April 2015 and at the subsequent balance sheet meeting of the Supervisory Board on 9 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 statements, the consolidated financial statements and the combined company and Group management report, the Supervisory Board approved the reports of the auditor and the results of the audit, raised no objections on the basis of the results of its own audit and approved the annual financial statements and the consolidated financial statements.

The annual financial statements of Biofrontera Aktiengesellschaft were thus adopted.

The present Supervisory Board report was adopted at the balance sheet meeting held on 7 April 2016.

Responsible auditor

Mrs. Renate Hermsdorf has been the responsible auditor appointed to carry out the audit for Biofrontera AG since the 2013 financial year and also took on this role for the last financial year, 2015.

Corporate governance and compliance declaration pursuant to § 161 AktG

The Supervisory Board reviews the efficiency of its operational activities on an annual basis. The Supervisory Board worked intensively to issue the declaration of compliance with the recommendations of the German Corporate Governance Code for 2015. Further information on corporate governance is available in the Annual 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.

Equal participation of men and women

Regarding the law on the equal participation of men and women in leadership positions in the private and public sectors, the Supervisory Board set the target for female participation in the Supervisory Board at 1/3, i.e. two out of the current total of six seats. The deadline for achieving the target was set as 31 August 2016, in line with the objectives regarding the composition of the Supervisory Board defined on 22 February 2011. The target for the proportion of women on the Management Board was set at 0%. The deadline for achieving the target was set as 30 June 2017. The Supervisory Board was guided in its decision by the fact that, based on the existing management contracts, a higher target would only be achievable if the number of

staff on the Management Board was increased, but there are no current plans to do this. Further details can be found in the Declaration on Corporate Governance.

Conflicts of interest

Dr. Granzer advised the company in 2015 in capacities going beyond his membership of the Supervisory Board. 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, Dr. Granzer abstained from voting, 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.

Biofrontera AG

Leverkusen, 07 April 2016

Jürgen Baumann

- Chairman of the Supervisory Board -

Combined Company and Group Management Report as of 31 December 2015

Fundamentals of the Group

1. Group structure

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

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

Biofrontera Development GmbH and Biofrontera Neuroscience GmbH were established as additional wholly owned subsidiaries of Biofrontera AG in December 2012. The purpose of both companies is to pursue the further development of pipeline products that are not part of Biofrontera's core business and therefore cannot be sufficiently financed within the framework of normal business development. The product BF-derm1, which is intended for the treatment of severe chronic urticaria, is the responsibility of Biofrontera Development GmbH, while the product BF-1, which is intended for the prophylactic treatment of migraines, is the responsibility of Biofrontera Neuroscience GmbH. By outsourcing the development projects, a structure has been created through which the financing of the further development of these two products can be separated from the normal Group financing.

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

2. Group strategy

The strategic objective of the Biofrontera Group is to establish the company as a pharmaceutical company specialising in the dermatological sector. In addition to further expansion of business in Europe, the main priorities are to increase the range of indications for existing products and to develop the independent marketing operation in the USA.

Biofrontera was the first small German company to receive centralised European drug approval for a completely independently developed drug, Ameluz®. In the months prior to the market launch of Ameluz®, the company's own sales operation was gradually developed, and Biofrontera has been selling Ameluz® via its own field sales team to dermatologists in Germany since the product was launched in February 2012 and in Spain since March 2015. In the UK, the contract with the local marketing partner was terminated on 31 July 2015. Biofrontera will take over distribution in the UK itself once indications have been extended to include basal cell carcinoma. The drug is distributed in other countries of the European Union, as well as in Israel and Switzerland, by licensing partners.

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

Further preparatory work was carried out for the approval of Ameluz® in the USA in the reporting period. In early July 2015, the approval application (NDA = New Drug Application) was submitted to the FDA (Food and Drug Administration). Ameluz® and BF-RhodoLED® have to be approved as a combination of a drug and a medical device in the USA, and therefore the approval application is unusually complex. In accordance with the guidelines, the FDA made a decision on the formal "acceptance to file" after a period of 60 days, and this was granted on 11 September 2015. In the subsequent "74-day letter", the company was informed on 2 October 2015 that no significant verification issues had been identified in the preliminary review process. In this letter, the FDA also gave the date for the detailed interim report including the proposed labelling as 30 March 2016, and gave an estimated date for issuing the final approval (PDUFA date) of 10 May 2016, provided that no significant problems arise. In a further communication on 20 January 2016, the FDA informed the company that the midcycle review had been completed and the FDA had no further questions arising from this regarding the approval application. The proposed labelling was provided to the company by the FDA at the end of March 2016. Once the approval process has been completed, Biofrontera will have access to the largest healthcare market in the world.

The extension of the indications for Ameluz® to include the treatment of basal cell carcinoma (BCC) was initiated in 2014. The phase III clinical testing was carried out in direct comparison with the competitor product Metvix®. Patient recruitment was completed in May 2015 and the last patient completed the clinical part of the trial in November 2015. There is then a 5-year follow-up period for all the patients. The results of the trial have been available since January 2016 and prove that Ameluz® is highly clinically effective for the indication of BCC. In comparison with the competitor product Metvix®, it demonstrated higher healing rates, especially with thicker and nodular carcinomas. Metvix® has had a major competitive advantage over Ameluz® up to now due to its approval for the treatment of basal cell carcinoma, despite its statistically significant inferiority for the treatment of actinic keratosis (in the case of AK, Ameluz® is approved for mild and moderate AK on the face and scalp as the first choice therapy, while Metvix® is only approved for mild AK on the face and scalp as a second choice therapy). Particularly in other European countries, where dermatologists are mainly based in hospitals and there are fewer independent practices, the market opportunities of Ameluz® are significantly reduced by the lack of approval for BCC. The extension of the indications currently being sought is therefore expected to put Biofrontera in a significantly improved market position. The application to extend the indications of Ameluz® to include basal cell carcinoma is due to be made once the trial report has been completed in the 2nd quarter of 2016, and the approval of the European Medicines Agency is then expected in the 4th quarter of 2016.

2016 will therefore be a very decisive year for Biofrontera, with new Ameluz® approvals expected for actinic keratosis in the USA, Switzerland and Israel and an approval extension expected for basal cell carcinoma in Europe. In light of this and the related challenges facing Biofrontera, the Management Board was expanded to include a Chief Commercial Officer. Christoph Dünwald was appointed as Chief Commercial Officer, bringing with him extensive international experience and all the necessary skills to successfully manage the internationalisation of sales and in particular the marketing of Ameluz® in the USA and Europe. Mr. Dünwald has 24 years of experience in sales and marketing in the healthcare sector in Europe, the USA and Asia. He joined Biofrontera on 16 November.

3. Products

Ameluz®

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

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

As approval in the USA requires a combination of drug and lamp, Biofrontera has developed its own PDT lamp, BF-RhodoLED®, and has had it CE-certified in the EU, which requires the company to be certified pursuant to the ISO 9001 and ISO 13485 standards. In preparation for the approval in the USA, a phase III trial was carried out with a combination of Ameluz® and BF-RhodoLED®, and was completed in the reporting period. With this combination, keratoses were completely eradicated from 91% of patients, and in terms of the number of individual lesions, 94% were completely removed after treatment (99.1% of mild and 91.7% of moderate lesions). As it has been widely reported in the literature that PDT has pronounced skin-rejuvenating properties, particularly in the case of sun-damaged skin, in this trial, for the first time in a phase III trial of PDT anywhere in the world, the drug was applied over large surface areas (field therapy) and the cosmetic result was established, without taking into account the disappearance or not of the keratotic lesions. All the parameters that were tested improved significantly as a result of the treatment. The proportion of patients without rough, dry and scaly skin increased from 14.8% to 63.0% after treatment with Ameluz®. The group of patients without hyperpigmentation or hypopigmentation increased from 40.7% to 57.4% and from 53.7% to 70.4%, respectively. The proportion of patients with mottled pigmentation who had both hyperpigmentation and hypopigmentation in the treated area decreased from 48.1% to 29.6%. Before treatment, 22.2% of the patients had mild scarring, which dropped to 14.8% of patients after treatment. Atrophic skin was diagnosed in 31.5% of patients before treatment but in only 16.7% of patients after the treatment.

The patients treated in the field therapy trial were observed by the trial doctors over the course of a year after the final treatment. Here, the long-term nature of the pharmaceutical effect of Ameluz® was analysed in terms of effectiveness, safety and the cosmetic result. 63.3% of the patients who were initially completely asymptomatic were still asymptomatic one year later. The long-term effectiveness achieved using field therapy is thus in the region of that already observed in previous long-term studies on lesion-directed PDT with Ameluz®. The improvement in the skin appearance of patients treated with Ameluz® that was observed immediately after PDT continued to develop during the follow-up period. Before PDT, only 14.8% of patients had no impairments to the surface of the skin. Whereas twelve weeks after the last PDT, 63% of patients were already free of such cosmetic damage, this percentage rose after a year to 72.2%. Similar results were also observed

for pigment disorders. Before PDT, hyperpigmentation occurred in 59.3% and hypopigmentation in 46.3% of patients, with 48.1% exhibiting irregular pigmentation. Twelve weeks after Ameluz® PDT, these percentages initially fell to 42.6%, 29.6% and 29.6% and decreased over the course of a year to 24.1%, 11.1% and 18.5%. These results clearly show that the skin rejuvenation effect achieved using photodynamic therapy with Ameluz® is long-lasting and the repair processes triggered by the therapy remain active for at least 12 months.

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

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

Actinic keratosis is classified as a tumour that requires treatment, and the international treatment guidelines list photodynamic therapy as the gold standard for the removal of actinic keratoses, particularly for patients with large keratotic areas. The latest statistics show that actinic keratosis is becoming a widespread disease, with up to 8 million people affected in Germany alone, and that there is a marked upward trend in cases. In particular, subclinical and mild actinic keratoses can develop into life-threatening squamous cell carcinomas, and this happens to the relevant lesions within two years on average. The fact that doctors are therefore taking actinic keratosis increasingly seriously is illustrated by the fact that actinic keratosis has been recognised as an occupational disease since summer 2013. Since then, occupational insurance associations have been obligated to cover the treatment costs of patients who have mainly worked outdoors for a long time and who fulfil certain criteria, for the duration of these patients' lives. Reimbursement will be determined shortly.

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

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

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

Biofrontera has carried out a phase III trial for the extension of the European approval to include the indication basal cell carcinoma (BCC). BCCs are the most common invasive tumours that affect humans and account for approximately 80% of all invasive white skin cancers. Around 30% of all Caucasians develop at least one BCC in their lifetime, and cases are increasing rapidly worldwide due to increased exposure to UV light. Surgical removal is the most frequent treatment currently used in Germany but this can lead to clearly visible scarring, whereas treatment with photodynamic therapy (PDT), which is an alternative particularly in the treatment of thin BCCs, gives rise to excellent cosmetic results. In the pivotal phase III trial, a

total of 278 patients were treated. The trial was conducted under the clinical supervision of Prof. Dr. Colin Morton (UK) and Prof. Dr. Markus Szeimies (Germany) and was carried out at 27 clinical trial centres in the UK and Germany. Patient recruitment for the trial, which was carried out in direct comparison with the competitor product Metvix®, was completed in May 2015 and the last patient completed the trial in November 2015. The results of the trial have been available since January 2016. The results confirm the company's positive expectations. In the clinical trial, the effectiveness and safety of Ameluz® were compared with that of Metvix®, a drug already approved in the EU for the treatment of BCC. Non-aggressive (superficial and nodular) BCCs with a thickness of up to 2 mm were included in the trial. Ameluz® achieved the complete elimination of all BCCs from the patient in 93.4% of cases compared to 91.8% with Metvix®. There were greater differences in the case of thicker BCCs. With Ameluz®, 89.3% of the tumours were completely removed, compared to only 78.6% with Metvix®.

Based on the results of this phase III trial, Biofrontera will shortly apply to the European Medicines Agency for approval for the treatment of BCC with Ameluz®. As the existing Ameluz® approval only has to be extended for this, the extended approval should be issued as early as this year.

BF-RhodoLED®

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

Belixos®

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

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

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

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

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

In summer 2015, a modern daily skincare product for sun-damaged skin with exceptional lipid matrix formulation and skin-regenerating properties was added to the Belixos® range: **Belixos® Protect**. Highly concentrated niacinamide smooths the skin and helps repair skin damage. It also contains UVA and UVB broad spectrum protection with SPF15 to protect against further light-induced skin ageing and hyperpigmentation.

Irritated skin requires the highest level of care. Belixos® products are manufactured in accordance with strict quality and environmental requirements. They are free of paraffins, parabens, ethyl alcohol, animal products, dyes and fragrances that may have negative dermatological effects. Their skin-compatibility was dermatologically tested without the use of animal testing and was assessed as "very good" by the independent institute 'Dermatest'. Belixos® is available at selected pharmacies, dermatological institutes and on Amazon.

A further product launch is planned for 2016.

4. Sales and markets

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

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

Distribution to public pharmacies generally takes place via pharmaceutical wholesalers, whereas hospital pharmacies are supplied directly. In addition to regular visits by the field sales force to dermatologists, Biofrontera has presented Ameluz® at the major dermatological conferences both in Germany and in other European countries since it was introduced onto the market. The response from dermatologists has been extraordinarily positive. In 2015, Biofrontera again recorded a significant increase in sales of 34% compared to the previous year. The market share of Ameluz® in the segment of PDT drugs dispensed by German public pharmacies is consistently over 70%. In spite of this, Ameluz® still only has a small share of the overall market for preparations used to treat actinic keratosis, because only approximately 5% of patients are treated with proprietary medicinal products for photodynamic therapy (PDT). Although PDT achieves by far the highest healing rates, the complexity of the treatment and the time required by medical practices to administer it have so far prevented significant market penetration in the statutory health insurance sector. In this sector in Germany, doctors do not usually receive any compensation from statutory health insurance for performing PDT. A film about PDT is available to view on YouTube (http://www.youtube.com/watch?v=aK4a3R5kqMA, and in English http://www.youtube.com/watch?v=2xE08DWC08o).

Approval for basal cell carcinoma is a prerequisite for the widespread use of Ameluz® in hospitals, as basal cell carcinoma is mainly treated there, whereas this is only very rarely the case for actinic keratosis. This indication plays an essential role for the breakthrough of Ameluz®, particularly in European countries. BCCs are the most common invasive tumours that affect humans and account for 50-80% of all invasive white skin cancers. Around 30% of all Caucasians develop at least one BCC in their lifetime, and this is a rapidly growing trend worldwide due to increased exposure to UV light. BCCs are normally removed surgically, often resulting in scarring. Treatment with photodynamic therapy (PDT) is a highly effective alternative which also leads to excellent cosmetic results. According to a market study published in 2014 by Technavio, the international market for actinic keratosis medications is expected to grow by approx. 8% annually, from approx. USD 546 million to USD 942 million in 2020. However, during the same period, the market for basal cell carcinoma medications is expected to grow at a phenomenal rate, from approx. USD 236 million today to nearly USD 5 billion, because the availability of new drugs (Ameluz® is mentioned in this context) will mean that fewer and fewer patients undergo operations.

In Denmark, Sweden and Norway, Ameluz® is marketed by Desitin Arzneimittel GmbH, in Benelux by Bipharma N.V. and in Austria, by Pelpharma Handels GmbH. Biofrontera carries out its own sales and distribution activities in Slovenia and is supported in its marketing activities by PHA Farmed. The cooperation with Spirit Healthcare in the UK was terminated by Biofrontera as of 31 July 2015, and Biofrontera is currently preparing to set up its own sales operation in the UK. Sales in Spain were initially handled by Allergan SA, but since March 2015 Biofrontera has marketed its products itself in Spain via its own branch, Biofrontera Pharma GmbH sucursal en España. Louis Widmer SA has been granted the Ameluz® distribution licence for Switzerland and Liechtenstein, and the Ameluz® distribution licence for Israel has been allocated to Perrigo Israel Agencies LTD. In these countries, it is necessary to undergo an independent approval process, which is currently being carried out by the above-mentioned distribution partners in collaboration with Biofrontera. In Switzerland, both the approval and the reimbursement approval were issued in December 2015. The market launch will take place during 2016. In Israel,

Ameluz® has been included in the National Health Basket and thus accepted for reimbursement. Approval is now also expected in the next few months.

The contracts with the respective sales partners have been concluded in such a way that Biofrontera has received no down payment, or only a modest down payment, and the regional partners purchase Ameluz® from Biofrontera at a price that is linked to their own sales price. Biofrontera's share of the sales price varies considerably depending on the market conditions in each country, ranging from 35% to 60% of net sales.

For France, Biofrontera has submitted its application to make Ameluz® reimbursable and to establish the pricing with the assistance of a consultancy that specialises in this field. The processing of the application has not yet been completed.

Biofrontera has already started preparations for its sales operation in the USA. With the help of a consulting firm specialising in market access and a team of medical advisors, Biofrontera has started to analyse the actinic keratosis drug market and the reimbursement systems in the American healthcare system. For this, Biofrontera can draw on the experience of DUSA Pharmaceuticals Inc. with a competitor product already sold and distributed in the USA, Levulan Kerastick®. A local subsidiary, Biofrontera Inc., was established in March 2015 and a very experienced CEO was appointed in the form of Monica L. Tamborini, who has already started setting up the necessary infrastructure for a pharmaceutical company in the USA and developing detailed plans to prepare for marketing. If approval is granted by the FDA as planned on 10 May 2016, the plan is to launch Ameluz® on the US market on 1 September 2016. As the drug and lamp are approved as a combined product in the USA, the speed of market penetration in the USA will depend in particular on Biofrontera's ability to position the BF-RhodoLED® PDT lamp.

5. Other development projects

BF-derm1

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

BF-1

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

After the first results in humans, which proved the excellent bioavailability and pharmacokinetics of the active agent, further preclinical investigations were carried out concerning the tissue distribution, metabolism and toxicology of the substance. These trials did not yield any critical findings, so there is no reason why further tests on humans should not be carried out.

The chemical manufacturing process has been optimised and the active ingredient required for clinical development has been synthesised in accordance with the Good Manufacturing Practice (GMP) quality standards.

Patent and trademark developments since 31 December 2014

Nanoemulsion

Regarding the "Nanoemulsion" patent (PCT/EP2007/011404), further official communications were issued in Canada, India, Israel, Chile, Europe, the United Arab Emirates and the USA, and responses were sent by the relevant deadlines.

In Europe, the patent is expected to be issued shortly, so patent protection is likely soon.

The patent was issued in Canada on 24 November 2015 and in India on 26 June 2015.

Belixos®

Regarding the patent "Pharmaceutical and/or cosmetic composition for treating the skin" (US Patent Application No. 13/081,737), a pending official communication was answered by the deadline and an application was made for continued testing.

Migraines

Regarding the migraine patent EP 1 438 307, this was not renewed in Belgium, Bulgaria, Estonia, Finland, Greece, Ireland, Luxembourg, Monaco, Portugal, Slovakia, the Czech Republic and Cyprus, and therefore this patent will expire in these countries due to non-payment of renewal fees.

The same applies to the corresponding patent in Hong Kong (HK1073311).

Brand development

Protection was granted in full for Russia, Singapore, Japan and the USA for two different versions of the international trademark "Natural Heritage with Herbal Biocolloids".

Protection for international trademark No. 1113422 (BF-RhodoLED) and No. 1031222 (Ameluz) was granted in Liechtenstein.

An application was made for a new European Community Trademark, "Daylight-PDT" (No. 014943518).

Economic report
For the 2015 financial year for the Biofrontera Group:

- **34% overall sales growth compared to the previous year, including significant growth of 27% in Germany and strong sales growth of 61% in the other European countries**
- **Operating profit/loss: EUR -10.2 million (previous year: EUR -9.6 million)**
- **Consolidated profit/loss before tax: EUR – 11.2 million (previous year: EUR -10.7 million)**
- **Liquid assets as of 31 December: EUR 4.0 million (previous year: EUR 8.5 million)**
- **Undiluted earnings per share amounted to EUR -0.48 (previous year: EUR -0.49)**

Sales revenue: Sales revenue in Germany increased by 27% compared to the same period in the previous year. This almost corresponds to the desired increase for the whole year of 30%. In the third quarter in particular, an unusually large increase in sales was achieved, boosted by high levels of stocking by wholesalers. Moreover, significantly higher orders were recorded in other European countries than in the previous year, which led to a sharp increase of 61% in international sales. Down-payments remained unchanged compared to the previous year, at EUR 70 thousand.

Operating profit/loss: In the 2015 financial year, Biofrontera again invested substantial amounts to further develop its products and to establish sales and marketing structures. Overall, the costs exceeded the sales revenue achieved, leading to an operating loss of EUR 10.2 million.

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

Sales revenue

The Biofrontera Group recorded sales of EUR 4,138 thousand during the 2015 financial year (2014: EUR 3,096 thousand), corresponding to an increase of 34% compared to the same period in the previous year. Revenue from sales of our products in Germany increased by 27% to EUR 3,028 thousand (2014: EUR 2,379 thousand), and in other countries, sales rose significantly, by 61% to EUR 1,040 thousand (2014: EUR 647 thousand). In the 2015 financial year, EUR 70 thousand of down-payments were received (2014: EUR 70 thousand).

Cost of sales, gross profit from sales

The gross profit from sales improved from EUR 1,979 thousand in the 2014 financial year to EUR 2,902 thousand in the 2015 financial year. The gross margin increased to 70%, compared to 64% in the same period in the previous year.

The cost of sales amounted to EUR 1,236 thousand, or 30% of the sales revenue, improving slightly relative to sales revenue compared with the previous year (EUR 1,117 thousand, or 36%).

Development costs

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

Sales costs

The sales costs increased only slightly by 8% to EUR 4,170 thousand compared to the previous year (EUR 3,847 thousand), despite the build up of a sales structure in Spain. The sales costs include the costs of our own field sales team in Germany and Spain, as well as marketing expenses. They also include expenses for marketing preparations in the USA.

Administrative costs

The administrative costs decreased compared to the same period in the previous year by EUR 485 thousand to EUR 2,759 thousand, primarily due to lower financing costs. Financing costs shown under administrative costs include primarily consultancy and placement fees in connection with support for the search of investors.

Financial result

The financial result consists primarily of the interest payable for the 2009/2017 warrant bond (EUR 439 thousand, previous year: EUR 447 thousand) and for the 2011/2016 warrant bond placed in 2011 (EUR 727 thousand, previous year: EUR 702 thousand), calculated using the effective interest method. The aforementioned interest expenses of EUR 439 thousand (previous year: EUR 447 thousand) for the 2009/2017 warrant bond include the opposite effect amounting to EUR 193 thousand (previous year: EUR 156 thousand) resulting from the repurchase of part of the warrant bond on 28 February 2014. The interest payment for the 2014 calendar year from warrant bond I and II occurred in January 2015. The interest payment for warrant bond I for the 2015 financial year was made at the end of December 2015, and for warrant bond II, the interest payment was made beginning of January 2016.

Investments

The increases in intangible assets and property and equipment in the reporting period resulted primarily from the acquisition of further rights of use in connection with the prototype of the PDT lamp (EUR 26 thousand, previous year: EUR 77 thousand) as well as the capitalisation of production facility expenses (EUR 45 thousand; previous year: EUR 0) and office and business equipment (EUR 42 thousand; previous year: EUR 29 thousand). The asset disposals with acquisition and production cost of a total of EUR 20 thousand (previous year EUR 128 thousand) primarily resulted from sales of rental lamps.

Inventories

Inventories amounted to EUR 1,534 thousand (31 December 2014: EUR 1,394 thousand). These included: finished products (Ameluz®) amounting to EUR 400 thousand, BF-RhodoLED® lamps recorded in the inventories amounting to EUR 435 thousand and Belixos® products amounting to EUR 46 thousand as well as unfinished products, raw materials and supplies amounting to EUR 633 thousand.

Receivables

The receivables from goods and services increased by EUR 586 thousand due to the higher sales in the 4th quarter of 2015, from EUR 309 thousand as of 31 December 2014 to EUR 895 thousand.

Share capital

The fully paid share capital of the parent company, Biofrontera AG, as of 31 December 2015 amounted to EUR 25,490,430.00. It was divided into 25,490,430 registered shares with a nominal value of EUR 1.00 each. On 31 December 2014, the share capital amounted to EUR 22,196,570.00 and was increased by a total of EUR 3,293,860.00, divided into 3,293,860 registered shares, during the course of the 2015 financial year by means of two capital increases.

In the first capital increase carried out in 2015, new shares were offered to all shareholders for subscription or additional subscription. The new shares that were not acquired as part of the subscription right or the additional subscription were offered to selected investors for acquisition in a private placement. EUR 1,377,272.00, divided into 1,377,272 registered shares, was placed and the execution was entered in the commercial register on 1 June 2015. The issue proceeds amounted to EUR 3.1 million.

In addition, in a further capital increase, a total of EUR 1,916,588.00, divided into 1,916,588 registered shares, was placed and this was entered in the commercial register on 3 December 2015. This capital increase was also initially offered to all share-

holders for subscription or additional subscription. Shares that were not acquired as part of the subscription or additional subscription were offered to institutional investors for subscription. The issue proceeds amounted to EUR 3.5 million.

Biofrontera AG shares were listed on the regulated market of the Düsseldorf Stock Exchange in 2006. Approval was granted for trading on the regulated market of the Frankfurt Stock Exchange in August 2012. The company's shares are also traded on the Xetra computer trading system and all other German stock exchanges. On 3 June 2014, the shares were admitted to the Prime Standard of the Frankfurt Stock Exchange and to the AIM Market of the London Stock Exchange. The listing on the AIM Market was rescinded effective from 18 February 2016.

Group equity and company equity

According to IFRS, the Group has negative equity amounting to EUR -4,809 thousand. As of 31 December 2015, Biofrontera AG has positive shareholders' equity of EUR 65,496 thousand (previous year: EUR 65,847 thousand). There is no over-indebtedness in the legal sense at the two subsidiaries Biofrontera Bioscience GmbH and Biofrontera Pharma GmbH as their balance sheet insolvency is remedied by qualified letters of subordination from Biofrontera AG. On the level of Biofrontera AG extraordinary depreciation on the investment book values of Biofrontera Neuroscience GmbH and Biofrontera Development GmbH were recorded in a total amount of EUR 6,561 thousand, since the group will focus on the development and approvals of Ameluz® and BF-RhodoLED® in the US as well as indication expansion in Europe and therefore no intensive efforts were made in the fiscal year 2015 which would lead to positive cash flows from the products BF-derm1 and BF-1 in the near future.

The net loss of Biofrontera AG is thus EUR -7,263 thousand (previous year: EUR -1,409 thousand).

Financial position

The company's capital management body regularly reviews the equity ratio of the Group and of the Group subsidiaries. The management's objective is to ensure an appropriate equity base, within the framework of the expectations of the capital market, and creditworthiness with respect to national and international business partners. The Management Board of the company ensures that all Group companies have sufficient capital at their disposal in the form of equity and debt capital. The equity reconciliation statement provides further information about the development of equity.

The cash flow from operating activities fell compared to the previous year, from EUR -7,928 thousand to EUR -9,717 thousand on 31 December 2015.

Sales of rental lamps held in inventory decreased compared to the previous year from EUR 117 thousand to EUR 20 thousand. At the same time, cash flows from interest revenue increased by EUR 41 thousand to EUR 184 thousand. Investments into fixed assets increased slightly by EUR 16 thousand. These factors led to a decrease in the cash flow from investment activities of EUR 62 thousand from EUR 79 thousand to EUR 17 thousand.

The cash flow from financing activities decreased by EUR 8,275 thousand compared to the same period in the previous year, from EUR 13,425 thousand to EUR 5,150 thousand. This change results primarily from proceeds from the issuance of shares, a capital increase with issuance proceeds of EUR 15.3 million was performed in the previous year.

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

Achievement of objectives in 2015:

	Outlook for 2015	Achievement of objectives as of 31 December 2015
Group sales revenue	EUR 4 to 5 million	EUR 4.1 million
Research and development costs	EUR 4 to 5 million	EUR 6.2 million
Net profit/loss before tax	EUR -9 to -10 million	EUR -11.2 million

Biofrontera achieved all of its financial objectives in 2015, when considering the one time payment of the submission fee to the FDA ("PDUFA-fee") in an amount of EUR 2.1 million. In the forecast, sales revenue of EUR 4 to 5 million was expected. In Germany, revenues from product sales increased by more than 27% compared with the previous year and were thus close to the target. Furthermore, sales in other European countries and with foreign sales partners were increased by 61%. Despite this, market penetration in other European countries continues to be difficult, particularly due to the fact that basal cell carcinoma is not yet included as an indication.

Biofrontera also continued to invest heavily in research and development and regulatory affairs in 2015, in order to expand the indications for Ameluz® - to include basal cell carcinoma in particular - and to obtain approval in the USA. The R&D costs of EUR 6.2 million were on target considering the PDUFA fee paid in May 2015.

Our net loss before taxes of EUR -11.2 million also lay within the predicted range, also considering the PDUFA-fee.

Personnel details

Management Board

The Management Board comprises Prof. Dr. Hermann Lübbert (Chief Executive Officer), Mr. Thomas Schaffer (Chief Financial Officer) and Mr. Christoph Dünwald (Chief Commercial Officer).

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

Staff

As of 31 December 2015, 58 employees worked for the Biofrontera Group (31 December 2014: 46). Of these, 17 were employed at Biofrontera AG (31 December 2014: 16), 6 at Biofrontera Bioscience GmbH (31 December 2014: 6) and 34 at Biofrontera Pharma GmbH, including the Spanish office (31 December 2014: 24). No staff are employed at Biofrontera Development GmbH or Biofrontera Neuroscience GmbH. As of 31 December 2015, one member of staff was employed by Biofrontera Inc.

Employee stock option programme 2010

In order not to be at a disadvantage in the future regarding staff recruitment and retention, the company must continue to be able to offer share and/or securities-based remuneration. Moreover, in accordance with the German Act regarding the Appropriateness of Management Board Remuneration, such schemes must be linked to the long-term success of the company. As the stock option programme approved by the Annual General Meeting of the company on 24 May 2007 could not be used, the Annual General Meeting held on 2 July 2010 granted the Management Board and the Supervisory Board the authorisation to issue, within the next 5 years, up to 839,500 options to directors and employees. Further provisions governing this action were specified in the invitation to the Annual General Meeting and are available on the company's website.

On 24 November 2010, 106,400 options (first tranche) were issued with an exercise price per share of EUR 1.91. On 30 September and on 7 October 2011 (second tranche) a further 96,400 options were issued with an exercise price of EUR 2.48 each. On 23 March 2012 and 11 May 2012 (third tranche), 65,000 options were issued with an exercise price of EUR 3.30 each, and 51,500 options were issued with an exercise price of EUR 4.09 each. On 2 September 2013, 179,500 options were issued (fourth tranche) with an exercise price of EUR 3.373 each. On 2 April 2014, 159,350 options were issued with an exercise price of EUR 3.43 each. A total of 123,750 options were forfeited by employees leaving the company. No options were issued in the 2015 financial year.

The authorisation to issue options under the 2010 stock option programme ended on 1 July 2015. By resolution of the Annual General Meeting on 28 August 2015, the conditional capital III provided to service options under this programme was reduced to EUR 542,400.00.

Supervisory Board

By resolution of the Annual General Meeting of 10 May 2011, the following were appointed as Supervisory Board members for five years:

Jürgen Baumann	Chairman of the Supervisory Board, expert in the field of sales and marketing of pharmaceuticals, resident in Monheim, Germany
Prof. Dr. Bernd Wetzel	Deputy chair of the Supervisory Board, advisor, resident in Biberach/Riss, Germany
Dr. Ulrich Granzer	Owner and Managing Director of Granzer Regulatory Consulting & Services, resident in Munich, Germany
Ulrike Kluge	Managing Partner of klugeconcepts GmbH in Cologne, resident in Cologne, Germany
Andreas Fritsch	Member of the management board, Xolaris Service Kapitalverwaltungs AG, Munich; Managing Director of Unternehmensberatung Fritsch, Seefeld, resident in Seefeld, near Munich, Germany
Alfred Neimke	Managing director of Kopernikus AG in Zurich, Switzerland; CFO of MAN Oil in Zug, Switzerland; resident in Zurich, Switzerland

The members of the Supervisory Board had the following other supervisory board positions and positions on other comparable domestic and foreign boards during the reporting period:

Alfred Neimke	Board of directors at DERPHARM AG in Zurich, Switzerland Director Prudent Investment Fund, Luxembourg

Events of special significance occurring since 31 December 2015

In January 2016, the FDA informed the company that the midcycle review as part of the approval process in the US had been completed, and that the FDA did not have any further questions for the company in this regard.

A submission fee (PDUFA fee) of EUR 2,072 thousand was paid during the 2015 financial year for the submission of the approval application for Biofrontera's drug Ameluz® to the FDA. This fee is usually waived for small companies for their initial submission. In consultation with the FDA, Biofrontera lodged an application for a waiver of this fee, but this could not be processed on the filing date as the American approval authority, the FDA, did not have a process for handling such applications. Biofrontera subsequently requested a refund of the fee from the FDA. The FDA approved the request in a letter dated 14 January 2016 and the fee was refunded in March 2016.

On 28 January 2016, the company announced that the preliminary results of the phase III trial for the treatment of basal cell carcinoma (BCC) were available. In the clinical trial, the effectiveness and safety of Ameluz® were compared with that of Metvix®. Non-aggressive superficial and nodular BCCs with a thickness of up to 2 mm were included in the trial. Ameluz® achieved the complete elimination of all BCCs from the patient more often, with a rate of 93.4%, compared to Metvix® with 91.8%. On 4 March 2016, detailed results from the trial were published and these fully confirm the initial positive impression.

On 16 February 2016, the company announced that a capital increase had been carried out in order to secure further corporate financing by issuing 2,357,384 shares to selected institutional investors, with the exclusion of subscription rights. The issue price for the new shares was EUR 1.90, and the capital increase was entered in the commercial register on 26 February 2016. Net proceeds were EUR 4.4 million.

On 24 March 2016 the company announced an agreement with an institutional investor that has agreed to acquire up to 2.0 million New Shares at an issue price of EUR 2.00 in a yet to be performed capital increase. The capital increase will have a maximum volume of EUR 5.0 million.

On 29 March 2016 the company announced that the Management Board, with the approval of the Supervisory Board, has decided to increase the share capital by up to 2,499,999 New Shares by way of a rights issue. Shareholders shall be granted their statutory subscriptions rights such that up to 2,421,549 New Shares will be offered at a ratio of 23:2 within a subscription period of two weeks according to the execution of subscription rights at an issue price of EUR 2.00. The statutory subscription right was excluded regarding 78,450 supernumerary New Shares. The shareholders are furthermore offered an "Additional Subscription" right. I.e. all shareholders executing subscription rights may apply to subscribe to unsubscribed shares plus the supernumerary shares at the Subscription Price.

No further events subject to mandatory reporting occurred after the balance sheet date.

Risk management system

Biofrontera's management has a comprehensive risk management system to deal with the risks existing in the Group. For a description of this system, please refer to the combined company and Group management report most recently published.

Risk management system

The risk and opportunity management system for the Biofrontera Group applies equally to Biofrontera AG. By virtue of its holding function, Biofrontera AG controls all the legally independent entities within the Biofrontera Group. Therefore, it is necessary to assess the risks and opportunities on a uniform basis throughout the entire Group.

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

Correspondingly detailed risk prevention measures are essential in order to fully exploit the opportunities that arise from Biofrontera's business activities. In the 2015 financial year, Biofrontera's existing risk management structures were enhanced within the scope of the quality management system required for pharmaceutical manufacturers and entrepreneurs and medical device manufacturers. This system incorporates sales and marketing activities, as well as the international responsibilities of licence holders with regard to the manufacture and sale of drugs, medical devices and cosmetics.

The management of opportunities and risks at Biofrontera

The Biofrontera Group's risk management system is incorporated into the Group's corporate processes and decisions, so it is an integral part of the entire Group's planning and controlling processes. Risk management and control mechanisms are coordinated with each other. They ensure that risks relevant to the company are identified and assessed at an early stage, while at the same time enabling the company to respond rapidly to potential opportunities.

Risk management at Biofrontera is organised both locally and centrally. Opportunities and risks are regularly identified, evaluated and analysed at all hierarchical levels. All management staff in the Group are involved in the Group-wide risk policy and associated reporting. This includes the Management Board, the managing directors of the Group companies, and the process and project managers.

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

The Group-wide point of contact is the Risk Management Officer, who is also a member of the Risk Management Team. If unexpected risks arise, he/she immediately initiates the necessary steps to counteract them.

He/she is responsible for developing the risk management system, and for ensuring that it is properly documented in the risk manual. Furthermore, the Risk Manager sets uniform standards and ensures that similar types of risk management processes are implemented throughout the Biofrontera Group. Regular analysis of key business performance figures helps to ensure that any possible discrepancies from expected performance levels can be identified and assessed at an early stage, and that necessary countermeasures can be adopted in good time. Overall monitoring is carried out on the sales activities relating to Ameluz®, including the PDT lamp, and Belixos®. Risk planning and identification in this area are carried out in collaboration with the relevant unit managers. The structure and function of the early risk detection system are assessed by the auditor.

Risks and opportunities for future business development

The Biofrontera Group strives to achieve its strategic objectives, in particular the establishment of its own sales operation in some countries, the identification of sales partners, and the approval of development projects. It has already obtained European approval for Ameluz®, giving it the opportunity to grow rapidly and become highly profitable.

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

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

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

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

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

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

Patent protection

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

Products and product stewardship

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

Procurement

Purchase prices for raw materials may vary considerably, and they cannot always be passed on to our customers through price adjustments due to regulated drug prices. The safety and tolerance of our products, and the protection of our employees and of the environment, are key priorities. Risks associated with the manufacturing, bottling, storage and transport of products may result in personal injury or material or environmental damage, and may give rise to an obligation to pay damages. In this regard, Biofrontera is dependent to some extent on individual suppliers. Using our own audit and monitoring system, we regularly ensure that the manufacturing conditions at our most important suppliers meet the required standard. This enables us to avoid such risks and damages. We have already found two new suppliers of the agent aminolevulinic acid, whose manufacturing processes have been approved by the EMA. Biofrontera is the owner of the Drug Master Files for one of the two manufacturers. This will ensure the long-term security of supply of aminolevulinic acid. We are currently setting up our own production facilities for the final assembly and final quality control of the BF-RhodoLED® lamp in order to reduce our dependence on suppliers in this area as well.

Staff

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

Information technology

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

Law and compliance

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

Liquidity risk

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

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

The company was able to meet its payment obligations at any time, but will depend on additional financing measures also in the future. To date, Biofrontera has always succeeded in providing the necessary financing for business operations through injections of equity. Due to the capital increases in 2015 and a further capital increase in February 2016, the company currently has sufficient liquidity at its disposal. However, further capital measures will be needed until break-even is reached, particularly to obtain approval in the USA, the planned investments into marketing in the US and to meet obligations from the issued option bond however constitute a necessity for further capital measures during the fiscal year 2016.

On the basis of its previous, invariably successful experience with capital measures, the Management Board assumes that the liquidity required for business activities can be further ensured. If these valid estimates are, contrary to expectations, not realised, this could constitute a threat to the company's continued existence.

Legal disputes

Biofrontera is not currently involved in any legal disputes.

Forecast report (outlook)

In order to support the further expansion of sales of Ameluz® in the European Union, Biofrontera is currently working towards the objective of extending European approval to include field therapy for the treatment of actinic keratosis, and the indication basal cell carcinoma (BCC). The required phase III trials for both approval extensions have been completed with very good results, and the results of both trials have been available since January 2016. According to current plans, it is expected that approval extensions will be granted both for field therapy and for BCC during 2016. The approval extension for field therapy has already been submitted to the EMA.

Furthermore, significant milestones have been reached towards approval in the USA. An initial consultation session with the American approval authority, the FDA, took place in 2012, and in October 2014 we had the final discussion before the submission of the approval application, known as the pre-NDA meeting. In early July 2015, the approval application (NDA = New Drug Application) was then submitted to the FDA (Food and Drug Administration). Ameluz® and BF-RhodoLED® have to be approved as a combination of a drug and a medical device in the USA, and therefore the approval application was unusually complex. In accordance with the guidelines, the FDA made a decision on the formal "acceptance to file" after a period of 60 days, and this was granted on 11 September 2015. In the subsequent "74-day letter", the company was informed on 2 October 2015 that there were no significant verification issues. In this letter, the FDA also announced the date of the detailed report and their proposed labelling as 30 March 2016. Proposed labelling was provided to the company by the FDA at the end of March 2016. An expected approval date of 10 May 2016 was given, provided that no significant problems arise. Biofrontera will then have access to the largest healthcare market in the world.

Biofrontera has decided to operate on the American market using its own sales and marketing organisation. Initial preparations have already been made for this. A wholly owned subsidiary, Biofrontera Inc., was established in the USA for this purpose, and a very experienced CEO was appointed in April 2015 in the form of Ms. Monica Tamborini, who has initially set up the company structures necessary for the pharmaceutical business. In the 2nd and 3rd quarter of 2016, the plan is to appoint more employees and make preparations for the market launch.

Forecast of key financial figures

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

In order to extend the range of indications, and to obtain approval for the USA, Biofrontera will continue to invest heavily in research and development and regulatory affairs in 2016. The development and approval costs will be approx. EUR 4 to 5 million. In 2016, Biofrontera will invest particularly in setting up its sales and marketing organisation in the USA, and therefore the sales costs will rise significantly compared to 2015, amounting to approx. EUR 10 to 11 million in total.

No significant investments in tangible assets are planned in 2016.

The financial result reflects the interest payments and compounding of interest using the effective interest method for the two warrant bonds. Therefore, this will not significantly change in 2016 compared with 2015.

The reimbursement of the PDUFA fee by the FDA will be shown under "Other Income".

With the above-mentioned conditions and forecasts, the company will achieve a net result of EUR -11 to -12 million in 2016. The achievement of this result depends heavily on progress in terms of sales revenue.

Remuneration report

The total remuneration paid to members of the Management Board in the 2015 financial year and the total accumulated number of stock options issued to the Management Board were as follows as of 31 December 2015:

Prof. Dr. Hermann Lübbert-	Salary/bonus	EUR 405 thousand (31 December 2014: EUR 405 thousand)
	- Stock options	151,850 (fair value when granted: EUR 167,236) previous year 151,850, (fair value when granted: EUR 167,236), of which 0 were granted in 2015 (2014: 16,850).
Thomas Schaffer	- Salary/bonus	EUR 231 thousand (31 December 2014: EUR 202 thousand)
	- Stock options	35,000 (fair value when granted EUR 32,650) previous year 35,000, (fair value when granted EUR 32,650), of which 0 were granted in 2015 (2014: 20,000).
Christoph Dünwald	- Salary/bonus	EUR 29 thousand (31 December 2014: EUR 0)

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

Company cars are also available to the directors for business and private use. The existing employment contracts stipulate that – depending on the achievement of targets to be mutually agreed – an annual bonus is payable. If the targets are exceeded, the maximum annual bonus payable is capped. If the targets are missed by a margin no greater than 30% (i.e. a level of at least 70% is achieved), the bonus payment is reduced linearly. If the targets are missed by a greater margin than this, no bonus is payable. The calculation factors are set at the end of each financial year for the following financial year in a mutually agreed target agreement.

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

In order to further increase the long-term incentive effect of variable remuneration, and thus to gear it even more effectively to long-term business development, the Management Board members have pledged to match the stock options granted as part of the 2010 stock option programme by holding ordinary shares of the company as private investors, thereby undertaking a personal commitment for a period of three years, starting one month after the date of issue of the options (restricted shares). The level of personal commitment is specified differently in detail for each member of the Management Board. If such restricted ordinary shares are sold prematurely, this must be reported to the Chairperson of the Supervisory Board without delay, and the company can request a return transfer of an equivalent number of stock options free of charge within a month of receiving such notification, with the most recently granted options being those that must be returned first (last in, first out). A return transfer is not required if the Management Board member can demonstrate that the sale of the re-

stricted shares was necessary in order to meet urgent financial obligations. In 2010, the Chief Executive Officer was granted 35,000 options, and the other Management Board member was granted 20,000 options, and in 2011, the Chief Executive Officer was granted 30,000 options and the other Management Board member was granted 20,000 options on this basis. In 2012, a further 40,000 options were granted to the Chief Executive Officer, and an additional 25,000 options were granted to the other Management Board member. In the 2013 financial year, the Chief Executive Officer was granted 30,000 options, and the other Management Board member was granted 15,000 options, and in the 2014 financial year, 16,850 options were granted to the Chief Executive Officer, and 20,000 options were granted to the other Management Board member. No further options were granted to the Management Board members in 2015.

All the **Supervisory Board members** held their positions throughout the entire 2015 financial year. In the financial year, the remuneration of the Supervisory Board members amounted to EUR 113 thousand (2014: EUR 113 thousand).

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

Management Board members are appointed and removed pursuant to §§ 84 and 85 of the German Stock Corporation Act (AktG). The composition of the Management Board is specified in more detail in § 9 paragraph 3 of the Articles of Association. Pursuant to this, the Management Board must consist of one or more members. Since the addition of Mr. Dünwald to the Management Board in mid-November 2015, it has consisted of three people. The Supervisory Board appoints Management Board members and determines their number. The Supervisory Board may appoint a Chief Executive Officer.

The employment contract of the Chief Executive Officer and that of the Chief Financial Officer include a compensation agreement in the form of a special right of termination, for example in the case of a takeover bid as defined in the Securities Acquisition and Takeover Act (WpÜG).

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

Accounting risk management system and internal control system

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

The Biofrontera AG accounting process aims to ensure that the figures and information provided in external accounting instruments (bookkeeping, components of the annual and consolidated financial statements, and the combined company

and Group management report) are accurate and complete, and to ensure compliance with the relevant legal requirements and provisions of the Articles of Association. The existing structures and processes for this also include the risk management system and the internal control measures relating to the accounting processes. In line with the increasing sales activities, the internal accounting control system was extended to include processes that had been newly established from the 2012 financial year onwards, and it is subject to a permanent monitoring and improvement process.

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

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

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

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

Takeover information

Trading venue

Biofrontera shares are traded under stock abbreviation B8F and ISIN DE0006046113 in the Prime Standard segment of the Frankfurt Stock Exchange and on all other German stock exchanges. In addition, the shares were admitted for trading with the same stock ID number in the form of depositary interests (DI) on the Alternative Investment Market (AIM) of the London Stock Exchange up to 18 February 2016.

Shareholders

The numbers of shares held by the shareholders on 31 December 2015, based on the most recent compulsory disclosures of the shareholders, are as follows:

	31 December 2015 EUR	%
Maruho Deutschland Co., Ltd., Osaka Japan The total share of voting rights is assigned to Maruho Co., Ltd. via the company Maruho Deutschland GmbH, Düsseldorf, which is controlled by the former.	4,467,143	17.52
Prof. Dr. Ulrich Abshagen, Germany Professor Abshagen has a direct holding of 62,850 voting rights, and he is indirectly assigned 976,056 voting rights by Heidelberg Innovation BioScience Venture II GmbH & Co.KG (in liquidation) via Heidelberg Innovation Asset Management GmbH & Co. KG, of which he is a managing partner.	1,038,906	4.08
Wilhelm Konrad Thomas Zours Of this, the 3.48% share of voting rights is assigned via the company Deutsche Balaton Aktiengesellschaft.	1,053,154	4.13
Universal-Investment-Gesellschaft mbH, Frankfurt am Main, Germany The share of voting rights is assigned to Universal-Investment GmbH via the company FEHO Vemögensverwaltungsgesellschaft.	799,463	3.14
Prof. Dr. Hermann Lübbert, Leverkusen, Germany	720,512	2.83
Free float	17,411,252	68.30
	25,490,430	**100%**

Share capital

On 31 December 2015, the fully paid-up share capital of the parent company, Biofrontera AG, amounted to EUR 25,490,430.00. It was divided into 25,490,430 registered shares, each with a nominal value of EUR 1.00.

Two capital increases were carried out against cash contributions in the reporting period. In the first capital increase, new shares were offered to all shareholders for subscription or additional subscription. The new shares that were not acquired as part of the subscription right or the additional subscription were offered to selected investors for acquisition in a private placement. EUR 1,377,272.00, divided into 1,377,272 registered shares, was placed and the execution was entered in the commercial register on 1 June 2015. The issue proceeds amounted to EUR 3.1 million.

In a further capital increase, the company's share capital was increased by EUR 1,916,588.00, divided into 1,916,588 registered shares, and entered in the commercial register on 3 December 2015. This capital increase was also initially offered to all shareholders for subscription or additional subscription. Shares that were not acquired as part of the subscription or additional subscription were offered to institutional investors for subscription. The issue proceeds amounted to EUR 3.5 million.

Existing capital

The company's share capital was conditionally increased by up to EUR 6,434,646.00 by the issuing of up to 6,434,646 new registered ordinary shares with no par value (no-par-value shares) (Conditional Capital I). The purpose of the conditional capital increase is (i) to ensure the granting of option rights and the agreement of option obligations in accordance with the bond conditions and (ii) to ensure the fulfilment of conversion rights and the fulfilment of conversion obligations in accordance with the bond conditions, which are issued, agreed and guaranteed by the company or its direct or indirect majority-owned subsidiaries (affiliated companies) in the period up to 27 August 2020, based on the authorisation of the Annual General Meeting of 28 August 2015. The conditional capital increase is to be implemented only in the event that financial instruments are issued based on the authorisation of the Annual General Meeting of 28 August 2015, and only insofar as the holders or creditors of financial instruments issued by the company exercise their option or conversion rights or fulfil their option or conversion obligations. The new shares carry dividend rights from the start of the financial year in which they are issued. The Management Board is authorised to determine the other details of the implementation of the conditional capital

increase, subject to the approval of the Supervisory Board. The Supervisory Board is authorised to amend § 7 of the Articles of Association in accordance with the use of conditional capital and after the expiry of all option and conversion periods.

The share capital was conditionally increased by up to EUR 500,000.00 by the issuing of up to 500,000 new registered ordinary shares, each of which constitutes a share of EUR 1.00 of the share capital (no-par-value shares) (Conditional Capital II). The purpose of the conditional capital increase is to redeem option rights, pursuant to the option conditions, to the benefit of the holders of warrants from warrant bonds issued on the basis of the authorisation resolution of the Annual General Meeting of 17 March 2009. The new shares are issued at the option price set pursuant to the aforementioned authorisation resolutions (issue amount pursuant to § 193 paragraph 2 No. 3 AktG). The conditional capital increase is to be implemented only in the event that warrant bonds are issued, and only insofar as that the holders of the warrants exercise their option rights, and the company does not use other sources for the required shares or replace them with a cash payment. The new shares issued by the exercise of the option right carry dividend rights from the start of the financial year in which they are issued. The Management Board is authorised to determine the other details of the implementation of the conditional capital increase, subject to the approval of the Supervisory Board. The company's share capital was conditionally increased by EUR 542,400 by the issuing of up to 542,400 no-par-value registered shares (no-par-value shares) (Conditional Capital III). The purpose of the conditional capital increase is solely to fulfil the options granted up to 1 July 2015 on the basis of the authorisation of the Annual General Meeting of 2 July 2010. The conditional capital increase is implemented only insofar as holders of the issued options exercise their right to purchase shares in the company, and the company does not grant any of its own shares or pay cash settlement in order to fulfil the options. The new shares carry dividend rights from the start of the financial year in which they are issued by the exercise of options.

The company's share capital was conditionally increased by up to EUR 2,494,890.00 by the issuing of up to 2,494,890 new ordinary registered no-par-value shares (no-par-value shares) (Conditional Capital IV). The purpose of the conditional capital increase is to ensure the granting of option rights and the agreement of option obligations in accordance with the warrant bond conditions on holders or creditors of warrants from warrant bonds, or to ensure the fulfilment of conversion rights and the fulfilment of conversion obligations in accordance with the convertible bond conditions on holders or creditors of convertible bonds issued by the company in the period up to 9 May 2016 on the basis of the authorisation of the Annual General Meeting of 10 May 2011. The conditional capital increase is to be implemented only in the event that warrant or convertible bonds are issued, and only insofar as the holders or creditors of warrants or convertible bonds issued by the company on the basis of the authorisation of the Annual General Meeting of 10 May 2011 exercise their option or conversion rights or fulfil their option or conversion obligations (also in the event that a corresponding company voting right is exercised). The new shares carry dividend rights from the start of the financial year in which they are issued. The Management Board is authorised to determine the other details of the implementation of the conditional capital increase, subject to the approval of the Supervisory Board.

The company's share capital was conditionally increased by EUR 1,814,984.00 by the issuing of up to 1,814,984 no-par-value registered shares (no-par-value shares) (Conditional Capital IV). The purpose of the conditional capital increase is solely to fulfil the option rights granted up to 27 August 2020 on the basis of the authorisation of the Annual General Meeting of 28 August 2015. The conditional capital increase is implemented only insofar as holders of the issued options exercise their right to purchase shares in the company, and the company does not grant any of its own shares or pay a cash settlement in order to fulfil the options. The new shares carry dividend rights from the start of the financial year in which they are issued by the exercise of options. The Supervisory Board is authorised to amend § 7 of the Articles of Association in accordance with the use of conditional capital and after the expiry of all option and conversion periods.

The Management Board is authorised, subject to the approval of the Supervisory Board, to increase the company's share capital by up to EUR 9,870,333.00 up to 27 August 2020 by issuing up to 9,870,333 no-par-value registered shares in exchange for cash contributions and/or assets in kind in one or more share issues (Authorised Capital I). The Management Board is authorised, subject to the approval of the Supervisory Board, to define the further content of the share rights and

the conditions of the share issue. The new shares are to be offered to the shareholders for subscription. Subscription rights can also be granted to shareholders indirectly pursuant to § 186 paragraph 5 AktG.

The capital measure carried out in February 2016 has resulted in changes with regard to Authorised Capital I and the authorisation of the Management Board. Further information on this can be found in the supplementary report.

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

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

Leverkusen, 07 April 2016

Biofrontera AG

Prof. Dr. Hermann Lübbert
Chief Executive Officer

Christoph Dünwald
Chief Commercial Officer

Thomas Schaffer
Chief Financial Officer

Responsibility Statement

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

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

Leverkusen, 07 April 2016

Biofrontera AG

Prof. Dr. Hermann Lübbert

Thomas Schaffer

Christoph Dünwald

Consolidated balance sheet as of 31 December 2015

Annex 1

Assets

in EUR	Note	31 December 2015	31 December 2014
Non-current assets			
Tangible assets	(1)	372,834.23	339,532.00
Intangible assets	(1)	1,901,927.93	2,580,077.17
		2,274,762.16	**2,919,609.17**
Current assets			
Current financial assets			
Trade receivables	(3)	894,558.96	308,984.35
Other financial assets	(4)	730,440.34	726,790.94
Cash and cash equivalents	(7)	3,959,207.16	8,509,398.16
		5,584,206.46	**9,545,173.45**
Other current assets			
Inventories	(2)		
Raw materials and supplies		590,420.47	684,455.83
Unfinished products		42,723.50	107,784.39
Finished products and goods		900,505.05	601,281.83
Income tax reimbursement claims	(5)	32,220.80	62,072.99
Other assets	(4)	72,879.33	90,118.27
		1,638,749.15	**1,545,713.31**
		7,222,955.61	**11,090,886.76**
Total assets		**9,497,717.77**	**14,010,495.93**

Liabilities

in EUR	Note	31 December 2015	31 December 2014
Equity	(9)		
Subscribed capital		25,490,430.00	22,196,570.00
Capital reserve from foreign currency conversion adjustments		(1,188.65)	0.00
Capital reserve		79,525,292.28	76,402,715.36
Loss carried forward		(98,620,285.49)	(87,899,306.51)
Net loss for the year		(11,203,410.20)	(10,720,978.98)
		(4,809,162.06)	**(21,000.13)**
Long-term liabilities			
Long-term financial liabilities	(10)	11,229,946.00	10,774,298.38
Current liabilities			
Current financial liabilities			
Trade payables	(11)	1,043,425.65	967,437.66
Short-term financial debt	(9)	830,174.00	1,224,598.00
Other financial liabilities	(13)	37,622.28	27,012.10
		1,911,221.93	**2,219,047.76**
Other current liabilities			
Other provisions	(12)	1,041,860.80	951,944.41
Other current liabilities	(13)	123,851.10	86,205.51
		1,165,711.90	**1,038,149.92**
		3,076,933.83	**3,257,197.68**
Total liabilities		**9,497,717.77**	**14,010,495.93**

Consolidated statement of comprehensive income for the 2015 and 2014 financial year

Annex 2

in EUR	Note	01.01.-31.12.2015	01.01.-31.12.2014
Sales revenue	(15)	4,137,917.39	3,095,555.98
Cost of sales	(16)	-1,235,504.25	-1,116,686.16
Gross profit from sales		2,902,413.14	1,978,869.82
Operating expenses:			
Research and development costs	(17)	-6,203,986.93	-4,534,181.97
General administrative costs	(19)	-2,759,334.78	-3,244,158.24
of which financing costs		-264,924.08	-869,733.43
Sales costs	(18)	-4,170,044.72	-3,847,487.94
Loss from operations		**-10,230,953.29**	**-9,646,958.33**
Financial result			
Interest expenses and the like	(20)	-1,168,551.42	-1,169,613.16
Interest income and the like	(20)	9,225.68	190,294.10
Other income and expenses			
Other expenses	(21)	-32,046.20	-280,282.13
Other income	(21)	218,915.03	185,580.54
Profit/loss before income tax	(23)	**-11,203,410.20**	**-10,720,978.98**
Income tax		0.00	0.00
Profit or loss for the period	(23)	**-11,203,410.20**	**-10,720,978.98**
Expenses and income not included in profit/loss			
Subsequent valuation of financial assets available for sale		0.00	0.00
Other expenses and income not included in profit/loss		0.00	0.00
Total profit/loss for the period	(23)	**-11,203,410.20**	**-10,720,978.98**
Undiluted (= diluted) earnings per share	(22)	-0.48	-0.49

Statement of changes in equity for 2015

Annex 3

See Note 9

	Ordinary shares Number	Subscribed capital EUR	Capital reserve EUR	Capital reserve from foreign currency conversion adjustments EUR	Accumulated loss EUR	Total EUR
Balance as of 01 January 2014	**17,753,168**	**17,753,168.00**	**65,598,778.57**	**0.00**	**(87,899,306.51)**	**(4,547,359.94)**
Capital increase	4,443,402	4,443,402.00	11,105,950.00	0.00	0.00	15,549,352.00
Cost of equity procurement	0	0.00	(215,725.71)	0.00	0.00	(215,725.71)
Changes in the capital reserve associated with the repurchase of own Warrant Bonds I	0	0.00	(198,939.00)	0.00	0.00	(198,939.00)
Changes in the capital reserve resulting from transaction costs in connection with the repurchase of own Warrant Bonds I	0	0.00	(99.00)	0.00	0.00	(99.00)
Increase in capital reserves from the stock option programme	0	0.00	112,750.50	0.00	0.00	112,750.50
Net loss for the year	0	0.00	0.00	0.00	(10,720,978.98)	(10,720,978.98)
Balance as of 31 December 2014	**22,196,570**	**22,196,570.00**	**76,402,715.36**	**0.00**	**(98,620,285.49)**	**(21,000.13)**
Capital increase	3,293,860	3,293,860.00	3,515,382.80	0.00	0.00	6,809,242.80
Cost of equity procurement	0	0.00	(495,769.88)	0.00	0.00	(495,769.88)
Foreign currency conversion adjustments	0	0.00	0.00	(1,188.65)	0.00	(1,188.65)
Increase in capital reserves from the stock option programme	0	0.00	102,964.00	0.00	0.00	102,964.00
Net loss for the year	0	0.00	0.00	0.00	(11,203,410.20)	(11,203,410.20)
Balance as of 31 December 2015	**25,490,430**	**25,490,430.00**	**79,525,292.28**	**(1,188.65)**	**(109,823,695.69)**	**(4,809,162.06)**

Consolidated cash flow statement for the 2015 and 2014 financial year

Annex 4

In EUR (see Note 26)	01.01.-31.12.15	01.01.-31.12.14
Cash flows from operations:		
Total profit/loss for the period	-11,203,410.20	-10,720,978.98
Adjustments to reconcile profit/loss for the period to cash flow into operations:		
Financial result	1,159,325.74	1,099,319.06
Depreciation	811,681.84	811,005.00
(Gains)/losses from disposal of assets	115.00	2,632.00
Non-cash expenses and income	-22,203.75	302,084.17
Changes in operating assets and liabilities:		
Trade receivables	-585,574.61	269,426.25
Other assets and income tax assets	-11,314.11	-269,667.37
Inventories	-140,126.97	191,674.09
Trade payables	75,987.99	254,339.49
Provisions	149,945.42	132,619.86
Other liabilities	48,255.77	-385.69
Net cash flow into operations:	**-9,717,317.88**	**-7,927,932.12**
Cash flows from investment activities:		
Purchase of intangible and tangible assets	-180,303.54	-164,082.80
Interest received	183,978.17	142,588.26
Revenue from the sale of intangible and tangible assets	13,353.71	100,368.88
Net cash flow from (into) investment activities	**17,028.34**	**78,874.34**
Cash flows from financing activities:		
Proceeds from the issue of shares	6,313,472.92	15,333,626.29
Payouts from the repurchase of own warrant bonds	0.00	-1,500,750.00
Interest paid	-1,224,598.00	-454,489.62
Increase/(decrease) in long-term financial debt	455,647.62	-742,357.20
Increase/(decrease) in short-term financial debt	-394,424.00	788,848.00
Net cash flow from financing activities	**5,150,098.54**	**13,424,877.47**
Net increase (decrease) in cash and cash equivalents	**-4,550,191.00**	**5,575,819.69**
Cash and cash equivalents at beginning of period	**8,509,398.16**	**2,933,578.47**
Cash and cash equivalents at end of period	**3,959,207.16**	**8,509,398.16**
Composition of financial resources at end of period:		
Cash and bank balances and cheques	**3,959,207.16**	**8,509,398.16**

Explanatory Notes to the Consolidated Financial Statement as of 31 December 2015

Information about the company

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

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

The product Ameluz® (development name BF-200 ALA), which was approved at the end of 2011, has been tested for the European approval in one phase II and two phase III clinical trials for the treatment of actinic keratosis. In preparation for approval in the USA, two further phase I trials and a phase III trial have been conducted. Ameluz® is a combination of the drug aminolevulinic acid (ALA) and a nanoemulsion (BF-200), with the latter providing chemical stabilisation of the ALA and enhancing its skin penetration. The clinical results regarding the treatment of actinic keratosis have shown its clear superiority to the competitor product against which it was compared in the phase III trials. An application for centralised European approval was submitted on 1 September 2010, and this approval was granted by the European Commission on 16 December 2011. Ameluz® has been sold in Germany since February 2012 and in several other European countries since autumn 2012. For the approval in the USA, an application for approval of the drug was submitted to the FDA in early July 2015 and this was accepted for intensive examination ("acceptance to file") by the FDA in September 2015. Since then, the approval application has been examined by the FDA and inspections have been carried out at study centres and manufacturers as part of a structured process. Subject to the successful completion of the examination, the FDA has announced that the approval date in the USA will be 10 May 2016. In addition, Biofrontera has carried out another phase III trial for the treatment of basal cell carcinoma. This trial is to form the basis for the application for an extension of the existing European approval to include this indication.

In November 2012, Biofrontera's BF-RhodoLED® PDT lamp received pan-European approval for use as a medical device and has since been sold together with Ameluz®. In Europe, doctors can choose to use any of the lamps approved for PDT, whereas in the USA the approval of Ameluz® will be linked to that of the lamp. This will therefore be approved as a combination product, along with the drug.

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

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

received the results of this trial in early 2007. They show that the substance is almost completely absorbed in the gut, and that it takes around two days for 50% of the substance to be broken down or excreted. These results are an excellent starting point for developing the substance for administration in tablet form.

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

Summary of significant accounting and valuation methods

Basis for preparation of the consolidated financial statement

The consolidated financial statement for Biofrontera AG for the financial year from 1 January 2015 to 31 December 2015 has been prepared in accordance with the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB) and the interpretations of the International Financial Reporting Standards Interpretations Committee (IFRS IC), which are endorsed by the European Union (EU) and applicable on the balance sheet date. In addition, the law pursuant to § 315a paragraph 1 of the German Commercial Code (HGB) has been observed.

The assets and liabilities are defined and valued in accordance with the IFRS that were mandatory on 31 December 2015.

Standards, amendments to standards and interpretations used for the first time in the consolidated financial statement for 31 December 2015.

Standard / Interpretation	First mandatory use according to IASB	First mandatory use in the EU
IFRIC 21 "Levies"	1 January 2014	17 June 2014
Annual improvement project: :cycle 2011-2013	1 July 2014	1 January 2015

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

In May 2013 the IASB published IFRIC 21, an interpretation of IAS 37 regarding provisions, contingent liabilities and contingent receivables. This interpretation guides the accounting of public charges, which do not constitute income taxes according to IAS 12, and clarifies in particular, at which point in time such charges have to be accounted for as liabilities. The interpretation

has to be applied on financial years beginning on or after 17 June 2014. The new interpretation did not result in any changes of the accounting in the reporting year for the Group. Following the approval in the USA however public fees for the commencement of the trade business will become due on a yearly basis.

The IASB has published the standards and interpretations listed below, which have already been adopted in EU law through the endorsement process but which were not yet mandatory in the 2015 financial year. The group will not apply these standards and interpretations prematurely. We do not expect any of the optional standards and interpretations listed to have any effect on the Biofrontera Group, as the relevant circumstances do not apply.

Standard / Interpretation	First mandatory use according to IASB	First mandatory use in the EU
Amendments to IAS 19 "Employee Benefits": Defined Benefit Plans: Employee contributions	1 July 2014	1 February 2015
Annual improvement project: cycle 2010-2012	1 July 2014	1 February 2015
Amendments to IAS 1 "Presentation of Financial Statements": Disclosure initiative	1 January 2016	1 January 2016
Amendments to IAS 16 "Property, plant and equipment" and IAS 38"Intangible Assets": Clarification of acceptable methods of depreciation and amortisation	1 January 2016	1 January 2016
Amendments to IAS 16 " Property, plant and equipment " and IAS 41 "Agriculture": Bearer plants	1 January 2016	1 January 2016
Amendments to IAS 27 "Separate Financial Statements": Equity method in separate financial statements	1 January 2016	1 January 2016
Amendments to IFRS 11 "Joint Arrangements": Accounting for acquisitions of interests in joint operations	1 January 2016	1 January 2016
Annual improvement project cycle 2012-2014	1 January 2016	1 January 2016

The IASB has published the standards and interpretations listed below, which were not yet mandatory in the 2015 financial year. These standards and interpretations have not previously been endorsed by the EU and are not applied by the group. The group currently assumes that no effects will arise from the not yet applicable standards and interpretations.

Standard / Interpretation	First mandatory use according to IASB	First mandatory use in the EU
Amendments to IAS 7 "Statement of cash flows":Disclosure initiative	1 January 2017	Not yet known
Amendments to IAS 12 "Income Taxes": Recognition of deferred tax assets for unrealised losses	1 January 2017	Not yet known
Amendments to IAS 28 "Investments in Associates and Joint Ventures" and IFRS 10 "Consolidated Financial Statements": Sale or contribution of assets between an investor and its associate or joint venture	suspended indefinitely	Not yet known
IFRS 9 "Financial Instruments"	1 January 2018	Not yet known
Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities" and IAS 28 "Investments in Associates and Joint Ventures": Investment Entities: Application of Consolidation Exception	1 January 2016	Not yet known
IFRS 14 "Regulatory Deferral Accounts"	1 January 2016	No recognition by EU
IFRS 15 "Revenue from Contracts with Customers"	1 January 2018	Not yet known
IFRS 16 "Leases"	1 January 2019	Not yet known

It is expected that unless details of their effects are given below, the listed standards and interpretations that are not yet applied will have no effect on the Biofrontera Group, in the absence of relevant facts and circumstances.

As part of its disclosure initiative, the IASB has published amendments to IAS 7 - Statements of cash flows. The core changes are requirements for additional disclosures via notes, which should enable the readers of financial statements to assess the changes in liabilities arising from financing activities of the company. The amendments are to be applied for the first time in the first reporting period of a financial year beginning on 1 January 2017 or thereafter. Earlier application is also permitted. When first applied, there is no comparative information from the same period in the previous year to report. Adoption of the amendments by the EU is still pending. Apart from the requirement for additional notes, the group expects no impact on its consolidated financial statement.

In May 2014, the IASB issued the new standard IFRS 15. The aim of this new standard about revenue recognition is to bring together the variety of rules previously contained in various standards and interpretations. At the same time, uniform principles are defined that are applicable for all sectors and for all types of revenue transactions. The questions regarding what amount, at what time and for which time period revenue is to be realised are answered with the help of the 5-stage model. In addition, the standard includes a number of other regulations covering detailed issues and an expansion of the disclosures required. The new standard is to be applied to annual periods beginning on or after 1 January 2017. The first application must in principle be carried out retrospectively, but various simplification options are available; earlier application is permitted. Adoption of the amendments by the EU is still pending. The group pursues instalment purchases over several years which include a financing element. Effects by the initial application are expected insofar the standard will be endorsed by the EU in this form. No effect is expected from the first application insofar this standard will be adopted by the EU.

In January 2016, the IASB issued the new standard IFRS 16 - Leases. IFRS 16 establishes principles for the recognition, measurement, presentation and disclosure of leases, and notes regarding leases, with the aim of ensuring that lessees and lessors provide relevant information regarding the impact of leases. At the same time, the previous accounting model applied in accordance with IAS 17, involving the classification into operating and finance leases, is abandoned in favour of a uniform accounting model for leasing agreements with a mandatory control concept. For the lessee, the standard provides a single accounting model. This model leads in the case of the lessee to all the assets and liabilities from leases being recognised in the balance sheet, provided that their term does not exceed 12 months or if they are minor assets (option). The lessor continues to differentiate, for accounting purposes, between finance and operating leases. The mandatory first application of IFRS 16

- Leases is for financial years beginning on or after 1 January 2019. Early application is permitted in principle, if IFRS 15 - Revenue from Contracts with Customers is already applied (early) in full. The lessee either has to fully apply IFRS 16 retrospectively, with the inclusion of prior reporting periods, or has to recognise the cumulative adjustment effect at the point in time of initial application as an entry in equity at the beginning of the financial year of initial application. Adoption of the standard by the EU is still pending. The group is currently evaluating the possible impact of the initial application of IFRS 16 on its consolidated financial statement, and will define an adoption date and transitional method, provided that the standard is adopted by the EU in this form.

The accounting and valuation principles applied are consistent with those applied on 31.12.2014, with the exception of the new and revised standards and interpretations described above that were applied from the 2015 financial year for the first time.

The consolidated financial statements as at 31 December 2015 are presented in EUR or thousands of EUR.

The Biofrontera Group presents current and non-current assets and current and non-current liabilities as separate categories in the balance sheet, in accordance with IAS 1.60, with these categories also being broken down to some extent according to their respective terms in the notes to the consolidated financial statement for 31 December 2015. The statement of profit/loss is prepared using the cost of sales method. In this reporting format, the net turnover is set against the expenses incurred in achieving it, broken down into cost of sales, research and development costs, distribution costs and general administration costs.

The consolidated financial statement for 31 December 2015 contains no separate segment-based reporting, as the activities of the Biofrontera Group are limited to a single business segment in terms of the definition in IFRS 8. All business operations focus on the product Ameluz®, including the supplementary products BF-RhodoLED® (PDT lamp) and Belixos®, and are internally monitored and managed accordingly.

Basis for consolidation

The consolidated financial statement for 31 December 2015 includes the financial statements of the parent company, Biofrontera AG, and the subsidiary companies in which the parent has a direct majority of the voting rights or another means of exerting control. The following companies have been included in the consolidated financial statement:

1. Biofrontera Bioscience GmbH, Leverkusen, Germany, with a direct shareholding of 100%
2. Biofrontera Pharma GmbH, Leverkusen, Germany, with a direct shareholding of 100%
3. Biofrontera Development GmbH, Leverkusen, Germany, with a direct shareholding of 100%
4. Biofrontera Neuroscience GmbH, Leverkusen, Germany, with a direct shareholding of 100%.
5. Biofrontera Inc., Wilmington, Delaware, USA with a direct shareholding of 100% since March 2015.

Biofrontera Inc. was founded on 3 March 2015, with its registered head office at 1209 Orange Street, Wilmington, Delaware, 19801, County of New Castle, USA. The share capital of Biofrontera Inc. is USD 1.00. It is divided into 1000 shares with a nominal par value of USD 0.001 each.

The basis for the consolidation of the companies included in the consolidated financial statements is the financial statements (or HBII pursuant to IFRS) of these companies prepared for 31 December 2015 pursuant to uniform principles. The consolidated financial statement for 31 December 2015 has been prepared on the basis of uniform accounting and valuation principles (IFRS).

The subsidiaries have been fully consolidated from the date of acquisition. The date of acquisition is the point in time at which the parent company obtained control of these subsidiaries. The subsidiaries are included in the consolidated financial statements until the state of control over these companies no longer exists.

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

Conversion of amounts in foreign currencies

The consolidated financial statements for 31 December 2015 have been drawn up in EUR (or thousands of EUR), which is the operational currency of all the German companies included in the consolidated financial statement and of the group, and is the group's reporting currency.

For subsidiaries with a functional currency that is the local currency of the country in which they have their registered office, the assets and liabilities that are accounted for in the foreign currency in the balance sheets of the foreign, economically independent subsidiaries, are converted to euros using the relevant period-end exchange rate. Income and expense items are converted using the average exchange rates applicable to the relevant period. The differences resulting from the valuation of equity at historic rates and using the period-end exchange rates are reported as a change not affecting net income recognised in equity within the other equity components.

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

Use of estimates

The preparation of the consolidated financial statement for 31 December 2015 pursuant to IFRS required the use of estimates and assumptions by the management that affect the value of assets and liabilities - as well as contingent assets and liabilities - reported on the balance sheet date, and revenues and expenses occurring during the financial year. The main areas in which assumptions, estimates and the exercising of a degree of discretion are appropriate relate to the determination of the useful lifespans of long-term assets and the establishment of provisions, for example employee pensions and other benefits, as well as income taxes. Estimates are based on historical experience and other assumptions that are considered to be appropriate in the circumstances. They are continually reviewed but may vary from the actual values.

Transactions with related parties

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

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

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

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

Fixtures and equipment

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

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

- IT devices — 3 years, linear
- Office furniture and equipment — 4 years, linear
- Office and laboratory facilities — 10 years, linear
- Laboratory devices — 13 years, linear

Since 01 January2008, low value assets with acquisition costs of between EUR 150 and EUR 1,000 have been booked to the year of acquisition as a single item for the relevant year, and are fully written off over five years.

Intangible assets

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

Intangible assets that are acquired consist of licenses and other rights. They are accounted for at cost less accumulated depreciation. Only intangible assets acquired from third parties are entered on the assets side, as the requirements for the recognition of internally generated intangible assets are not met. Intangible assets are entered on the assets side and written off over the estimated useful life of between 4 and 10 years.

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

Impairment of assets

The company reviews assets for impairment when there are indications that the book value of an asset exceeds its recoverable amount. The recoverability of assets held for use is evaluated by carrying out a comparison of the book value of an asset with the future, expected cash flows generated from the asset. When such an asset is considered to be impaired, the impairment loss is valued at the amount by which the book value of the asset exceeds its fair value. Assets that are to be sold are reported as the lower of the book value or the fair value less costs to sell.

Financial instruments

The financial instruments held by the Biofrontera Group on the balance sheet date primarily consist of cash and cash equivalents, short-term investments, trade payables and receivables and financial debt. Biofrontera does not currently use derivative financial instruments. Due to the short maturities of short-term financial investments and trade payables and receivables, the book values of these items correspond to their fair values. The short-term financial investments are assigned to the 'available for sale' category, and other receivables and liabilities are assigned to the 'loans and receivables' category. The financial liabilities are measured using the effective interest method, minus treasury stock.

The Biofrontera Group was not exposed to significant foreign currency risk on the balance sheet date. Financial investments have been transacted in euros. Trade payables denominated in foreign currency are of secondary importance. Trade receivables are regularly checked with respect to a potential default risk.

Regarding the selection of short-term capital investments, various security criteria are applied (for example, ratings, capital guarantee, safeguarding by the deposit protection fund). Based on the selection criteria and the ongoing monitoring of capital investments, Biofrontera does not consider there to be any default risks in this area that have not been taken into account. The amounts reported in the balance sheet generally represent the maximum default risk.

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

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

As a result of the capital increases carried out in June and December 2015 and another capital increase implemented in February 2016, the company currently has sufficient liquidity at its disposal. However, further capital measures will be needed until break even is reached, in particular in order to carry out marketing activities in the USA. On 31 December 2015, Biofrontera held no financial positions that were exposed to interest rate risks.

Financial assets available for sale

The company classifies the securities held as short-term financial investments as financial assets available for sale, in accordance with IAS 39.9. On the reporting date of 31.12.2015, Biofrontera had in its portfolio holdings of its own Warrant Bond I 2009/2017 with a nominal value of EUR 1,500 thousand. The warrant bonds held by Biofrontera were depreciated by a further EUR 100 thousand (previous year: EUR 167 thousand), to EUR 1,233 thousand, as of 31 December 2015, due to a fall in the market price. In accordance with IAS 32, the bonds are reported as balanced against the corresponding bonded debt.

Inventories

Raw materials and supplies, as well as finished and unfinished goods, are valued at the lower of acquisition/manufacturing cost or market price. Borrowing costs are not capitalised. The acquisition/manufacturing costs are calculated in accordance with a first-in-first-out method (FIFO). A value adjustment is made to the inventories on the balance sheet date if the fair value is lower than the book value.

Trade receivables

Trade receivables are shown with their nominal value. In the case of value adjustments, these are booked directly against the relevant receivable. Receivables denominated in foreign currencies have been converted to euros using the exchange rates applicable on the balance sheet date, with any conversion differences being recorded in the statement of income.

Cash and cash equivalents

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

Trade payables, overdrafts

Trade payables, as well as liabilities from current accounts and other liabilities, are stated at their redemption amount. Due to their short-term nature, the reported book value reflects the fair value. Foreign currency liabilities are converted using the period-end exchange rate. Exchange rate losses and gains are shown in the statement of income.

Provisions

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

Share options

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

Warrant bonds

In accordance with IAS 32, warrant options are classified as compound financial instruments that represent a debt security with an embedded conversion or purchase option. The issuer of such a financial instrument, which contains both a liabilities and an equity component, is obligated to portray the liabilities component and the equity component separately from the originally recorded financial instrument in the balance sheet. Initially, the market value of the liabilities component equates to the present value of the contractually defined future cash flows, discounted at the market interest rate valid at that time for financial instruments that have a comparable credit status and give rise under the same conditions to effectively the same cash flows, but which do not contain a conversion or purchase option. The subsequent valuation is carried out using the effective interest method. The liability is derecognised when the obligation underlying the liability is fulfilled, terminated or expires. The equity instrument consists of the embedded option to convert the liability into equity of the issuer. The market value of the option comprises its current value and, where relevant, its intrinsic value. The intrinsic value of an option or of another

derivative financial instrument is, if any, the difference between the market value of the underlying instrument and the contract price at which the underlying instrument is to be purchased, issued, sold or exchanged. The fair value of a derivative financial instrument consists of its market value less its intrinsic value. The current value is determined by the length of the remaining period up until maturity or until the expiration of the derivative financial instrument.

If the warrant bonds are redeemed before maturity via early redemption or early repurchase, with the original conversion rights remaining unchanged, the fee paid and all transactions relating to the repurchase or redemption are allocated to the liability and equity components of the instrument at the time of the transaction. The method for the allocation of the fees and transaction costs to the two components is identical to that used in the original allocation applied to the revenue received when issuing the bond.

Income tax

In accordance with IAS 12, Biofrontera recognises deferred taxes for valuation differences between commercial law and tax law valuation. Deferred tax liabilities are generally recorded for all taxable temporary differences - claims from deferred taxes are only recorded to the extent that it is probable that taxable profits will be available in order to be able to utilise the claims. The book value of deferred income tax claims is reviewed on each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available against which the deferred tax claim can be at least partially utilised. Previously unrecognised deferred income tax claims are reassessed on each balance sheet date and are recognised to the extent that it is probable from a current perspective that sufficient future taxable profit will be available in order to realise the deferred tax claim.

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

Current taxes are calculated on the basis of the company's taxable earnings for the period. The tax rates applicable to the respective companies on the balance sheet date are used for this purpose.

Earnings per share

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

Leasing

The leasing contracts that are signed are classified either as finance leases or operating leases. If as the lessor has passed all significant opportunities and risks onto the group as a lessee, the group is assigned beneficial ownership. The companies included in the consolidated financial statement have usually concluded contracts that are classified as operating leases. In this case, ongoing lease payments are recorded as expenses when they are incurred. Concluded leasing contracts that are classified as finance leases are entered on the assets side with the lower value of the present value of the minimum lease payments or the fair value of the leased asset at the beginning of the lease and depreciated over the shorter of the two periods duration of the lease and useful life, provided that the transfer of ownership to the lessee at the end of the contractual period is not sufficiently certain.

Revenue recognition

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

Revenue and other income are realised when the amount can be measured reliably and payment is sufficiently probable as well as other conditions mentioned below are met.

All income in connection with the sale of products and licence income are recorded as revenue. Other operating incomes are shown as other operating income.

Revenue is determined to be realised when the deliveries and services owed have been provided and substantial risk and chances have been passed to the acquirer.

The majority share of revenues is achieved by product sales. The sale of Ameluz® is frequently pursued through pharma wholesalers or directly to pharmacies or hospitals.

Upon direct sales of the BF-RhodoLED® those conditions are only met after complete installation, since the installation services requires specialised knowledge, is not just an ancillary service and the lamp may only be used by the customer after successful installation. Those conditions are met with rental lamps once a binding sales contract has come into effect and the outgoing invoice has been generated.

Belixos® is predominantly sold through Amazon. Revenue is recognised after delivery and payment by the customer. Based on experience, return rights granted with the sale through Amazon are exercised by customers only in very few cases.

Revenues are recognised less revenue based trade taxes and sales deductions. Expected sales deductions, for instance rebates, discounts or returns, are recognised based on estimated values at revenue recognition. Payment terms for Ameluz® include short term payment terms with a possibility for sales rebates. Instalment payments which include a financing component are sometimes agreed upon with the sale of BF-RhodoLED®.

Licence income as well as milestone based payments are recognised when the contractual obligation has been fulfilled.

Research and development expenses

The costs relating to development are recognised, in accordance with IAS 38, as intangible assets, if certain conditions are fulfilled. Research costs are entered as costs as they are incurred. Development costs are capitalised, if certain conditions are fulfilled, depending on the possible outcome of development activities.

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

The research and development costs relating to the medication Ameluz®, which has been approved in Europe, and to the company's other research and development projects, are therefore recorded as expenses in the period in which they are incurred.

Balance sheet notes

1 Tangible and intangible assets

The development of fixed asset items in the 2015 financial year is shown in the statement of assets, together with an indication of the accumulated depreciation. Tangible fixed assets consist mainly of office and business equipment and laboratory and production facilities.

Inflows to intangible assets and fixed assets in the reporting period resulted mainly from the acquisition of additional usage rights associated with the prototype of the PDT lamp (EUR 26 thousand, previous year: EUR 77 thousand) as well as the capitalisation of production facility expenses (EUR 45 thousand; previous year: EUR 0) and office and business equipment (EUR 42 thousand; previous year: EUR 29 thousand). The asset outflows with total acquisition and manufacturing costs of EUR 20 thousand (previous year: EUR 128 thousand) resulted primarily from sales of the rental lamps, which accounted for EUR 20 thousand (previous year: EUR 117 thousand).

The reported use rights, with a net book value totalling EUR 1,778 thousand, relate mainly to rights totalling EUR 1,642 thousand to use technology developed by the company ASAT Applied Science and Technology AG, Zug, Switzerland, in terms of the active ingredient ALA (aminolevulinic acid), including all patents and expertise associated with this. The rights of use that are acquired are depreciated over their estimated remaining useful lifespan of 20 years, from their date of acquisition, due to their direct usability. This useful lifespan is derived from the term of the patents issued and acquired by Biofrontera AG and is reviewed annually pursuant to IAS 38.104. There are no indications for an impairment loss. The development costs for the prototypes of the BF-RhodoLED® have also been capitalised in this item.

Consolidated statement of changes in fixed assets in 2015

		Acquisition and production costs				Accumulated depreciation				Book values	
		01 Jan. 2015 EUR	Inflows EUR	Outflows EUR	31 Dec. 2015 EUR	01 Jan. 2015 EUR	Inflows EUR	Outflows EUR	31 Dec. 2015 EUR	31 Dec. 2015 EUR	31 Dec. 2014 EUR
I.	**Tangible assets**										
	Operating and business equipment	3,342,769.00	154,418.76	20,271.71	3,476,916.05	3,003,237.00	107,647.82	6,803.00	3,104,081.82	372,834.23	339,532.00
II.	**Intangible assets**										
1	Software and licences	418,895.51	0.00	0.00	418,895.51	281,912.08	13,140.00	0.00	295,052.08	123,843.43	136,983.43
2.	Usage rights	6,027,454.31	25,884.78	0.00	6,053,339.09	3,584,360.57	690,894.02	0.00	4,275,254.59	1,778,084.50	2,443,093.74
		6,446,349.82	25,884.78	0.00	6,472,234.60	3,866,272.65	704,034.02	0.00	4,570,306.67	1,901,927.93	2,580,077.17
		9,789,118.82	**180,303.54**	**20,271.71**	**9,949,150.65**	**6,869,509.65**	**811,681.84**	**6,803.00**	**7,674,388.49**	**2,274,762.16**	**2,919,609.17**

Consolidated statement of changes in fixed assets in 2014

		Acquisition and production costs				Accumulated depreciation				Book values	
		01 Jan. 2014 EUR	Inflows EUR	Outflows EUR	31 Dec. 2014 EUR	01 Jan. 2014 EUR	Inflows EUR	Outflows EUR	31 Dec. 2014 EUR	31 Dec. 2014 EUR	31 Dec. 2013 EUR
I.	**Tangible assets**										
	Operating and business equipment	3,395,985.95	74,917.75	128,134.70	3,342,769.00	2,928,662.32	99,708.50	25,133.82	3,003,237.00	339,532.00	467,323.63
II.	**Intangible assets**										
1	Software and licences	410,461.51	8,434.00	0.00	418,895.51	267,487.08	14,425.00	0.00	281,912.08	136,983.43	142,974,43
2.	Usage rights	5,937,723.26	89,731.05	0.00	6,027,454.31	2,887,489.07	696,871.50	0.00	3,584,360.57	2,443,093.74	3,050,234.19
3.	Prepayments made	9,000.00	0.00	9,000.00	0.00	0.00	0.00	0.00	0.00	0.00	9,000.00
		6,357,184.77	98,165.05	9,000.00	6,446,349.82	3,154,976.15	711,296.50	0.00	3,866,272.65	2,580,077.17	3,202,208.62
		9,753,170.72	**173,082.80**	**137,134.70**	**9,789,118.82**	**6,083,638.47**	**811,005.00**	**25,133.82**	**6,869,509.65**	**2,919,609.17**	**3,669,532.25**

2 Inventories

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

Inventories amount to EUR 1,534 thousand (31.12.2014: EUR 1,394 thousand). In assessing the consumption of inventories, the sequence of consumption is assumed to be based on the first-in-first-out (FIFO) method.

3 Trade receivables

Trade receivables relate mainly to the sale of Ameluz®, the BF-RhodoLED® PDT lamp and the medical cosmetic product Belixos®. It is expected that all trade receivables will be settled within twelve months of the balance sheet date. Provisions for doubtful receivables have not been made. There were overdue receivables for which no value adjustment was made amounting to EUR 20 thousand (31.12.2014: EUR 30 thousand) on the balance sheet date. Of these, EUR 15 thousand were 15 to 30 days overdue, and EUR 5 thousand were more than 30 days overdue. At the time of preparation of the consolidated financial statement, no overdue receivables were still unpaid.

4 Other financial and miscellaneous assets

Miscellaneous assets primarily include prepayments for medical trials (EUR 585 thousand; 31.12.2014: EUR 586 thousand) and VAT reimbursement claims (EUR 57 thousand; 31.12.2014: EUR 87 thousand). No individual value adjustments were carried out during the reporting year (31.12.2014: EUR 261 thousand)

5 Income tax reimbursement claims

These consist of claims for tax refunds relating to withheld capital gains tax, plus the solidarity surcharge (EUR 32 thousand; 31.12.2014: EUR 38 thousand).

6 Securities

The valuation of securities is based on the prices quoted in an active market. On 31 December 2015, the company's holdings in its own Warrant Bond I 2009/2017 had a nominal value of EUR 1,500 thousand (31.12.2014: EUR 1,500 thousand). The warrant bonds held by Biofrontera were depreciated by a further EUR 100 thousand (depreciation 31.12.2014: EUR 167 thousand), to EUR 1,233 thousand (31.12.2014: EUR 1,333 thousand) due to a fall in the market price. In accordance with IAS 32, the bonds are offset against the bonded debt.

7 Cash and cash equivalents

Cash and cash equivalents relate to cash-in-hand, cheques, bank deposits and money deposits with a maturity of up to three months at the time of acquisition amounting to EUR 3,959 thousand (31.12.2014: EUR 8,509 thousand). The book values of the cash and cash equivalents correspond to their fair value, due to the short-term nature of these investments.

8 Deferred income tax claims

The Biofrontera Group recorded a net loss before tax on 31 December 2015 and on 31 December 2014. Deferred tax assets are generally determined on the basis of the existing income tax rates in Germany. The corporate tax rate is 15% as a result of the 2008 Company Tax Reform Act. When a solidarity surcharge of 5.5% is included, this results in a combined tax rate of 15.8% (previous year: 15.8%). Because of the basic rate of tax of 3.5% for businesses and the lack of deductibility of business tax as a business expense, the resulting tax rate, taking into account the local business tax rate, is 16.6% (previous year 16.6%).

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

	31 December 2015		31 December 2014	
	Loss carried forward EUR	Deferred tax claims EUR	Loss carried forward EUR	Deferred tax claims EUR
Corporation tax including solidarity surcharge	104,757	16,583	93,151	14,746
Business tax	94,915	15,784	84,306	14,020
Total		**32,367**		**28,766**

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

Due to the lack of predictability regarding future taxable profits, the fundamentally existing deferred tax claims from loss carryforwards (EUR 32,367 thousand; 31.12.2014: EUR 28,766 thousand) and tax deductible differences of EUR 33 thousand (31.12.2014 EUR 55 thousand) were not entered in the balance sheet, in accordance with IAS 12.34.

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

	31.12.2015 kEUR	31.12.2014 kEUR
Group income before income taxes	(11,203)	(10,721)
Expected income tax reimbursement at the tax rate of the parent company	**3,635**	**3,479**
Differences arising from different tax rates	0	0
Tax reductions due to changes in permanent differences	161	70
Tax increases due to non-deductible expenses	(187)	(150)
Changes in unrecognised deferred tax assets		
- from active temporary differences	33	55
- from losses carried forward	(3,602)	(3,456)
Other effects	40	2
Income taxes according to statement of overall profit/loss	**0**	**0**

9 Equity

The fully paid in share capital of the parent company, Biofrontera AG, amounted to EUR 25,490,430.00 on 31 December 2015. It was divided into 25,490,430 registered shares with a nominal value of EUR 1.00 each. On 31 December 2014, the share capital amounted to EUR 22,196,570.00 and was increased by a total of EUR 3,293,860.00, divided into 3,293,860 registered shares, during the course of the 2015 financial year, as a result of two capital increases.

In the first capital increase carried out in 2015, subscription of new shares was offered to all shareholders for allocation and additional subscription. The new shares that were not acquired as part of the subscription right or the additional subscription were offered to selected investors for acquisition in a private placement. EUR 1,377,272.00, divided into 1,377,272 registered shares, was placed and the implementation was entered in the trade register on 1 June 2015. The proceeds amounted to EUR 3.1 million

In addition, in a further capital increase, a total of EUR 1,916,588, divided into 1,916,588 registered shares, was placed and this was registered in the trade register on 3 December 2015. This capital increase was also initially offered to all shareholders for subscription and additional subscription. Shares that were not acquired in the allocation and additional subscription were offered to institutional investors for subscription. The proceeds amounted to EUR 3.5 million.

The Biofrontera AG shares were listed on the regulated market of the Düsseldorf Stock Exchange in 2006. Likewise, approval was granted for trading on the regulated market of the Frankfurt Stock Exchange in August 2012. The company's shares are also traded on the Xetra computer trading system and all other German stock exchanges. On 3 June 2014, the share was admitted to the Prime Standard of the Frankfurt Stock Exchange and the AIM market of the London Stock Exchange. The listing on the AIM Market was rescinded on 18 February 2016.

The numbers of shares held by the shareholders on 31 December 2015, based on the most recent compulsory disclosures of the shareholders, are as follows:

	31 December 2015 EUR	31 December 2014 EUR
Maruho Deutschland Co., Ltd., Osaka Japan The total share of voting rights is assigned to Maruho Co., Ltd, Osaka, via the company Maruho Deutschland GmbH, Düsseldorf, which is controlled by the former.	4,467,143	4,467,143
Dr. Carsten Maschmeyer, Germany Dr Maschmeyer is assigned all the voting rights of the company ALSTIN Family GmbH, Hanover, which he controls (formerly: Alternative Strategic Investments GmbH), and MM Familien KG, Hanover.	0	2,282,177
Professor Ulrich Abshagen, Germany Professor Abshagen has a direct holding of 62,850 voting rights, and he is indirectly assigned 976,056 voting rights by Heidelberg Innovation BioScience Venture II GmbH & Co.KG (in liquidation) via Heidelberg Innovation Asset Management GmbH & Co. KG, of which he is one of the managing partners.	1,038,906	1,028,349
Wilhelm Konrad Thomas Zours Of this, 3.48% of the voting rights are assigned via the company Deutsche Balaton Aktiengesellschaft	1,053,154	0
Universal-Investment-Gesellschaft mbH, Frankfurt am Main, Germany The voting rights are assigned to Universal-Investment GmbH via the company FEHO Vermögensverwaltungsgesellschaft	799,463	981,438
Prof. Dr. Hermann Lübbert, Leverkusen, Germany	720,512	685,512
Free float	17,411,252	12,751,951
Total	**25,490,430**	**22,196,570**

The company's capital management body regularly reviews the equity ratio of the group and the group subsidiaries. The management's objective is to ensure an appropriate equity base, within the framework of the expectations of the capital market, and creditworthiness with respect to national and international business partners. The Management Board of the company ensures that all group companies have sufficient capital at their disposal in the form of equity and debt capital. Two financings took place, in June 2015 and December 2015.

The statement of changes in equity provides further information about the development of equity.

In connection with the already issued 2009/2017 warrant bond and the 2011/2016 warrant bond issued in July 2011 (1st tranche) and December 2011 (2nd tranche), the following items were reported on 31 December 2015:

	31.12.2015 EUR	31.12.2014 EUR
Long-term financial debt (at amortised cost)	11,229,946.00	10,744,299.63
Short-term financial debt (accrued interest from nominal interest rate)	830,174.00	1,224,598.00
Capital reserve (equity component 2009/2017 warrant bond)	1,485,294.99	1,485,294.99
Capital reserve (equity component 2011/2016 warrant bond)	1,226,747.16	1,226,747.16

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

In accordance with IAS 32.37, the equity procurement costs reduced by any related income tax benefits are accounted for as a deduction from equity. As, in the opinion of the company management, the realisation of the losses carried forward is associated with a high degree of uncertainty, the costs of raising equity have been deducted in full from equity. In the 2015 financial year, costs of raising equity totalling EUR 496 thousand (previous year: EUR 216 thousand) were recognised in connection with the capital increases that were carried out.

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

2010 share option programme

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

The programme has a total nominal volume of EUR 840,000 and a term of six years from the issue date, i.e. until 24.11.2016. For this, conditional capital amounting to EUR 839,500 was decided by means of the issuing of up to 839,500 registered no-par value unit shares with a proportional amount of the share capital of EUR 1.00 per share, in accordance with § 192 para. 1 no. 3 of the German Stock Corporation Act (AktG). The conditional capital was registered on 30 July 2010 in the trade register of the

Cologne District Court, under HRB 49717. Eligibility for the 2010 share option programme was granted to members of the Management Board and employees of the company as well as to members of management bodies and employees of affiliates of Biofrontera AG.

The date of issue was 24 November 2010. The granting of options is made without any payment being provided in return. On 24 November 2010, 106,400 options (first tranche) were issued with an exercise price per share of EUR 1.91. On 30 September 2011 and 7 October 2011 (second tranche) a further 96,400 options were issued with an exercise price of EUR 2.48 each. On 23 March 2012 and 11 May 2012 (third tranche), 65,000 options were issued with an exercise price of EUR 3.30 each, and 51,500 options were issued with an exercise price of EUR 4.09 each. On 2 September 2013, 179,500 options were issued (fourth tranche) with an exercise price of EUR 3.373 each. On 2 April 2014, 159,350 options were issued with an exercise price of EUR 3.43 each.

In accordance with the associated conditions, each subscription right that is granted entitles the beneficiary to acquire one new registered no-par value unit share in the company. The exercise price is equal to the arithmetical average (unweighted) of the closing prices ascertained on the Frankfurt Stock Exchange via the trading floor and Xetra trading for the company's shares on the ten trading days prior to the issuing of the share. However, the minimum exercise price amounts to the proportionate share of the company's share capital allocated to each individual no-par value unit share, pursuant to § 9, paragraph 1 of the German Stock Corporation Act.

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

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

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

- In the case of a capital reduction, no adjustment of the minimum reference price is carried out, provided that the total number of shares is not changed by the capital reduction or if the capital reduction is connected to a return of capital or an acquisition of own shares against payment. In the case of a capital reduction performed by consolidating shares without capital repayment and in the case of increasing the number of shares with no associated change in capital (share split), the minimum reference rate increases in line with the capital reduction or share split.

Other adjustments to the minimum reference price are not carried out.

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

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

b) on the 6th and the next 14 banking days after the date of submission of the semi-annual or quarterly report or an interim statement by Biofrontera AG (exclusive)

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

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

The right to exercise the options ends at the latest six years after the first day of issue. The right to exercise the first options that were issued thus ends on 24.11.2016. If the options have not been exercised by this time, they expire without provision of compensation. In the valuation of the employee share options, we have assumed an average holding period of 5 years.

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

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

As this share option scheme involves share-based remuneration with a choice of settlement at the discretion of the company, the company has decided, in accordance with IFRS 2.41 and IFRS 2.43, to book the transactions pursuant to the provisions for share-based remuneration settled with equity instruments (IFRS 2.10-29). Therefore, the fair value of a share from this share option programme with a granting date of 24 November 2010 was determined, on the basis of a binomial model, to have a value of EUR 0.57 / share option. For the share options issued on 31.12.2010, this resulted in a total value of options of EUR 60,648.00. For the additional share options granted in 2011, a fair value of EUR 119,536.00 was calculated. For the two tranches of options granted in 2012, fair values of EUR 104,000.00 and EUR 106,090.00 were calculated, respectively. For the share options granted in 2013, a fair value of EUR 192,065 was calculated. For the share options granted in 2014, a fair value of EUR 132,260.50 was determined. The booking of the pro-rata amounts is carried out proportionately as personnel expenses and as increases in the capital reserves over the period of accumulation, until the end of the retention period. Share price volatility factors of 45.78% and 51.3% were used in assessing the fair value of the options granted in 2010 and 2011, factors of 53.5% and 65% were used for the options granted in 2012, a factor of 39.2% was used for the options granted in 2013 and a factor of 32.3% for the options granted in 2013 (based on valuation date volatility). A dividend yield of 0% was used in all cases, as well as respective risk-free interest rates of 1.75%, 1.21%, 0.9% and 0.82% in 2012 as well as 0.71% in 2013 and 0.68% in 2014, and a uniform annual fluctuation of beneficiaries of 20%. No share options were issued in financial year 2015.

The vesting period for the first tranche ran until 30 Nov 2014 and until 30 Sep 2015 for the second tranche, no options were exercised until the balance sheet date.

No options from the third, fourth and fifth tranche could be exercised due to the vesting period.

A total of 123,750 options were forfeited by employees leaving the company.

The authorisation to issue options under the 2010 share option programme ended on 1 July 2015. By resolution of the Annual General Meeting made on 28 August 2015, the conditional capital III foreseen for the servicing of options under this programme was reduced to EUR 542,400.00.

The expenditure booked in the reporting period was EUR 103 thousand (previous year: EUR 113 thousand).

10 Financial liabilities

On 26 June 2009, Biofrontera announced the placement of a warrant bond with a term ending on 31 December 2017. As part of this financing measure on the part of the company, an option bond was placed in 2009 ("**Warrant Bond I**"). The warrant bond has a total nominal value of EUR 10,000,000.00, divided into up to 100,000 bonds with a nominal value of EUR 100.00. The redemption at the end of the term is at 106% of the nominal value of the bond. The warrant bonds bear interest on the following scale:

- from 1.9.2009 to 30.12.2010 annual rate 4%;
- from 31.12.2010 to 30.12.2011 annual rate 6%;
- from 31.12.2011 to 31.12.2017 annual rate 8%.

The accrual of interest on each warrant bond ends on the day before it is due for redemption. The interest payment is made on the last business day of the calendar year, but not until 31 December 2010, i.e. the interest for 2009 does not become due until then. Ordinary termination by the bondholders is not permitted. Biofrontera has the right, upon issuing of written notice to the bondholders of Warrant Bond I, to repay 106% of the nominal amount (plus any accrued interest) at any time. Each holder of a partial bond is, in accordance with the bond and option terms, entitled to five detachable option rights per partial bond, with each of these providing the irrevocable right to acquire a registered no-par value unit share with voting rights in Biofrontera AG with a notional proportion of the share capital of EUR 1.00, at an option price of EUR 5.00 each. The option right expires on 30 December 2017. The share resulting from the exercising of an option right is entitled to participate in the company's profits from the beginning of the financial year in which it arose from the exercising of the option right and payment of the capital contribution. In order to provide financing for the option rights, conditional capital of the company amounting to up to EUR 500,000.00 was approved at the Extraordinary General Meeting held on 17.03.2009.

Of these warrant bonds, partial bonds were issued with a total nominal value of EUR 4.930.300.00.

The liability from this warrant bond was valued at the time of issue and was attributed a cash value of EUR 3,238,744.00, and the book value of the long-term financial debt amounted to EUR 2,836 thousand on 31 December 2015 (31.12.2014: EUR 2,671 thousand), using the effective interest method. The short-term portion of this financial liability, i.e. debts payable within one year, amounts to EUR 394 thousand (31.12.2014: EUR 789 thousand). The nominal interest for 2014 was paid in the beginning of January of the following financial year and for 2015 on 31 December 2015. See section 6 for details of the warrant bonds held by Biofrontera.

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

Warrant Bond II has a total nominal value of up to EUR 25,000,000.00 and is divided into up to 250,000 individual warrant bonds with a nominal value of EUR 100.00 each. Each individual warrant bond is associated with ten detachable warrants issued by the company; each warrant entitles the holder to acquire a registered no par value unit share in the company, with associated voting rights and with a stake in the share capital of EUR 1.00 each, at an option price of EUR 3.00. If all the option rights were to be issued and exercised, this would result in a calculated total exercise price of EUR 7,500,000.00.The issue price of each warrant bond is EUR 100.00.

The term of the warrant bonds begins on 20 July 2011 and ends on 31 December 2016. The company will return the warrant bonds on 01 January 2017 at 100% of the nominal amount. The company has the right to repay 100% of the nominal amount of Warrant Bond II (plus any accrued interest) at any time. Bondholders may terminate Warrant Bond II for good reason in certain cases; normal termination on the part of the bondholders is not possible. In order to provide financing for the option rights,

conditional capital of up to EUR 2,500,000.00 was approved at the company's General Meeting on 10 May 2011 and entered in the trade register on 18.05.2011. Warrant Bond II accrues annual interest of 5%. The accrual of interest on each warrant bond ends on 31 December 2016. Interest is paid annually on 1 January for the previous year, commencing on 01 January 2012 with a payment of EUR 195 thousand for the period 20 July 2011 until 31 December 2011. A nominal total of EUR 8,715 thousand of individual warrant bonds of Warrant Bond II was issued as a result of two transactions that exchanged the convertible bonds for Warrant Bond II in July and December 2011 and the direct acquisition from the initial issue. The resulting interest payment owed for the period from 1 January 2015 until 31 December 2015 was paid out on the interest due date on 04 January 2016, and amounted to EUR 436 thousand (previous year: EUR 436 thousand). On 31 December 2015, the interest payable for the period from 1 January 2015 until 31 December 2015 of EUR 436 thousand was reported within short-term financial debt.

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

kEUR	31.12.2015					
	2016	2017	2018	2019	2020	Total
Warrant bond 2009/2017:						
Repayment			5,226			5,226
Interest payment	394	394				788
Warrant bond 2011/2016:						
Repayment		8,715				8,715
Interest payment	436	436				872

The situation was as follows in the previous year:

kEUR	31.12.2014					
	2015	2016	2017	2018	2019	Total
Warrant bond 2009/2017:						
Repayment				5,226		5,226
Interest payment	788	394	394			1,576
Warrant bond 2011/2016:						
Repayment			8,715			8,715
Interest payment	436	436	436			1,308

11 Trade payables

The trade payables (EUR 1,043 thousand; 31.12.2014: EUR 967 thousand) increased by EUR 76 thousand from the previous year. The increase is due to trade payables invoiced at the end of the year and the underlying payment conditions.

12 Other provisions

Other provisions have developed as follows:

Biofrontera Group	Euros 01.01.2015	Utilised	Liquidated	Allocated	Euros 31.12.2015
- Bonuses for employees	106,622.00	79,622.00	27,000.00	142,741.00	142,741.00
- Outstanding holiday	72,262.67	72,262.67	0.00	82,015.08	82,015.08
- Outstanding invoices	635,764.67	546,041.66	28,949,15	598,901.10	659,674.96
- Financial statement and auditing costs	93,884.00	87,134.32	6,749.68	109,200.00	109,200.00
- Other provisions	43,411.07	5,715.70	0.00	10,534.39	48,229.76
Total provisions	**951,944.41**	**790,776.35**	**62,698.83**	**943,391.57**	**1,041,860.80**

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

13 Other financial and non-financial liabilities

	31 December 2015 EUR	31 December 2014 EUR
Payroll tax	97	66
Financial leasing	12	20
Credit card payments	16	16
Other	36	11
	161	113

14 Reporting on financial instruments

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

Market price risk: The risk associated with interest rate changes is considered insignificant because, as a rule, the existing interest modalities for the relevant financing of the Biofrontera Group can be adjusted to market conditions in the short to medium term. There is no cash flow risk for the fixed-rate warrant bonds. No adverse changes in interest payments can occur, as a result of the fixed interest rates. Since the liabilities are not accounted for at fair value, but at amortised cost, there is also no fair value risk.

Credit risk: A credit risk arises for the group if transaction partners cannot meet their obligations within the normal payment deadlines. On the balance sheet, the maximum non-payment risk is represented by the book value of the relevant financial asset. The situation regarding receivables is monitored so that any possible non-payment risks can be identified at an early stage and appropriate steps taken. In the reporting year, no individual value adjustments were made for other financial assets

(31.12.2014: EUR 261 thousand); also no individual value adjustments were made to trade receivables in the reporting year (31.12.2014: EUR 0).

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

Level 1: Fair value valuations using prices listed on active markets (not adjusted) for identical assets or liabilities.

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

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

Biofrontera only has financial instruments at levels 1 and 2. No reclassifications between level 1 and level 2 were carried out during the 2015 financial year. All the financial assets measured at fair value and listed in the following are classified as level 1. With regard to financial liabilities, the full amount of long-term and short-term financial debt (EUR 12,060 thousand; 31.12.2014: EUR 11,999 thousand) is allocated to level 2. This involves financial debt arising from the two warrant bonds.

Biofrontera records individual valuation allowances as trade receivables and the remaining financial liabilities assigned to the "loans and receivables" category are classified as other operating expenses. The losses from currency conversions from the "loans and receivables" assessment category are mainly attributable to liabilities from deliveries and services. The net gains and losses include specific value adjustments and currency conversion effects.

The financial assets and liabilities can be broken down into valuation categories with the following book values, and the net gains and losses:

Financial assets on 31.12.2015 (EUR)	Fair value	Book values					Net gains (+) or losses (-)
		Cash and cash equivalents	Loans and receivables	Financial instruments recognised at fair value in profit or loss (excluding "held for trading")	Financial assets available for sale	TOTAL BOOK VALUES	
- Financial assets						0	0
- Liquid assets	3,959,207	3,959,207				3,959,207	104
- Trade receivables	894,559		894,559			894,559	0
- Other short-term financial receivables and assets	730,440		730,440			730,440	0
TOTAL	**5,584,206**	**3,959,207**	**1,624,999**	**0**	**0**	**5,584,206**	**104**

Financial liabilities on 31.12.2015 (EUR)	Fair value	Book values					Net gains (+) or losses (-)
		Other liabilities	Financial instruments recognised at fair value in profit or loss (excluding "held for trading")			TOTAL BOOK VALUES	
- Short-term financial debt	830,174	830,174				830,174	0
- Trade payables	1,043,426	1,043,426				1,043,426	(21,594)
- Other short-term financial liabilities	37,622	37,622				37,622	0
- Other long-term financial debt	11,229,946	11,229,946				11,229,946	0
TOTAL	**13,141,168**	**13,141,168**	**0**	**0**	**0**	**13,141,168**	**(21,594)**

Financial assets on 31.12.2014 (EUR)	Fair value	Book values					Net gains (+) or losses (-)
		Cash and cash equivalents	Loans and receivables	Financial instruments recognised at fair value in profit or loss (excluding "held for trading")	Financial assets available for sale	TOTAL BOOK VALUES	
- Financial assets						0	0
- Liquid assets	8,509,398	8,509,398				8,509,398	61
- Trade receivables	308,984		308,984			308,984	(38)
- Other short-term financial receivables and assets	726,791		726,791			726,791	(261,099)
TOTAL	**9,545,173**	**8,509,398**	**1,035,775**	**0**	**0**	**9,545,173**	**(261,076)**

Financial liabilities on 31.12.2014 (EUR)	Fair value	Book values					Net gains (+) or losses (-)
		Other liabilities	Financial instruments recognised at fair value in profit or loss (excluding "held for trading")			TOTAL BOOK VALUES	
- Short-term financial debt	1,224,598	1,224,598				1,224,598	0
- Trade payables	967,438	967,438				967,438	(9,600)
- Other short-term financial liabilities	27,012	27,012				27,012	0
- Other long-term financial debt	10,774,298	10,774,298				10,774,298	0
TOTAL	**12,993,346**	**12,993,346**	**0**	**0**	**0**	**12,993,346**	**(9,600)**

Liquidity risk: The refinancing of the Biofrontera group companies is generally carried out on a central basis by Biofrontera AG. There is a risk in this regard that the liquidity reserves may be insufficient to fulfil the financial obligations on the due date. In order to cover the liquidity requirements at 31 December 2015, cash and cash equivalents totalling EUR 3,959 thousand (31.12.2014: EUR 8,509 thousand) are available. See the relevant balance sheet notes on (undiscounted) payments from financial debt due in the next years.

Notes on the consolidated statement of comprehensive income of 31 December 2015

15 Sales revenue

The Biofrontera Group recognised sales of EUR 4,138 thousand in the 2015 financial year (previous year: EUR 3,096 thousand), corresponding to an increase of 34% compared to the previous year. Down payments of EUR 70 thousand (previous year: 70 thousand) are included in this. Turnover from sales of products in Germany increased by 27% to EUR 3,028 thousand (previous year: EUR 2,379 thousand), sales in other countries rose by 61% to EUR 1,040 thousand (previous year: EUR 647 thousand).

16 Cost of sales, gross profit from sales

The gross profit from sales improved from EUR 1,979 thousand in the 2014 financial year to EUR 2,902 thousand in the 2015 financial year. The gross margin increased to 70%, compared to 64% in the same period in the previous year.

The cost of sales amounted to EUR 1,236 thousand, and thus 30% of sales (EUR 1,117 thousand and 36%), thus improving relative to the revenue.

The above-average sales development with the European licensing partners had a slightly negative impact on the gross result. Unlike with the margin achieved in Germany and the European countries with direct sales activities, in countries with licensing agreements part of the margin is kept by the licensing partners.

17 Development costs

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

18 Marketing costs

The sales costs increased only slightly by 8% to EUR 4,170 thousand compared to the previous year (EUR 3,847 thousand), despite the build-up of a sales structure in Spain. The sales costs include the costs of our own field sales team in Germany and Spain, as well as marketing expenses. They also include expenses for marketing preparations in the USA.

19 Administrative costs

The administrative costs decreased compared to the same period in the previous year by EUR 485 thousand to EUR 2,759 thousand, primarily due to lower financing costs. Financing costs shown under administrative costs include primarily consultancy and placement fees in connection with support for the search of investors.

20 Financial result

The financial result consists primarily of the interest payable for the 2009/2017 warrant bond (EUR 439 thousand, previous year: EUR 447 thousand) and for the 2011/2016 warrant bond placed in 2011 (EUR 727 thousand, previous year: EUR 702 thousand), calculated using the effective interest method. The above mentioned interest expenses of EUR 439 thousand (previous year: 447 thousand) for the warrant bond 2009/2017 includes the opposite effect of EUR 193 thousand (previous year: EUR 156 thousand) resulting from the repurchase on 28 February 2014. The interest payment for the 2014 calendar year for Warrant Bonds I and II was made in January 2015. The payment of interest on Warrant Bond I for the 2015 calendar year was made in the end of December 2015, and the payment of interest on Warrant Bond II for 2015 was made in the beginning of January 2016.

21 Other income (expenses), net

In the 2015 financial year, other operational income increased slightly, by EUR 33 thousand to EUR 219 thousand. This is largely attributable to the reversal of provisions amounting to EUR 63 thousand (31.12.2014: EUR 72 thousand). Other operating expenses decreased, compared to the previous year, from EUR 280 thousand to EUR 32 thousand. This involved in particular a specific value adjustment amounting to EUR 261 thousand made in the previous financial year, relating to a short-term loan made available to a development partner. No specific valuation allowances were made in the 2015 financial year.

22 Earnings per share (EPS)

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

	31.12.2015	31.12.2014
Number of weighted ordinary shares in circulation (on average)	23.156.343,32	21,757,826.65
Net loss for the year in EUR	(11,203)	(10,721)
Undiluted earnings per share in EUR	(0.48)	(0.49)

When calculating diluted earnings per share for the 2014 and 2015 financial years, the warrant bond already issued in 2009 (2009/2017), with a total nominal value of EUR 4,930 thousand and giving bondholders the right to acquire 246,515 shares at a price of EUR 5.00 each, as well as the warrant bond issued in 2011 (2011/2016), with a total nominal value of EUR 8,715 thousand and giving bondholders the right to acquire 871,500 shares at a price of EUR 3.00 each, generally have be taken into account. As the group achieved negative annual results in the 2014 and 2015 financial years, no diluted earnings per share were reported, as the conversion or subscription rights for the periods shown counteracted any dilution.

23 Additional information regarding the consolidated statement of comprehensive income

In the income statement, there was no "other comprehensive income (OCI)" to report on 31 December 2014 and 31 December 2015, as there were no relevant facts or circumstances. Therefore, the net loss equates to the total profit or loss for the period.

Material costs

The cost of materials included in the cost of sales amounted to EUR 947 thousand (previous year: EUR 841 thousand) for the 2015 financial year.

Depreciation

The depreciation of tangible and amortization of intangible assets of EUR 812 thousand in the 2015 financial year and of EUR 811 thousand in the previous year is included in the following items in the statement of comprehensive income:

	31.12.2015 kEUR	31.12.2014 kEUR
Research and development costs	691	702
General administrative costs	113	105
Cost of sales	8	4
Depreciation of tangible and intangible assets	**812**	**811**

Personnel costs

	31.12.2015 kEUR	31.12.2014 kEUR
Salaries and wages	3,591	3,024
Social security charges	482	401
Total	**4,073**	**3,425**

The personnel costs include contribution-related expenses for pension schemes amounting to EUR 34 thousand (previous year: EUR 41 thousand).

Earnings before income taxes correspond to earnings for the entire period. There are no expenses and income not affecting net income.

24 Staff

On average, the Biofrontera Group employed 46 people in the 2015 financial year (previous year: 37 employees).

25 Other information

Operating and finance leases

The group companies lease administrative and research facilities, as well as vehicles and equipment, under **operating lease contracts**. The future minimum commitments relating to leases are as follows:

	2015	2014	2015	2014	2015	2014
	≤ 1 year		1 year to 5 years		> 5 years	
Operating leasing agreements						
Leases for business premises	424,277	142,981	2,156,013	512,482	1,619,895	0
Leases for cars	144,693	147,703	177,518	150,317	0	0
Operating and business equipment	17,789	16,019	35,267	46,775	0	0

Lease-related expenses for the reporting period amounted to EUR 176 thousand (previous year: EUR 191 thousand).

On the balance sheet date, there was a **finance lease** for a server leased by Biofrontera AG with a book value of EUR 12 thousand (31.12.2014: EUR 20 thousand). The contract has a minimum term of 60 months to 31 July 2017. Biofrontera AG is obliged to purchase the leased asset from the lessor for a fixed residual value of EUR 2 thousand if the lessor exercises its option to sell. In the reporting year, minimum lease payments of EUR 11 thousand were recorded as expenses (previous year: EUR 11 thousand).

On the balance sheet date of 31 December 2015, the present value of the sum of future minimum lease payments can be reconciled to their present values as follows:

All figures in kEUR	Minimum leasing payments	Discounting	Present value
Up to 1 year:	11	3	8
Between 2 and 5 years:	7	2	4
More than 5 years:	0	0	0

26 Notes to the cash flow statement

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

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

The interest payments made amounted to EUR 1,225 thousand (2014: EUR 454 thousand). The change resulted from both interest payments made in the reporting year for Warrant Bond I being 1 January 2015 on the one hand, and interest payment for the reporting year made on 31 Dec 2015. The interest payments received amounted to EUR 184 thousand (2014: EUR 143 thousand) which comprised of interest payments received for the Option Bond I held on our own account and from interest payments received from financial investments.

27 Members of the Management Board

Professor Hermann Lübbert was Chairman of the Management Board in the reporting period. The Chairman of the Management Board holds a professorship at the University of Bochum in Germany. His management contract was extended by a further five years, to 31 October 2020, as a result of a decision made by the Supervisory Board on 27 March 2015.

Thomas Schaffer is the Chief Financial Officer. The management contract with Thomas Schaffer was extended by five years, to 30 November 2020, as a result of a decision made by the Supervisory Board on 9 April 2015.

As a result of a decision made by the Supervisory Board made on 9 July 2015, Christoph Dünwald was appointed as an additional member of the management of Biofrontera AG with effect from 16 November 2015. On the board he is responsible for the area of Sales and Marketing.

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

The remuneration for members of the Management Board in the period 1 January until 31 December 2015 consisted of a salary and a bonus and share options. The total remuneration for Management Board members in the reporting period, including the value of share options at the time they were granted, amounted to EUR 866 thousand (previous year: EUR 807 thousand). This was divided as follows

Prof. Dr. Hermann Lübbert	- Salary/bonus	EUR 405 thousand (31.12.14: EUR 405 thousand)
	- Share options	151,850 (fair value when granted: EUR 167,236) previous year 151,850, (fair value when granted: EUR 167,236), of which granted in 2015: 0 (2014: 16,850).
Thomas Schaffer	- Salary/bonus	EUR 231 thousand (31.12.14: EUR 202 thousand)
	- Share options	35,000 (fair value when granted EUR 32,650) previous year 35,000, (fair value when granted: EUR 32,650)), of which granted in 2015: 0 (2014: 20,000)
Christoph Dünwald	- Salary/bonus	EUR 29 thousand (31.12.14: EUR 0)

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

28 Members of the Supervisory Board

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

Jürgen Baumann	Chairperson of the Supervisory Board, expert in the field of sales and marketing of pharmaceuticals, resident in Monheim, Germany
Prof. Bernd Wetzel	Deputy chair of the Supervisory Board, advisor, resident in Biberach/Riss, Germany
Dr. Ulrich Granzer	Owner and managing director of Ulrich Granzer Regulatory Consulting & Services, resident in Munich, Germany
Ulrike Kluge	Managing partner of klugeconcepts GmbH, Cologne; resident in Cologne, Germany
Andreas Fritsch	Member of the Management Board, Xolaris Service Kapitalverwaltungs AG, Munich; Managing Director, Unternehmensberatung Fritsch, Seefeld, resident in Seefeld near Munich, Germany
Alfred Neimke	Managing Director of Kopernikus AG in Zurich, Switzerland; CFO of MAN Oil in Zug, Switzerland; resident in Zurich, Switzerland, Director Prudent Investment Fund, Luxembourg

The members of the Supervisory Board had the following other supervisory board positions and positions on comparable domestic and foreign boards during the reporting period:

Alfred Neimke	Administrative Board of DERPHARM AG in Zurich, Switzerland

In the 2015 financial year, the remuneration of the Supervisory Board members amounted to EUR 113 thousand (previous year: EUR 113 thousand). The remuneration is classified as short-term employee benefits as defined in IAS 24.17(a).

During the reporting period, the company availed itself of additional advisory services from a member of the Supervisory Board, Dr Ulrich Granzer. These services went beyond the scope of normal Supervisory Board activities. Dr Granzer assisted the company with key issues relating to the preparation of the applications for approval submitted to the supervisory authorities in Europe and the USA. During the course of the 2015 financial year, advisory services amounting to EUR 62 thousand (previous year: EUR 98 thousand) were provided by Granzer Regulatory Consulting & Services. Accounts payable to Granzer Regulatory Consulting & Services amounted to EUR 0 thousand on 31.12.2015 (31.12.2014: EUR 6 thousand). The amounts stated here do not include statutory VAT at the current rate of 19%. The underlying consultancy contract was approved in consideration of the statutory provisions.

29 Related party disclosures

In the 2015 financial year, there were no reportable transactions or relationships with related parties, beyond the facts and circumstances stated in subsections 27 and 28. The group of related persons and entities is limited to those referred to therein.

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

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

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

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

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

31 Fees and services of the auditor

The total fee invoiced by the auditor Warth & Klein Grant Thornton AG for the 2015 financial year consists of the following:

	2015	2014
	kEUR	kEUR
Auditing services	122	105
[of which for the previous year]	[16]	[14]
Other certification services	43	33
Tax advisory services	0	0
Other services	0	7
	165	**145**

32 Events occurring after the balance sheet date

In January 2016, the FDA informed the company that the midcycle review as part of the approval process in the US had been completed; the FDA thus has no further questions for the company in this regard.

On 28 January 2016, the company announced that the preliminary results of the phase III trial for the treatment of basal cell carcinoma (BCC) were available. In the clinical study, the efficacy and safety of Ameluz® were compared with that of Metvix®. The study included non-aggressive superficial and nodular BCCs with a thickness of up to 2 mm. Ameluz® achieved complete destruction of all BCCs in 93.4% of patients, which compared well with the figure of 91.8% achieved with Metvix®.

On 16 February 2016, the company announced that a capital increase had been carried out, with exclusion of subscription rights, by issuing 2,357,384 shares to selected institutional investors in order to secure further corporate financing. The issue price for the new shares was EUR 1.90. The capital increase was registered in the trade register on 26.02.2016. Net proceeds were EUR 4.4 million.

A submission fee ("PDUFA fee") of EUR 2,072 thousand was paid to the FDA for the submission of the approval application for Biofrontera's drug Ameluz®. This fee is usually waived for small companies for their initial submission. In consultation with the

FDA, an application for remission of the fee was lodged by Biofrontera, but this could not be processed on the filing date as the American approval authority FDA did not yet have a process for handling such applications. A letter issued by the FDA on 14.01.2016 stated that the request for reimbursement of the PDUFA had been granted. The repayment was made by cheque in March 2016 and was credited as EUR 2,140 thousand after being paid into the bank account.

On 24 March 2016 the company announced an agreement with an institutional investor that has agreed to acquire up to 2.0 million New Shares at an issue price of EUR 2.00 in a yet to be performed capital increase. The capital increase will have a maximum volume of EUR 5.0 million.

On 29 March 2016 the company announced that the Management Board, with the approval of the Supervisory Board, has decided to increase the share capital by up to 2,499,999 New Shares by way of a rights issue. Shareholders shall be granted their statutory subscriptions rights such that up to 2,421,549 New Shares will be offered at a ratio of 23:2 within a subscription period of two weeks according to the execution of subscription rights at an issue price of EUR 2.00. The statutory subscription right was excluded regarding 78,450 supernumerary New Shares. The shareholders are furthermore offered an "Additional Subscription" right. I.e. all shareholders executing subscription rights may apply to subscribe to unsubscribed shares plus the supernumerary shares at the Subscription Price.

No further events subject to mandatory reporting occurred after the balance sheet date.

Leverkusen, Germany, 07 April 2016

Prof. Dr. Hermann Lübbert	Thomas Schaffer	Christoph Dünwald
Chairman of the Management Board	Chief Financial Officer	Head of Sales and Marketing

Audit Certificate

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

Auditor's opinion:

We have audited the consolidated financial statements prepared by Biofrontera AG – comprising a consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income for the period, consolidated statement of changes in equity, consolidated statement of cash flows and notes to the consolidated financial statements – and the combined management report of Biofrontera AG and the group for the financial year from January 1, 2015 to December 31, 2015. The preparation of the consolidated financial statements and the combined management report in accordance with IFRS, as adopted by the EU, and with the additional requirements of the German commercial law pursuant to section 315a paragraph 1 HGB are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and the combined management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with paragraph 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the combined management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the combined management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the combined management report. We believe that our audit provides a reasonable basis for our opinion. Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements of Biofrontera AG for the financial year from January 1, 2015 to December 31, 2015 comply with IFRS, as adopted by the EU, and the additional requirements of the German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The combined management report of Biofrontera AG and the group is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitable presents the opportunities and risks of future development.

Without qualifying this opinion we refer to the explanations in the combined management report. In particular the Management Board clarifies under section "Opportunities and risks relating to future business performance", "Liquidity risk" that further capital measures are necessary until break-even is reached. Particularly to obtain approval in the USA, the planned investments

into marketing in the US and to meet obligations from the issued option bond further capital measures during the fiscal year 2016 will be necessary. On the basis of its previous, invariably successful experience with capital measures, the Management Board assumes that the liquidity required for business activities can be further ensured. If these valid estimates are, contrary to expectations, not realised, this could constitute a threat to the company's continued existence.

Düsseldorf, April 7, 2015

Warth & Klein Grant Thornton AG
Wirtschaftsprüfungsgesellschaft

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