Biofrontera

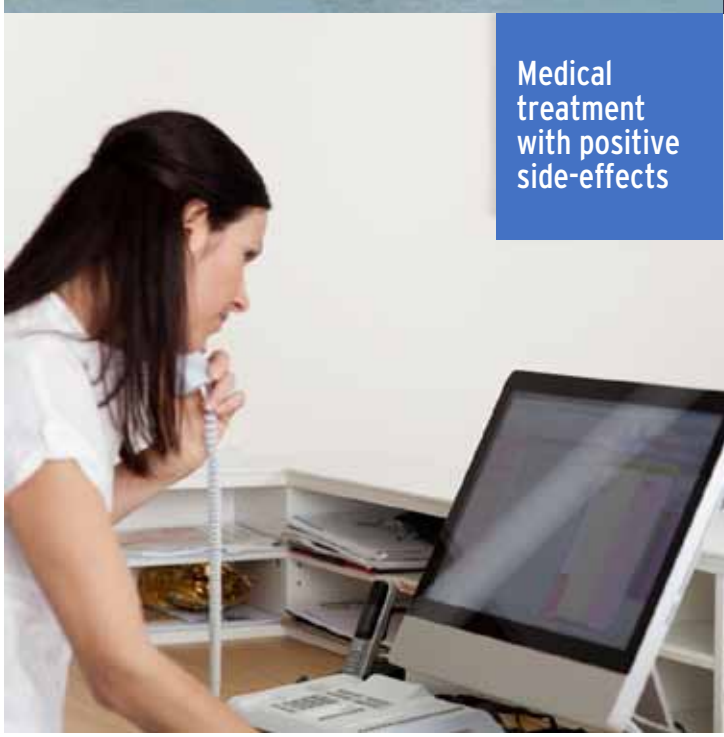
Experts in dermatology

Success Stories

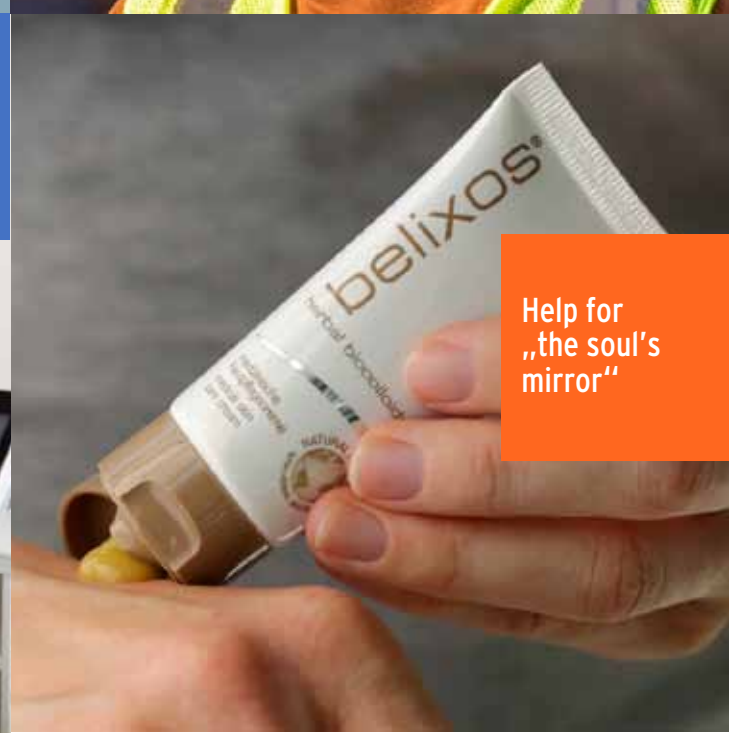
Annual Report 2016

When surfing gets under your skin

When the sun hammers down on the building site



Medical treatment with positive side-effects



Help for „the soul's mirror"

Key figures and highlights 2016

Highlights 2016

- Sales increased by 48% to €6.1 million
- Received marketing approval in the US for Ameluz® and BF-RhodoLED® by the FDA in May 2016, product launch in the US in October 2016
- Received approvals by the European Commission of label extensions for Ameluz® to include the treatments of field cancerization and basal cell carcinoma
- Positive Phase III results for Ameluz® in combination with daylight PDT
- Co-development agreement with Maruho Co. Ltd.
- Significant improvement of liquidity through successful implementation of capital increases

Key consolidated figures calculated in accordance with IFRS

In kEUR	31.12.2016	31.12.2015
Profit & Loss		
Sales revenue	6,130.3	4,137.9
sales revenue from product sales	4,913.5	4,067.9
sales revenue from development projects	1,176.8	0.0
down payments	40.0	70.0
Research and development costs	-4,640.3	-6,204.0
Sales costs	-8,763.4	-4,170.0
General administrative costs	-2,853.1	-2,759.3
Loss from operations	-11,778.8	-10,231.0
Total result for the period	-10,732.2	-11,204.6
Cash flow		
Cash flows from operational activities	-10,739.6	-9,717.3
Cash flows from investment activities	-455.3	17.0
Cash flows from financing activities	22,361.8	5,150.1

In kEUR	31.12.2016	31.12.2015
Balance sheet		
Balance sheet total	23,878.7	9,497.7
Current liabilities (w/o provisions)	2,616.0	2,035.1
Long-term liabilities	3,596.9	11,229.9
Equity, subscribed capital and capital reserve	136,399.2	105,015.7
Equity ratio	66.34%	-50.63%
Liquid funds	15,126.1	3,959.2
Employees as at 31 December	94	58
Biofrontera share	**31.12.16**	**31.12.15**
Shares outstanding	37,722,433	25,490,430
Share price (closing Xetra)	3.16	1.85

The number of skin cancer cases has jumped more than fourfold over the past 40 years. New cases of non-melanoma skin cancer in the USA alone are estimated at around 5 million per year. Around half of Europeans over 60 contract actinic keratosis – which is an early-stage non-melanoma skin cancer. This preliminary stage accounts for 58 million patients in the USA. The number of cases in young people is also rising constantly due to changes in leisure and vacation habits. Meanwhile, German healthcare insurance funds are screening intensively for skin cancer in the 35+ age group as part of a campaign that has helped raise awareness about the risks deriving from sun-induced changes to skin. People are nevertheless not really sufficiently aware about this widespread condition.

When surfing gets under your skin

Regular skin screening

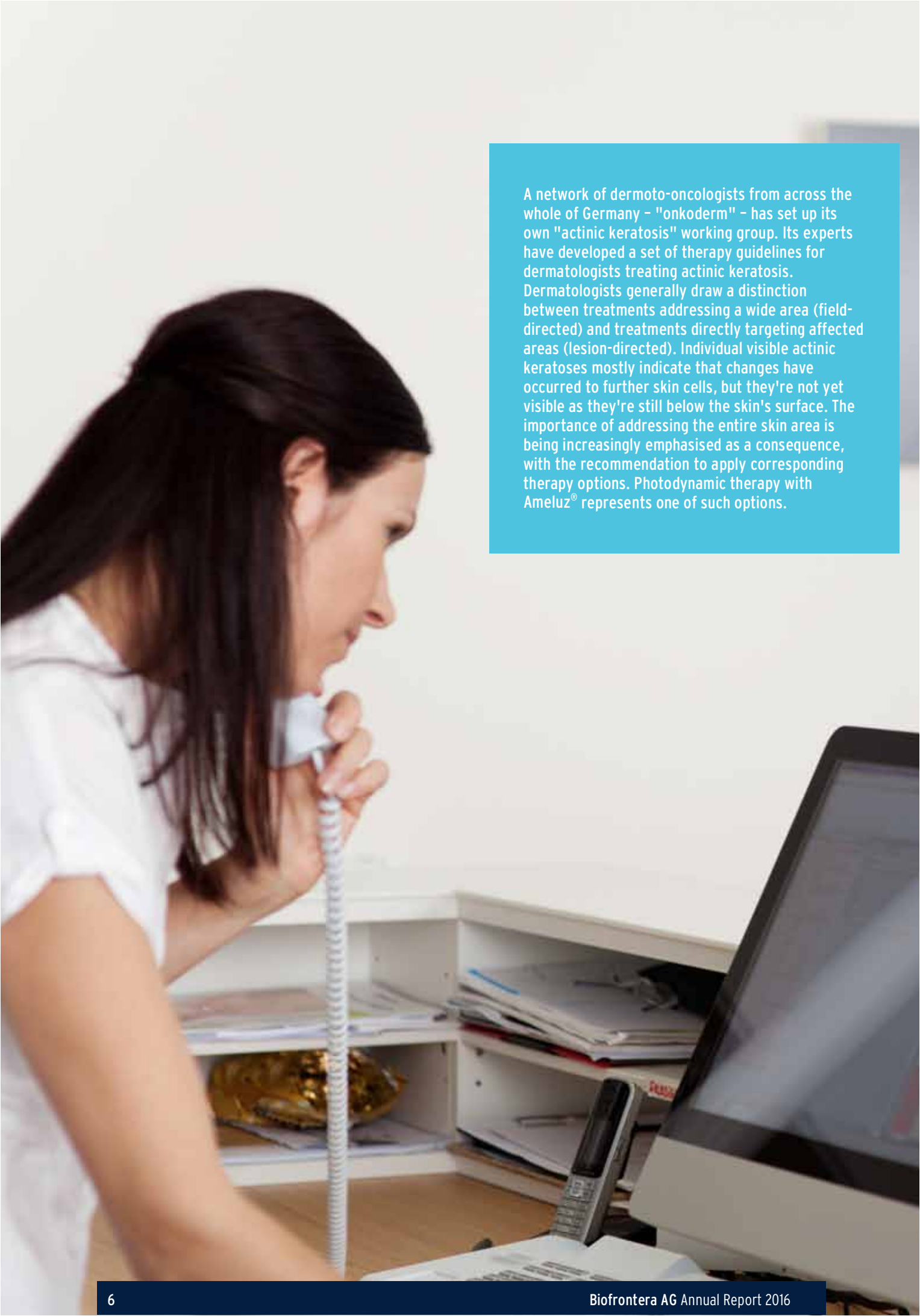
Sabine Meier (42) knows that as a blue-eyed blonde with fair skin she has to be on the lookout for light-induced changes to her skin. A passionate surfer, she has been travelling around the world for years, spending a lot of time being active in the sun. She also ranks in a group at risk due to hereditary factors – her mother was diagnosed with skin cancer at the age of 60. When Sabine turned 35, this led her to see her dermatologist every couple of years since for precautionary skin checkups – an easy decision for her to make as her health care insurer pays the costs.

Diagnosis: actinic keratosis – what next?

These checkups proved to be a good idea: "Thanks to my regular skin screenings, my dermatologist discovered an actinic keratosis on my temple early on – I was quite shocked when I found out. I knew it was an early-stage cancer. Then he explained to me both the benefits and disadvantages of the various possible therapies, with their risks and chances of recovery. In my case, my dermatologist recommended photodynamic therapy with Ameluz®. This seemed to make sense because I had a superficial skin tumour that PDT could treat – PDT is not only effective and covers a wide area but is also gentle. I was so relieved to avoid a painful surgical operation that might also eventually leave scars."

The skin forgets nothing...

Sabine Meier plans to carry on surfing, but is now especially well protected: "Now I take more care to have sufficient protection against the sun. I apply a highly waterproof light protection factor and then reapply it several times a day. I tell my children how important it is to protect against sunburn with the right clothing, suncream, as well as avoiding midday sun and sunbathing too much. I'm aware sunburns in childhood and teenage years increase the risk of getting skin cancer later."



A network of dermoto-oncologists from across the whole of Germany – "onkoderm" – has set up its own "actinic keratosis" working group. Its experts have developed a set of therapy guidelines for dermatologists treating actinic keratosis. Dermatologists generally draw a distinction between treatments addressing a wide area (field-directed) and treatments directly targeting affected areas (lesion-directed). Individual visible actinic keratoses mostly indicate that changes have occurred to further skin cells, but they're not yet visible as they're still below the skin's surface. The importance of addressing the entire skin area is being increasingly emphasised as a consequence, with the recommendation to apply corresponding therapy options. Photodynamic therapy with Ameluz® represents one of such options.

Medical treatment with positive side-effects

PDT – an innovative medical therapy

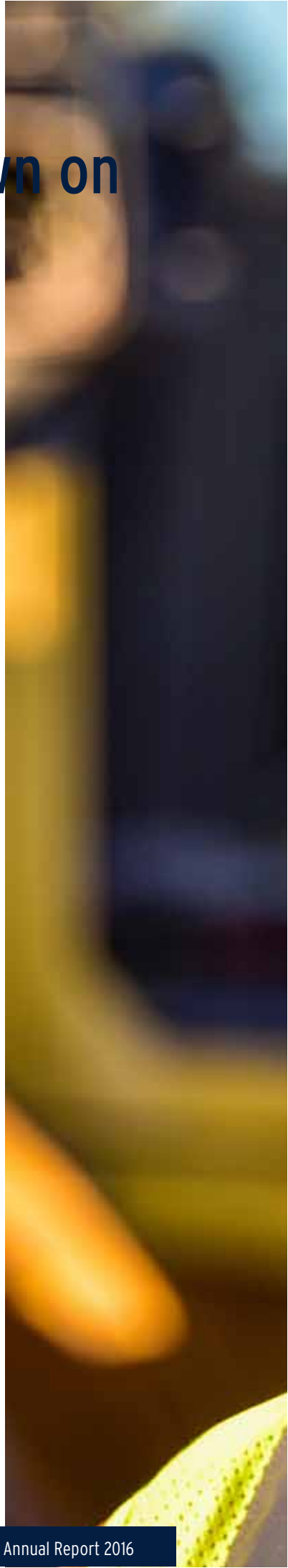
Professor Thomas Dirschka, a dermatologist from Wuppertal, has already been working with photodynamic therapy using Ameluz® for several years. "PDT is a comparatively uncomplicated and gentle method to treat actinic keratosis and superficial basal cell carcinomas highly effectively. It is significantly more effective than other therapy methods. The very good cosmetic result is also an important reason prompting my patients to opt for this approach rather than for a surgical operation or cryotherapy."

The treatment is very targeted and can be implemented effectively. The photosensitising gel is applied to the affected skin area and covered with a dressing. The dressing is removed after about three hours and the patient is then treated for approximately ten minutes with cold red light, for instance with the BF-Rhodo-LED® lamp. An alternative during summer months is for patients to spend two to two and a half hours in the daylight, with even cloudy skies irradiating sufficient sunlight for the therapy to work. Although this daylight application form has not yet been approved for Ameluz®, it has already been tested with great success in controlled clinical studies. "An inflammation reaction occurs at the onset of the therapy with reddening, flaking and – very infrequently – blister formation. This generally abates within 14 days at the most. As a result, the Ameluz® therapy leaves skin smoother, and even rejuvenates the skin – so it meets the highest cosmetic requirements," Professor Dirschka notes about the treatment method.

Satisfied patients

Treatment over a large area is possible with photodynamic therapy. This approach's advantage is that it covers and treats not only lesions themselves but also other solar damage on an extensive basis. It even completely and sustainably removes lesions undetectable to the naked eye. When presented with various therapy options, most patients opt for PDT with Ameluz® due to its positive side-effects. And Prof. Dirschka knows he has made the best possible treatment available to his patients: "Unfortunately, photodynamic therapy is not yet part of the range of services offered by statutory health insurance, although private health insurers generally bear all of the costs of this innovative therapy."

When the sun hammers down on the building site



Why protect against the sun?

Hans Keller (50) has already worked at a big German construction firm for 25 years. He works outdoors most of the time. Here he sees a growing shift in awareness among his colleagues: "In the past we often used to take our shirts off to work in the summer. Nobody gave a second thought to sun protection."

Professional bodies raise awareness

Since the recognition of multiple actinic keratoses and squamous cell carcinoma as occupational illnesses, professional bodies such as BG Bau – a statutory insurance organisation for the construction sector – are increasingly informing their members about measures to prevent sun-induced skin diseases. These include wearing protective clothing and applying sun protection cream, as well as workplace installations such as sun awnings. Individuals with skin changes due to the light are advised to see their company doctors and have frequent preventative checkups. These awareness campaigns and prevention measures aim to reduce the number of cases in the future, and enable them to be diagnosed at earlier stages.

Win-win for employers and employees

Hans Keller has been seeing his company doctor regularly for the last three years. "Even if I know the professional cooperative and accident insurance would pay to treat skin cancer in my case, I now do a lot more to protect myself from the sun than I did before," he notes. "My job is already physically demanding enough – I don't want to get skin cancer too." Hans Keller would like to take early retirement in five years' time – although due to his back, rather than skin cancer.

Due to their jobs, outdoor workers are exposed to much more solar UV irradiation than other workers. In Germany, outdoor workers account for around 2.7 million individuals, especially farmers, gardeners, construction workers, roofers and fishermen. A construction worker's annual UV exposure is almost five times as high as that of an employee working solely in closed premises, according to studies that have been conducted (Source: Knutschke, P., et al. [2007]: "Personal monitoring of UV exposure in outdoor workers", published [in German only] by the German Federal Institute for Occupational Safety and Health [BAuA] (p. 121)]. In particular, working outdoors can trigger actinic keratosis, basal cell carcinoma and squamous cell carcinoma.

Help for the “soul’s mirror“

A long road of suffering

Melanie Hopfer (36) has already suffered from psoriasis for many years. Like many with her condition, she's tried out innumerable OTC and prediction medications, creams and ointments over the course of time. "I'd almost given up hope. A friend told me about belixos® and I thought, I'll give it a try. But I wasn't expecting much. Well, what can I say? I'm over the moon! After just one week, you could hardly see the flaky and reddish parts of the skin any longer. Now they're completely gone and the itching is also a thing of the past. It's incredible! – I didn't even get this effect with ointments that contain cortisone. The cream is incredibly concentrated, it rubs in superfast and isn't greasy – they're also positive factors I like."

Broad action spectrum

The belixos® active substance cosmetic range brings together the best of nature and science. Pure plant biocolloids are combined with medicinal herb extracts to create an active substance with proven deep action effect. With its regenerative care properties, the different products in this care series – now a total of five – provide relief for various skin irritations and illnesses such as atopic dermatitis and rosacea. Melanie Hopfer appreciates this broad range of possible applications. "After the success with psoriasis, I've also started using belixos® for other skin problems. It acts really well to provide quick relief for sunburn itch and insect bites. The cream has also already helped me with spots and healing small burns. And I feel my overall skin condition has got a lot better. It's a little miracle cream out of a tube – now I wouldn't want to be without it."

Stringent quality and environmental regulations

belixos® is produced according to stringent quality and environmental regulations. All the substances it contains are carefully selected and optimally dosed. Its skin compatibility was tested dermatologically and certified as "very good" by the independent Dermatest Institute.

Skin – the human being's biggest sense organ – functions as protective shield, mood indicator and as a temperature and moisture regulator at the same time. Ever greater numbers of individuals are suffering from skin diseases such as acne, atopic dermatitis, psoriasis and skin cancer due to the increasing impact of external factors. Conditions are evident through changes to the skin such as itching, discomfort and inflammatory reactions. Matters are made worse for many patients by the psychological burden of being stigmatised due to skin disease.

Biofrontera Management Board interview

In 2016, you received and announced various approvals as well as approval extensions for your main product, Ameluz®. What does this signify now for your business going forward and for Biofrontera shareholders?

Professor Hermann Lübbert:
First of all, we've made great progress as far as the regional reach of Ameluz® is concerned. But in parallel we've also achieved successes in terms of application areas and indications for our medication.

In March, for example, Switzerland's mandatory health insurance fund decided it would pay the costs for Ameluz® therapy. In April, Ameluz® was approved to treat actinic keratosis in Israel making it the 13th country alongside 12 European countries where our medication can be marketed. We celebrated perhaps our greatest success in terms of geographic expansion in May when the US Food and Drug Administration issued approval for Ameluz® for the US market, as was expected. This makes us the first German pharmaceutical startup to receive centralised European approval and even US approval for a drug it has developed itself.

"This makes us the first German pharmaceutical startup to receive centralized European approval and even US approval for a drug it has developed itself"

Professor Hermann Lübbert – CEO

In September, the European Commission expanded its approval to include the treatment of field cancerisation with Ameluz®. This means that larger skin areas that have been sun-damaged can now be treated with Ameluz®.

We're also well on the way to expanding the possibilities to use Ameluz® to treat actinic keratosis. So far we can only do this in combination with our BF-RhodoLED®, which we have developed and produce ourselves. At the end of June 2016, we launched the Phase III study with Ameluz® in daylight PDT. This approach no longer utilises Ameluz® in combination with our lamp, but instead uses natural or artificial daylight. We plan to file a corresponding application for approval extension in May 2017, which will open up significant additional market opportunities for us.

All of the successes I've just referred to relate only to the treatment of actinic keratosis, an early-stage skin cancer. In January 2017, the European Commission also granted approval extension for Ameluz® to treat a further indication, basal cell carcinoma. This represents a very important milestone for us because basal cell carcinomas account for around 50 to 80 percent of all skin cancer types in humans. Treating them with photodynamic therapy is a highly effective alternative to surgical operations and also leads to excellent cosmetic results.

Prof. Dr. Hermann Lübbert – Chief Executive Officer

Thomas Schaffer:
The sales potential for Ameluz® has risen enormously as a result of the milestones we've achieved in 2016. In the USA, 58 million people suffer from actinic keratosis, for example, with a rising trend – so, it's a huge market. Significant growth opportunities offer themselves to us here, especially as health insurers pay doctors for treatments, and dermatologists are very positively disposed towards photodynamic therapy as a consequence. A rapid approval expansion to include daylight PDT with Ameluz® would certainly play a crucial role in boosting acceptance of photodynamic therapy among dermatologists in Europe, and the treatment could also become established here in Germany for statutory health insurance patients. The approval of the new indication of basal cell carcinoma here in Europe also gives us access to the clinics business for the first time. If the sales growth we expect in Europe and the USA materialises, it will also be reflected in the share price sooner or later. It goes without saying that it's important to us that our shareholders who have supported us over the past years and have believed in Biofrontera are rewarded for their patience and loyalty accordingly.

This sounds as if the shift from a more research-based company to a pharmaceutical company with its own sales revenues is now complete. If you look back, how long has it taken overall?

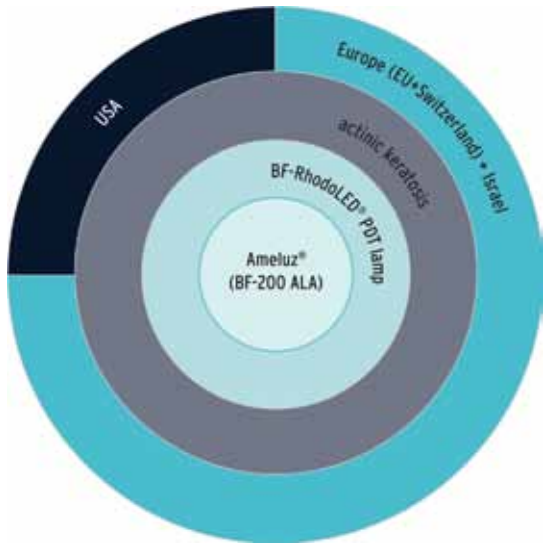
Professor Hermann Lübbert:
The question here is how far back we look. In 2004, we acquired a patent to combine the substance aminoevulinic acid (ALA) with a nanoemulsion and started to develop our own patent-protected nanoemulsion technology (BF-200). This enabled us to chemically stabilise ALA and achieve good skin penetration properties. The first steps to commercialisation were followed in 2008 by the Phase III study for BF-200 ALA. In a Phase III study, a medication's efficacy and tolerability are demonstrated, and the study data are crucial to it receiving approval. We applied for European regulatory approval for BF-200 ALA after completing the study in September 2010. About a year later, in December 2011, the European Commission then issued European approval for Ameluz® (BF-200 ALA) to treat actinic keratosis. We've since been pushing full speed ahead with its market launch in Europe. Just half a year later, in June 2012, we submitted our documents for our initial discussion with the FDA to approve Ameluz® in the United States. We had to do a lot of homework before being able to then file our application in July 2015. Working together with the FDA proved to be a very pleasant experience, and as we completed all the requisite steps on time we ran perfectly to schedule and received US approval for Ameluz® to treat actinic keratosis in May 2016.

Nonetheless, we'll not be saying goodbye to research. A number of further indications can be treated with Ameluz®, and we can't simply leave this potential untapped. This research will have to run in parallel with what has now become our very strong focus on marketing. In July, we launched a joint development project with our main shareholder, the Japanese pharmaceutical company Maruho. We've started to develop four new products all based on our patented nanoemulsion technology. Maruho is assuming all the project costs – so it's bearing the main risk, as conducting the research work has already generated related revenue for us this year. Although Maruho also remains the new products' owner, we have a free licence to market in Europe. So we're not going to resting on our laurels with the success of Ameluz® , but instead we're expanding the Ameluz® indications and our product portfolio to support Biofrontera's long-term growth.

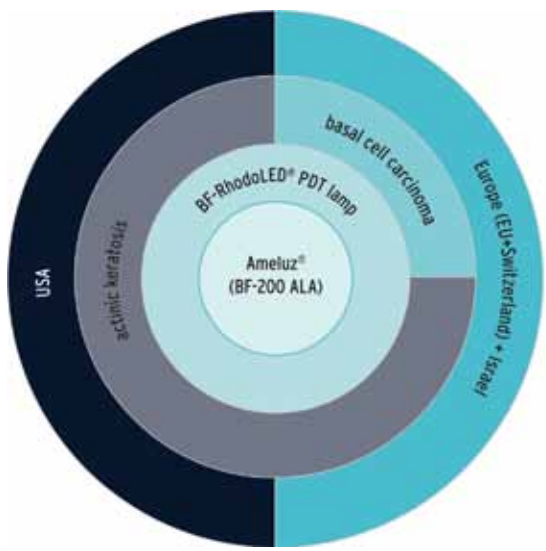
"The sales potential for Ameluz® has risen enormously as a result of the milestones we've achieved in 2016."

Thomas Schaffer – CFO

Ameluz® 2016: Application areas and regional reach



Ameluz® 2017: Application areas and regional reach



The USA, in particular, promises enormous market potential – based on its large population alone. And with the US approval of Ameluz®, this potential is now open to you. How have you prepared in terms of your sales platform, and what do you plan for next year?

Christoph Dünwald:
As you're aware, we firmly anticipated the approval to be issued in May. So we were able to make a lot of preparations in advance. We already founded our US subsidiary Biofrontera Inc. in April 2015. This was an important step as it enabled us to conduct market analyses at an early stage and come up with ideas as to how to structure our sales program. We finally arrived at the conclusion that we would not transfer sales and marketing to a licensing partner, but instead do it ourselves. It's a big task, but one we're confident in taking on. And also – having come this far – we don't want to relinquish a big share of the future profits to third parties. After we obtained the approval, we rented our

Christoph Dünwald - Chief Sales and Marketing Officer

business premises in Wakefield, north of Boston, in June and made our first important appointments for our US subsidiary, particularly in the sales area, of course. Meanwhile we've appointed four regional sales managers and 16 field sales people, as well as key positions in the areas of medical and product application advice, finance, marketing and sales support, and quality management. It's particularly pleasing to us here that we've been able to recruit many staff who are experienced in the PDT business model and have good networks. We're also the novelty on the American PDT market and we're enjoying a lot of attention. Of course, this helps us a lot in making a successful market entry into the world's biggest healthcare market. In August, we accelerated production of our BF-RhodoLED® to ensure a rapid market launch for Ameluz®. Of course, the lamps first have to be installed at dermatologists, and the dermatologists have to take the requisite training. In October, we then officially launched the marketing of Ameluz® at the Fall Clinical Dermatology Conference in Las Vegas with a VIP launch event, and presented Ameluz® to the dermatology community. We already achieved sales of more than a million euros in the USA in the fourth quarter, the first BF-RhodoLED® PDT lamps are already installed in American dermatology practices, and we're confident sales in 2017 will jump sharply, as photodynamic therapy is a much more widely established treatment option in the USA than in Europe due to the more favourable reimbursement environment.

„We finally arrived at the conclusion that we would not transfer sales and marketing to a licensing partner, but instead do it ourselves"

Christoph Dünwald – CCO

We're now successively expanding our team and aiming for a US sales team comprising five regional managers and 45 sales staff by the end of 2017. After initially concentrating on marketing in sundrenched regions such as Florida, the South and California, we aim to have expanded to be operating our marketing and sales activities across the whole of the USA by the end of the year. We've also been establishing close relationships with supportive opinion leaders since 2015.

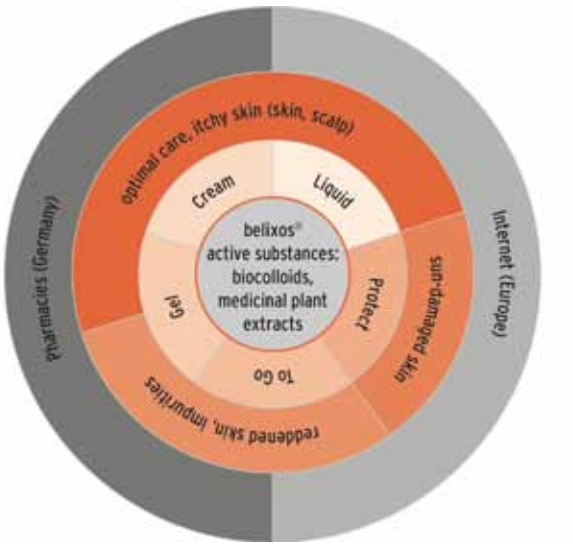
Not only the past years' preliminary work has had to be financed, but also the establishment of the sale structures you've just outlined. How much have you already invested this year and where do the funds come from? And how have the past investments paid off in terms of new sales?

Thomas Schaffer:
Our growth initiatives are and have been oriented mainly to further commercialising our Ameluz® product. For example, we increased our sales and marketing spend by EUR 3.8 million year-on-year to reach EUR 8.8 million in 2016, so we have been making a considerable investment in establishing our US business. These investments are now increasingly paying off. After the successful approval, we already achieved over a million euros of sales in the USA in the fourth quarter, which made a significant contribution to our sales growth last year. We achieved an overall sales volume of EUR 6.1 million in the 2016 financial year, a 48 percent increase compared with the previous year (2015: EUR 4.1 million). I think this already makes it clear where our journey can go over the coming years.

To finance this, we made recourse to our access to the capital markets and raised new funds. We raised gross proceeds totalling EUR 24.5 million from existing shareholders and selected new investors in Germany and abroad in capital increases in February, April and November. And further, in December 2016 and January 2017 we issued two subordinated convertible bonds with a total volume of EUR 10.0 million with final maturity dates at the 2021 and 2022 year-ends respectively, which were also fully subscribed.

Thomas Schaffer - Chief Financial Officer

Belixos® 2016: Application areas and regional reach



Besides Ameluz®, you're also marketing the belixos® active cosmetic range. How does this fit with your overall strategy and your sales strategy, and what news is there to report from 2016?

Christoph Dünwald:
In 2016, we could add a fifth product – belixos® To Go – to our belixos® care range for skin problems. Our roll-on applicator is a genuine all-round talent and alleviates acute skin problems such as insect bites and small burns. Many people today suffer from some very unpleasant skin irritations. belixos® products alleviate such problems and restore the skin's natural balance. The belixos® range meanwhile has a considerable fan base and we're pleased with the positive feedback from our customers who are successfully using our products to treat atopic dermatitis, psoriasis, eczema, rosacea, acne and photodamage. A product to supplement our Ameluz® which deserves particular mention is belixos® Protect, which prevents and remedies sun-induced DNA damage that can develop into tumours. Of course, sales generated by belixos® account for just a small proportion of our total sales. Nevertheless – belixos® is successful, is growing fast and fits outstandingly with our positioning as a specialist provider in dermatology. Expansion into the American market will also boost the market potential considerably.

Over the past years you've grown the number of your staff from 38 to 94 as of the end of 2016. In particular, you hired a number of US staff during the second half of 2016. How do you convince such individuals of Biofrontera's merits and recruit them long-term?

Professor Hermann Lübbert:
A small company like Biofrontera makes entirely different demands of its staff than a pharmaceutical giant. Our staff have to be multifaceted, because their projects mostly present them with a wide range of completely different tasks. All employees at Biofrontera can take responsibility – in fact, they have to take responsibility – and have opportunities to implement very varied structures within a broad area of activity. The opportunity to help shape the business and play an active role in our success story is a very strong motivation for many. We're very proud of our fantastic staff who tackle challenges with full commitment every day and have brought Biofrontera to where it is today – namely, on a successful track.

Investor Relations

The shares of Biofrontera AG, Leverkusen, have been traded in the Prime Standard segment of the Frankfurt Stock Exchange since 3 June 2014. They have already been listed in the Regulated Market of the Düsseldorf Stock Exchange since 2006, and they have been listed on the Regulated Market of the Frankfurt Stock Exchange since 2012.

The Biofrontera share

Key share data

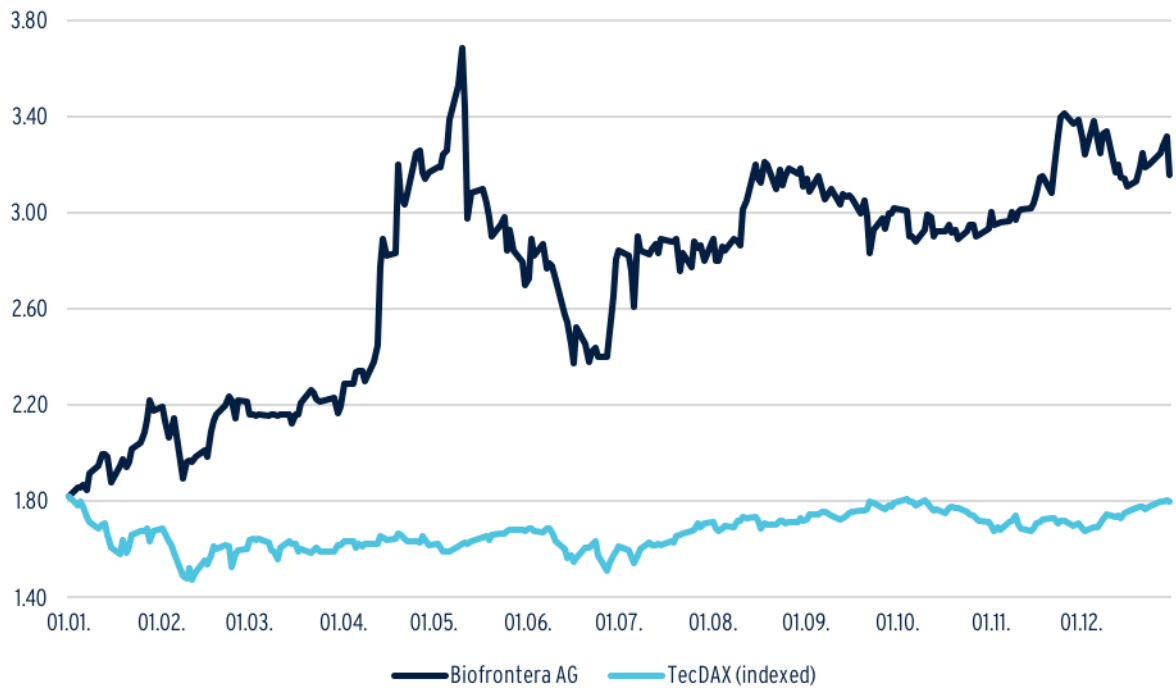
Share class	Registered shares (no par value)
Stock exchange	Frankfurt Stock Exchange
Other trading platforms	XETRA, Berlin, Düsseldorf, Munich, Stuttgart, Tradegate
Transparency level	Prime Standard
Shares in issue as of 31 December 2016	37,722,433
Share capital	EUR 37,722,433
ISIN	DE0006046113
WKN (German Securities Identification)	604611
Ticker symbol	B8F
Designated Sponsor	Lang & Schwarz Broker GmbH
Share price as of 31 December 2016	EUR 3.16
52-week high* (10 May 2016)	EUR 3.69
52-week low* (07 January 2016)	EUR 1.86
Market capitalisation as of 31 December 2016	EUR 119 million
Average daily trading volume (52 weeks as of 31 December 2016)	63,629 shares per day

*All share prices based on XETRA closing prices

Share price performance

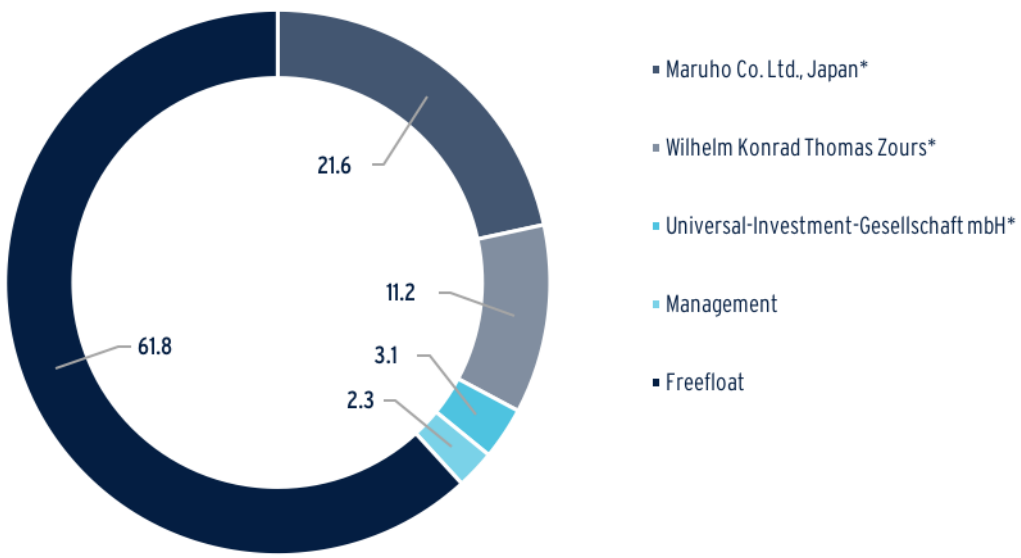
The capital market environment in 2016 was characterised by high volatility in the context of somewhat low earnings expectations and rising political uncertainty due to the Brexit vote and the presidential elections in the USA. Despite general market turbulence, the price of the Biofrontera share was chiefly affected by specific corporate news and performed extremely well over the course of the year. In the first quarter, the share continued to stagnate at the level of the previous year's end, marking its low of EUR 1.86 on 7 January. Following the successes with approvals and expanded approvals for Ameluz®, however, and despite a capital increase, the share recorded a constant increase from early April, climbing to its high of EUR 3.69 on 10 May. The peak in trading volumes was reached at a volume of 694,054 shares on the day after the FDA approval was announced. The share nevertheless suffered some price losses in this context, as some investors used the share price high to take profits. A further dip in the share price to EUR 2.38 occurred in mid-June during the days surrounding the Brexit vote, although the share price had already recovered from this setback by the end of June. It closed the end of the year at a price of EUR 3.16. Starting from the previous year's close at EUR 1.85, the total share price appreciation amounts to an above-average increase of 70.8 percent for 2016. The Biofrontera share thereby significantly outperformed its comparable index, the TecDAX, which shed 1.0 percent of its value over the same period. The share price performance remained positive after the end of the financial year under review.

Share price chart



Shareholder structure

The shareholder structure of Biofrontera AG as of 31 December 2016 is as follows:



* directly and/or indirectly attributable

Further financial instruments

Key data for warrant bond with warrants I*	
Stock exchange	Düsseldorf
WKN (German Securities ID)	A0Z169
ISIN	DE000A0Z1690
Term, final maturity date	8 years, 31/12/2017
Step coupons	4 % (2010), 6 % (2011), 8 % (2012)
Par/denomination	EUR 100.00
12 month-high* (29/08/2016)	EUR 104.00
12 month-low* (15/02/2016)	EUR 77.00
Closing price 31/12/2016	EUR 101.50

*Price data: Düsseldorf Stock Exchange

Key data for warrant bond with warrants*	
Stock exchange	Düsseldorf
WKN (German Securities ID)	A1KQ9Q
ISIN	DE000A1KQ9Q9
Term, final maturity date	5 years, 31/12/2016 (repaid early on 06/12/2016)
Coupon	5 %
Par/denomination	EUR 100.00
12 month-high* (05/09/2016)	EUR 102.00
12 month-low* (01/02/2016)	EUR 92.43

*Price data: Düsseldorf Stock Exchange

Key data for the 2016-2021 Convertible Bond	
Stock exchange	Not admitted to trading
WKN (German Securities ID)	A2BPFQ
ISIN	DE000A2BPFQ5
Term, final maturity date	4 years, 31/12/2020
Coupon	6 %
Par/denomination	EUR 100.00
Total volume	EUR 4,999,000
Initial conversion price	EUR 3.00
Conversion price from 01/01/2017	EUR 4.00
Conversion price from 01/01/2018	EUR 5.00

Key data for the 2017-2022 Convertible Bond	
Stock exchange	Düsseldorf, since February 2017
WKN (German Securities ID)	A2BPDE
ISIN	DE000A2BPDE6
Term, final maturity date	5 years, 31/12/2021
Coupon	6 %
Par/denomination	EUR 100.00
Total volume	EUR 4,999,000
Initial conversion price	EUR 3.50
Conversion price from 01/04/2017	EUR 4.00
Conversion price from 01/01/2018	EUR 5.00

Investor relations work

Biofrontera sets great store by active, comprehensive and continuous communication with investors and analysts. The aim at all times is to provide information about the company on a basis that is reliable, open and prompt.

Road shows and conferences offer the Biofrontera management the opportunity to conduct extensive and personal discussions with institutional investors (both equity and debt investors) and analysts. Such discussions were conducted on many days during the 2016 financial year, including at capital market centres in the USA and many important European cities. Biofrontera participated mainly at internationally oriented, cross-sector conferences in 2016, but was also represented at events with a specialist focus.

For private investors, Biofrontera uses its own format to explain and discuss central corporate topics in detail. This year's shareholder evening on 13 December 2016 focussed on investor questions about the company's strategic objectives, such as establishing sales for Ameluz® in the USA.

Along with quarterly statements for the first and third quarters and the half-year financial report, Biofrontera informed investors, analysts and further interested capital market participants in a total of 35 press releases and 14 IR releases. The Management Board held telephone conferences to comment on the Group's published results and report on significant developments and current activities. The annual analysts' conference occurred as part of the Equity Capital Forum in Frankfurt on 22 November 2016.

The Ordinary Annual General Meeting of Biofrontera AG was held on 31 May 2016 in Leverkusen, and was attended by a total of 46 percent of the 30,347,813 shares comprising the dividend-entitled share capital of Biofrontera AG as of this date. The presence thereby improved slightly compared with the previous year. New elections of Dr. Mark Reeth, Dr. John Borer, Kevin Weber and Hansjörg Plaggemars as well as the re-election of Jürgen Baumann and Dr. Ulrich Granzer to the Supervisory Board are of note here. Unfortunately, the management's proposals relating to authorising the Management Board to create a new Authorised Capital and to issue profit participation certificates, warrants, convertible profit-sharing certificates, as well as bonds with warrants and/or convertible bonds, including creation of a corresponding Contingent Capital, failed to achieve the requisite three quarters majority of the share capital represented.

Biofrontera implemented three capital measures in 2016. A first capital increase was completed in February, when Biofrontera issued 2,357,384 new shares to generate net issue proceeds of around EUR 4.4 million. Shareholders' subscription rights were excluded for this capital increase. In a second capital measure, where shareholders were granted statutory subscription rights, a total of 2,499,999 new shares were placed in April with net issue proceeds of around EUR 4.9 million. The proceeds from both of these capital measures were applied to finance the approval and market launch of Ameluz® in the USA as well as the expansion of the European approval of Ameluz® to treat basal cell carcinoma. In a third capital measure in November 2016, where all shareholders were also granted statutory subscription rights, a further 5,012,950 shares were placed with net issue proceeds of around EUR 14.7 million. Along with commercialising Ameluz® in the USA, the proceeds from this capital measure, too, served mainly the early repayment (on 6 December 2016) of the bond maturing on 1 January 2017 in an amount of around EUR 9 million, including accrued interest.

Besides these capital measures, 49,990 subordinated convertible bonds in a total nominal amount of EUR 4,999,000 were successfully placed in November 2016.

In January 2017 a further 49,990 subordinated convertible bonds in a total nominal amount of EUR 4,999,000 could be successfully placed.

Analyst coverage

Biofrontera was covered by the following analysts in 2016:

Broker	Analyst
Shore Capital Stockbroker Limited	Tara Raveendran
EQUI.TS GmbH	Thomas Schießle
sc-consult GmbH	Holger Steffen

Roadshows

Date	Location
27/01/2016	Warsaw
08/02/2016	London
09/02/2016	Brussels
26/02/2016	London
01/03/2016	Geneva
15-17/03/2016	New York
04-05/04/2016	New York
13/04/2016	Vienna
18/04/2016	Copenhagen
19/04/2016	Stockholm
21/04/2016	Munich
25-26/04/2016	New York
19/05/2016	Monaco
20/05/2016	Zürich
23/05/2016	London
20/06/2016	Vienna
21/06/2016	Zürich
07/07/2016	Paris
09/08/2016	New York
10/10/2016	Amsterdam
02/11/2016	Düsseldorf
03/11/2016	Amsterdam
07/11/2016	Munich
10/11/2016	Vienna
28-29/11.2016	London

Conferences

Date	Conference
11-14 January 2016	J.P. Morgan 34th Annual Healthcare Conference (San Francisco)
10-12 February 2016	Source Capital Conference (New York)
28 April 2016	Munich Capital Market Conference
6-10 June 2016	Jefferies Global Health Care Conference (New York)
14 June 2016	Prior Capital Market Conference (Frankfurt)
10-11 August 2016	Canaccord Genuity Annual Growth Conference (Boston)
12-13 September 2016	18th Annual Rodman & Renshaw Global Investment Conference (New York)
19-21 October 2016	Dawson James Annual Growth Stock Conference (Florida)
20-23 October 2016	Fall Clinical Dermatology Conference (Las Vegas)
8 November 2016	Bio Europe (Cologne)
22 November 2016	Equity Capital Forum (Frankfurt)
1-2 December 2016	CEO/CFO Summit Bio Germany (Hamburg)
6 December 2016	LD Micro Main Event (Los Angeles)

Corporate governance report for the 2016 financial year including the corporate governance declaration pursuant to Section 289 a HGB

I. Statement pursuant to Section 161 AktG (disclosure pursuant to Section 289 a (2) subsection 1 HGB forming part of the corporate governance declaration)

The Management and Supervisory boards issued the following compliance statement in April 2017:

Statement by the Management and Supervisory boards of Biofrontera AG (the company) concerning the German Corporate Governance Code, pursuant to Section 161 of the German Stock Corporation Act (AktG)

Pursuant to Section 161 German Stock Corporation Act (AktG), the Management and Supervisory boards of Biofrontera AG are obligated to state each year that the recommendations of the "Government Commission on the German Corporate Governance Code" ("Code"), as 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 such is the case ("compliance statement"). The compliance statement must be made permanently accessible to the shareholders. The Management and Supervisory boards hereby issue the following compliance statement:

Since the submission of its last compliance statement in December 2015, Biofrontera AG has complied with the recommendations of the Code in the version specified therein taking into account the exceptions therein stated, and will comply with the version dated 5 May 2015, with the following exceptions:

Deductibles in respect of the D&O insurance (No. 3.8 subsection 3)

The company has taken out D&O insurance cover, which provides no deductible for Supervisory Board members. In the company's view, such a deductible is not required to ensure the Supervisory Board members' motivation and sense of responsibility. A deductible would, however, probably undermine the company's aspirations to attract outstanding people from Germany and abroad to serve on its Supervisory Board. The Supervisory Board has consequently been expressly exempted from the new provisions regarding the deductible in the German Act regarding the Appropriateness of Management Board Remuneration (VorstAG) (Section 116 AktG).

Presentation of Management Board remuneration in the remuneration report (No. 4.2.5)

No. 4.2.5 of the Code includes recommendations relating to the presentation of Management Board remuneration in the remuneration report. These include in particular the use of standardised tables. The remuneration system for the Management Board as well as the total amounts granted are presented in accordance with legal stipulations in the Management Report as well as in the Notes. These provide in the company's view a comprehensive, transparent and understandable overview and therefore an additional advantage from the presentation recommendations of the Code cannot be recognized.

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. In the company's case, however, specifying a general limit for the term of office is not considered appropriate from today's perspective because the Supervisory Board is of the opinion that it is not possible to determine in the abstract 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 as to whether the length of membership on the Supervisory Board to date might conflict with proper and impartial performance of the mandate.

Structure of remuneration for the Supervisory Board (No. 5.4.6)

The company does not take committee membership 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, Germany, April 2017

Prof. Dr. Hermann Lübbert Thomas Schaffer Christoph Dünwald Dr. Ulrich Granzer
Management Board of Biofrontera AG 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 2016 financial year

Dear Shareholders

The company continued to make further significant progress in terms of markets and products in the 2016 financial year. In May 2016 it was announced that the American regulator, the FDA (Food And Drug Administration), had issued approval for Ameluz® in combination with the BF-RhodoLED® PDT lamp for unlimited marketing in the USA for both the lesion-directed and field-directed treatment of mild and moderate actinic keratosis on the face and scalp. The establishment of our US subsidiary also progressed. We then started sales and marketing in the USA in October 2016. In September 2016, we received European approval to use Ameluz® for field cancerisation, thereby considerably expanding its market potential. In November 2016, the European Commission issued approval for Ameluz® for an indefinite period, after it had first been limited to five years in accordance with standard processes. In December 2016, the European regulator recommended an expanded approval for Ameluz® to include basal cell carcinoma, with the European Commission approving this new indication for Ameluz® in January 2017. On the financing side, we raised further funding during the reporting period. The 5 % bond with warrants 2011/2016 was repaid early in December 2016.

Personnel changes on the Supervisory Board

On 31 May 2016, new Supervisory Board elections were held on the rotation basis. The AGM on 31 May 2016 appointed as Supervisory Board members Mr. Jürgen Baumann, independent management consultant, resident in Monheim, Mr. John Borer, Head of Investment Banking at The Benchmark Company LLC, New York, USA, resident in Jersey City, NJ, USA, Dr. Ulrich Granzer, owner and Managing Director of Granzer Regulatory Consulting & Services, Munich, resident in Krailling, Mr. Hansjörg Plaggemars, member of the Management Board of Deutsche Balaton Aktiengesellschaft, Heidelberg, resident in Stuttgart, Mr. Mark Reeth, independent management consultant, resident in Frederick, MD, USA, and Mr. Kevin Weber, Principal of Skysis LLC., Scottsdale, AZ, USA, resident in Scottsdale, AZ, USA, subject to the condition that their period of office ends as of the end of the AGM that approves their discharge for the 2020 financial year.

Mrs. Ulrike Kluge, Mr. Alfred Neimke, Mr. Andreas Fritsch and Prof. Dr. Bernd Wetzel stepped down from the Supervisory Board as their mandates expired at the end of the 31 May 2016 AGM. The Supervisory Board would like to extend its heartfelt thanks – including on the Management Board's behalf – to Mrs. Kluge, Mr. Fritsch and Prof. Wetzel for their many years of trusting and constructive collaboration, whereby they have made a significant contribution to the company.

One of the company's shareholders brought a lawsuit on charges of nullity, alternatively recession, against the election by the 31 May 2016 AGM of Mr. Jürgen Baumann, Mr. John Borer and Mr. Kevin Weber as Supervisory Board members. The lawsuit pending before the Cologne District Court was registered under file reference 82 O 105/16. The legal dispute was ended on 9 March 2017 when the lawsuit was withdrawn.

Supervision and consultation

In the reporting period, the Supervisory Board discharged the responsibilities incumbent upon it according to the law, the company's bylaws, the German Corporate Governance Code (Code), and its rules of business procedure. The Supervisory Board's

activities included supervising and consulting with the Management Board about the management of the company and the Group.

The Supervisory Board monitored the Management Board's activities and discussed with it its future business decisions and plans. The Supervisory Board's discussions with the Management Board were always based on reports by Management Board, and also involved reviewing and taking into consideration business documents and presentations. In particular, the Supervisory Board also reviewed the legality, propriety and expediency of measures proposed by the company's management team, as well as the economic feasibility of such measures.

The Supervisory Board was kept continuously 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. The Supervisory Board was always consulted immediately about decisions of fundamental significance for the company. Deviations in business performance from the plans were explained in detail and discussed by the Supervisory Board. 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 Supervisory Board Chairman regularly exchanged information and ideas. Additionally, 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 due to the set 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 through the submission of written information and documents relevant to the decision. Approval was subsequently granted following 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.

Consultations and areas of focus

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

7 April 2016

The meeting on 7 April 2016 was the meeting held concerning the financial statements. The Management Board reported on developments during 2015 and during the first quarter of 2016, especially the financial and liquidity position, the status of marketing and sales, as well as research and development. After discussing the 2015 separate financial statements, the consolidated financial statements and the combined management report for the company and the Group, the Supervisory Board approved the reports of the auditor present at the meeting, raised no reservations on the basis of the results of its own audit, and approved both the separate and consolidated financial statements. It thereby followed the recommendation of its Audit Committee. Both the separate and consolidated financial statements of Biofrontera Aktiengesellschaft for the 2015 financial year were adopted as a consequence.

The Supervisory Board also discussed the statutory amendments based on the German Auditing Reform Act (AReG), and EU Regulation No. 537/2014. It was found in this context that the recommendation for the appointment of independent auditors or auditing firms required a selection procedure for the 2017 financial year in the meaning of Article 16 of EU Regulation No. 537/2014. The Audit Committee was mandated to prepare a set of criteria for the selection procedure. The Nomination Committee reported on the selection of candidates for the rotational election of new Supervisory Board members at the 2016 AGM.

1 June 2016

The 1 June 2016 meeting convened the Supervisory Board newly elected by the AGM on 31 May 2016. Dr. Granzer was elected Chairman and Mr. Baumann was elected to be his Deputy. The formation of the following committees was also approved at this meeting: Audit Committee, Nomination Committee, Personnel Committee and the R&D & Market Access Committee. The Supervisory Board also approved the set of criteria to be published for the selection procedure for the independent auditor. The corresponding tender of the audit of the separate and consolidated financial statements for the financial year ending as of 31 December 2017 was published on 25 July 2016 in the German Federal Gazette (Bundeanzeiger). The Management Board reported on business development, especially the planned market entry in the USA.

21 September 2016

The Management Board reported first on the planned expansion of the approval for Ameluz® for basal cell carcinoma. It also reported on developments with daylight therapy with Ameluz®. Furthermore, business development in Europe and progress with the planned market entry in the USA were discussed.

7 December 2016

The Management Board reported on business development during the first nine months of 2016 and provided an outlook for the 2016 results. The Supervisory Board concerned itself with the budget planning for 2017, which it approved.

The Supervisory Board then consulted concerning the result of the tender for the audit of the separate and consolidated financial statements for the financial year ending 31 December 2017. Overall, four audit firms expressed interest in a mandate, three of which had submitted specific offers. These were assessed on the basis of the defined selection criteria. The result of the appraisal had been submitted to the Supervisory Board, along with a reasoned recommendation. On this basis, the Supervisory Board decided to propose Warth & Klein Grant Thornton AG Wirtschaftsprüfungsgesellschaft, Düsseldorf, to the AGM as the auditor for the 2017 financial year.

All members participated at all of the aforementioned Supervisory Board meetings. The Supervisory Board also passed resolutions outside of the scope of meetings.

Supervisory Board committees

The Supervisory Board has currently formed as permanent committees an Audit Committee, a Nomination Committee, Personnel Committee and an R&D & Market Access Committee (which aggregates the former Research & Development Committee and Business Development Committee). The Supervisory Board appoints a Supervisory Board member as committee chair in each case. Pursuant to the rules of business procedure for the Supervisory Board, the Supervisory Board Chair is expected to chair the committees that handle Management Board contracts and prepare Supervisory Board meetings. The Supervisory Board Chair should not be the Audit Committee Chair too. These requirements are taken into account when making appointments. The committee chairs report to the Supervisory Board on the committees' work.

All the committee members participated in all the committee meetings in 2016.

Audit Committee

The Audit Committee focuses particularly on issues relating to financial 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 Section 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 Section 264d of the German Commercial Code (HGB), at least one independent member of the Supervisory Board must possess expertise in the financial accounting or auditing areas and be a member of the Audit Committee.

The Audit Committee comprised the following individuals during the reporting year up until 31 May 2016: Jürgen Baumann, Andreas Fritsch and Alfred Neimke. Mr. Fritsch occupied the chair.

The Audit Committee has comprised the following individuals since 1 June 2016: Hansjörg Plaggemars, Jürgen Baumann and John Borer. Mr. Plaggemars currently occupies the chair.

The committee met twice during the reporting year: the first time with the auditor in order to prepare for the Supervisory Board's financial statements meeting on 7 April 2016, and the second time in advance of the budget meeting on 7 December 2016. On 7 December 2016, the committee also made a recommendation to the plenum regarding the selection of the auditor for the 2017 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 performs preparatory work.

The Personnel Committee comprised the following individuals during the reporting year up until 31 May 2016: Jürgen Baumann, Dr. Ulrich Granzer, Prof. Dr. Bernd Wetzel. Mr. Baumann currently occupies the chair.

The Personnel Committee has comprised the following individuals since 1 June 2016: Jürgen Baumann, John Borer and Dr. Ulrich Granzer. Mr. Baumann is the current chairperson.

The committee met on 7 April 2016. The meeting discussed target attainment by the Management Board members during 2015 as well as setting performance targets for 2016, which the plenum adopted correspondingly.

Research & Development Committee

The Research & Development Committee handles 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. The Research & Development Committee comprised the following individuals during the financial year under review up until 31 May 2016: Dr.Ulrich Granzer, Ulrike Kluge, Prof. Dr. Bernd Wetzel. Prof. Dr. Bernd Wetzel occupied the chair.

Business Development Committee

The Business Development Committee assessed the opportunities for licensing deals and related contractual terms, consulted with the Management Board on specific negotiations and prepared resolutions for the Supervisory Board on matters requiring approval. Resolutions regarding licensing or direct selling were also discussed in the Business Development Committee. The Business Development Committee comprised the following individuals during the reporting year up until 31 May 2016: Jürgen Baumann, Dr. Ulrich Granzer, Ulrike Kluge. Mrs. Kluge occupied the chair.

R&D & Market Access Committee

Since 1 June 2016, the R&D & Market Access Committee has aggregated the functions of the Research & Development Committee as well as the Business Development Committee. It has comprised the following individuals since 1 June 2016: Mark Reeth, Dr. Ulrich Granzer and Kevin Weber. Mr. Reeth currently occupies the chair.

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 proposes suitable candidates to the Supervisory Board for its nominations of future members of the Supervisory Board at the Annual General Meeting. Here, the Nomination Committee considers the balance and variety of knowledge, skills and experience of all the Supervisory Board members, and prepares candidate profiles. The Nomination Committee is also to make proposals to the Supervisory Board concerning, and communicate results from, a regular assessment of the knowledge, capabilities and experience of both the members individually as well as 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.

The Nomination Committee comprised the following individuals until 31 May 2016: Jürgen Baumann (Chairman), Dr. Ulrich Granzer, Prof. Dr. Bernd Wetzel.

The Nomination Committee has comprised the following individuals since 1 June 2016: Dr. Ulrich Granzer, Hansjörg Plaggemars and Mark Reeth. Dr. Granzer occupies the chair.

The Nomination Committee met twice in the reporting year, on 29 March 2016 and 15 April 2016, to prepare a proposal to the Supervisory Board as to which candidates should be proposed to the AGM for election.

Separate and consolidated financial statements for 2016

The audit firm Warth & Klein Grant Thornton AG, Düsseldorf, was appointed Group auditor for the 2016 financial year by the Annual General Meeting on 31 May 2016 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 AGM. Warth & Klein Grant Thornton AG audited the separate and consolidated financial statements of Biofrontera Aktiengesellschaft, which the Management Board prepared, and the combined management report for the 2016 financial year, and issued unqualified audit opinions for them. 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 jeopardise the company as a going concern.

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

The financial statements documents were discussed in detail by the Audit Committee on 5 April 2017 and at the subsequent financial statements meeting of the Supervisory Board on 5 April 2017 – on each occasion in the presence of, and after a report by, the auditor. All Supervisory Board members received the financial statements documents and the audit reports drawn up by the auditor in good time before the financial statements meeting, and studied the documents thoroughly. At the financial statements meeting, the separate and consolidated financial statements were discussed extensively 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. The auditor also provided information about its findings on internal controlling and risk management with regard to the accounting process.

All questions posed 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 separate and consolidated financial statements and the combined management report for the company and the Group.

After discussing the separate financial statements, the consolidated financial statements and the combined management report for the company and the Group, the Supervisory Board approved the auditor's reports and the results of the audit, expressed no reservations on the basis of the results of its own audit, and approved both the separate and the consolidated financial statements.

The annual financial statements of Biofrontera Aktiengesellschaft were adopted as a consequence.
This Supervisory Board report was adopted at the financial statements meeting on 5 April 2017.

Auditor responsible

Mrs. Renate Hermsdorf has been the auditor appointed to perform the audit for Biofrontera AG since the 2013 financial year, Mr. Ralf Clemens performed this role for the financial year elapsed, 2016.

Corporate governance and compliance declaration pursuant to Section 161 AktG

The Supervisory Board reviews the efficiency of its operational activities on an annual basis. The Supervisory Board worked to issue the declaration of compliance with the recommendations of the German Corporate Governance Code for 2016. Further information on corporate governance is available in the annual report and online at www.biofrontera.com, under "Investors" / "Corporate Governance".

Details of the Supervisory Board's objectives regarding its composition and the status of implementation are also published there.

Equal participation by 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 in 2015 set the target for female participation in the Supervisory Board at one third, in other words, two out of the current total of six seats. The deadline for achieving the target was set at 31 August 2016, in line with the objectives regarding the composition of the Supervisory Board defined on 22 February 2011. Despite this target, it was not possible to submit two women as candidates for the Supervisory Board on the occasion of the regular new elections at the Ordinary AGM on 31 May 2016. This is because, regrettably, despite a corresponding search, no candidate who corresponded to the formulated requirements profile and was consequently considered as a proposed candidate was nominated or identified as part of the nomination process. As Mrs. Kluge was also not available for re-election, the target could not be reached. The Supervisory Board subsequently set a target for the proportion of women on the Supervisory Board at one third, in other words, two out of a current total of six seats. The deadline for achieving this target was set at 31 August 2021. The target for the proportion of women on the Management Board was set in 2015 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 were to be increased. No plans to do this currently exist, however.

Further details can be found in the corporate governance declaration.

Conflicts of interest

Dr. Granzer advised the company in 2016 in a capacity extending beyond his Supervisory Board membership. 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, to avoid any appearance of a conflict of interest. No evidence exists of any conflicts of interest of which the Supervisory Board must be notified without delay, and of which the Annual General Meeting should be informed, in relation to members of the Management or Supervisory boards.

By way of precaution, it should be noted that Deutsche Balaton Aktiengesellschaft, Heidelberg, whose Management Board includes Mr. Hansjörg Plaggemars, holds a total of 8.28 % of the shares and voting rights in Biofrontera Aktiengesellschaft on the basis of published voting rights notifications. The shares held by Deutsche Balaton Aktiengesellschaft are attributed to Mr. Wilhelm Konrad Thomas Zours, whose voting rights interest in Biofrontera Aktiengesellschaft amounts to a total of 11.21 % (indirect) on the basis of voting rights announcements.

The Supervisory Board would like to thank the Management Board and the staff of both Biofrontera Aktiengesellschaft and the Biofrontera Group for their great commitment and dedication during the past financial year.

Biofrontera AG

Leverkusen, 5 April 2017

Dr. Ulrich Granzer
Chairman of the Supervisory Board

Combined management report for parent company and Group as of 31 December 2016

Basis of the Group

Group structure

This report describes the business performance of the Group (hereinafter also referred to as "Biofrontera" or the "Biofrontera Group") for the 2016 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 the parent company's seat in Leverkusen, Germany.

The listed public stock corporation ("Aktiengesellschaft" in German, abbreviated "AG") performs a holding company 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 do not form part of Biofrontera's core business and consequently cannot be sufficiently financed as part of normal business development. The product BF-derm1 to treat severe chronic urticaria is now the responsibility of Biofrontera Development GmbH, while the product BF-1 for the prophylactic treatment of migraines is the responsibility of Biofrontera Neuroscience GmbH. This outsourcing of development candidates has created a structure through which the financing of the further development of these two products can be uncoupled from the normal Group financing.

Biofrontera Inc. is responsible for US marketing of the Biofrontera Group's approved products.

Group strategy

The strategic objective of the Biofrontera Group is the global positioning as a pharmaceuticals company specialising in dermatology. Focus areas of activity include further expanding our products' sales, especially in the USA, as well as extending the approvals of Ameluz® to include further indications to enhance its market potential.

Biofrontera is the first smaller German company to receive centralised approval for a completely independently developed medication marketed under the Ameluz® brand. Since its launch in February 2012, Biofrontera has been deploying its own sales force to market Ameluz® among dermatologists in Germany, as well as in Spain since March 2015. Ameluz® is also available in the United Kingdom, although Biofrontera will not actively market it there until the start of the coming financial year, after the expansion of approval in January 2017 to include basal cell carcinoma (BCC). Licensing partners distribute the drug in other European Union countries, as well as in Israel and Switzerland. In July, the European Medicines Agency (EMA) issued a positive recommendation to improve Ameluz® to treat field cancerisation. The European Commission issued the effective expansion of the approval in September 2016. As the skin-rejuvenating effects of Ameluz® were also measured in the study on field-directed treatment that was conducted for this purpose, these results have also been included in the approved new product information.

In May 2016, the US Food and Drug Administration (FDA) issued US approval for Ameluz® in combination with the BF-RhodoLED® lamp for the lesion-directed and field-directed PDT (photodynamic therapy) of actinic keratosis. In early July 2015, the company had submitted a new drug application (NDA) to the FDA. As Ameluz® and BF-RhodoLED® had to be approved as a combination of a drug and a medical device in the USA, the approval application there proved to be unusually complex. The FDA conducted extensive investigations and inspections in the subsequent months. The approval for both lesion-directed and field-directed treatment of mild to moderate actinic keratoses on the face and scalp was then issued without conditions. The world's largest healthcare market is consequently open to Biofrontera. A US subsidiary, Biofrontera Inc., based in Wilmington, Delaware, has been set up to market in the USA. All requisites structures were created for the market launch in the USA, which occurred in October 2016. Ameluz® for the US market is produced in Switzerland and imported into the USA. The PDT lamp for the US market is also produced at Biofrontera's headquarters in Leverkusen, Germany.
Biofrontera has thereby established itself as an internationally operating specialist pharmaceutical company. The Group strategy focuses in the short term on further expanding business in Europe and the USA, as well as on the indication expansion for basal cell carcinoma, which occurred in the EU in January 2017, and which is now also aimed for in the USA.

The indication expansion for Ameluz® to treat BCC was initiated in 2014. The Phase III clinical testing was conducted in direct comparison with competitor product Metvix®. Patient recruitment was completed in May 2015 and the last patient completed the clinical part of the trial in November 2015. This is followed by a 5-year follow-up period for all patients. The results of the trial have been available since January 2016 and prove that Ameluz® is highly clinically effective for the BCC indication. The recently published recurrence rates after 12 months confirm the better efficacy of Ameluz®. In comparison with competitor product Metvix®, it demonstrated significantly higher healing rates, especially with thicker and nodular BCCs. Despite statistically significant inferiority in the treatment of mild and moderate actinic keratosis on the face and scalp, as well as the restriction of its approval as a second therapy option with its approval to treat BCCs, Metvix® had enjoyed a big competitive advantage compared with Ameluz® to date. Especially in those European countries where dermatologists are based mainly in hospitals and fewer independent practices exist, the market opportunities for Ameluz® had been significantly reduced by the previous lack of approval for BCC. The company applied to the EMA in July 2016 for an indication expansion of Ameluz® for basal cell carcinoma, which the European Commission issued in January 2017. Biofrontera hopes for a significantly improved market position from this new indication.

The 2016 business year was a quite crucial year for Biofrontera, when it made preparations for a successful future. Given this, and the related challenges for Biofrontera, the Group also strengthened its personnel base. Along with hiring appropriate staff in the USA, the German organisation also needed to grow slightly, as many tasks for the USA are performed from Germany, and the development partnership with Maruho also ties up personnel capacities.

Products

Ameluz®

Ameluz® 78 mg/g Gel ("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. Its superiority compared to its direct competitor product Metvix® was demonstrated for this indication during Phase III development. Actinic keratoses are superficial forms of skin cancer, and a risk exists 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 a patient's keratoses compared to its direct competitor product.

In the Phase III approval trials, Ameluz® showed excellent healing rates and demonstrated marked and statistically significant superiority compared to the approved comparator product 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, Ameluz® resulted in the complete healing of actinic keratoses in 78% of patients, whereas the approved competitor product 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 also required the entire 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 performed with a combination of Ameluz® and BF-RhodoLED®. With this combination, 91% of patients were cleared from all keratoses, 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).

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 cosmetic result. A total of 63.3% of the patients who were initially completely asymptomatic were still asymptomatic a year later. The long-term effectiveness achieved applying field-directed therapy consequently lies in the data range already observed in previous long-term studies on lesion-directed PDT with Ameluz®.

As it has been widely reported in the specialist literature that PDT enjoys pronounced skin-rejuvenating properties, particularly in the case of sun-damaged skin, and 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-directed therapy), the cosmetic result was measured without taking the disappearance of the keratotic lesions into account. All the parameters that were tested improved significantly as a result of the treatment. An improvement in the skin appearance of patients treated with Ameluz® 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 rates 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.

The results on skin-appearance improvement have meanwhile been included in the official product information in the EU.

Both of the Phase I trials required by the American approval authority, the FDA, were also already completed in 2015. These clinical trials were initiated with a total of approximately 240 patients or test persons to add the safety data required for registration in the USA to the European approval package for Ameluz®. Specifically, one of the trials was a 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, in other words, the application of a complete tube onto the defective skin. No safety concerns were identified in either of the trials.

Actinic keratosis is classified as a 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, with a marked uptrend. A total of even as many as 58 million individuals are estimated to suffer actinic keratosis in the USA. 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 consequently taking actinic keratosis increasingly seriously is illustrated by the fact that actinic keratosis has been recognised in Germany 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. The related payment modalities were set in March 2016, with PDT being included as a treatment method. PDT can be used to treat actinic keratosis in the context of an occupational disease, and can be billed accordingly.

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, besides offering little efficacy.

The market for topical creams continues to report constant growth, and medicinally and legally questionable PDT formulations continue to be used in Germany. Because Ameluz® is the market leader among independent dermatologists in Germany in the PDT proprietary medicinal product market, a significant increase in sales can and must result from the aforementioned sectors.

The overall advantages of Ameluz® in terms of effectiveness, handling, user-friendliness and skin rejuvenation effects, 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 recent expansion of the range of indications to include basal cell carcinoma, as the vast majority of PDT treatments are conducted for this indication, particularly in the UK and Spain.

Biofrontera has conducted a Phase III trial for the extension of the European approval to include the BCC indication. BCCs are the most common invasive tumours that affect humans and account for approximately 50% to 80% of all 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 the USA but this can lead to clearly visible scarring, whereas treatment with 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. This trial was under the clinical management of Prof. Colin Morton (UK) and Prof. Markus Szeimies (Germany) and was conducted at 27 clinical trial centres in England and Germany. Patient recruitment for the trial, which was conducted in direct comparison with the competitor product Metvix®, was completed in May 2015 and the last patient completed the trial in November 2015. The trial's results 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®. Greater differences occurred with thicker BCCs. For example, 89.3% of nodular carcinomas were removed entirely with Ameluz®, and just 78.6% with Metvix®. Recurrence rates after 12 months were higher for Metvix® than for Ameluz®.

Based on the results of this Phase III trial, Biofrontera applied to the European regulator in July 2016 for approval to treat BCC with Ameluz®, which the European Commission issued in January 2017.

Between June and September 2016, patients were treated as part of a Phase III clinical trial, in which the efficacy and safety of Ameluz® in combination with PDT in daylight were measured in comparison with Metvix® in treating mild and moderate actinic keratosis. This comparative, randomised, observer-blind multicentre trial was conducted at seven trial centres in Spain and Germany with a total of 52 patients. Each patient had between 3 and 9 mild to moderate actinic keratoses (Olsen grades 1 and 2) on each of two comparable treatment areas on the face and/or scalp. The selection medication for the respective treatment side was random. The last patient completed the clinical phase of the trial in December 2016. The trial's results prove the non-inferiority (relevant from a regulatory standpoint) of Ameluz® compared with Metvix®. All relevant secondary endpoints produced comparable or higher cure rates for Ameluz® in relation to Metvix®.

Daylight PDT comprises a favourable and pain-free alternative to PDT treatment with a special lamp. Here, the topically applied medication is activated by natural or artificial daylight. The clinical endpoint of the trial is the total cure rate for all lesions on each treatment side 12 weeks after treatment. The secondary clinical endpoint comprises determining medication safety and additional efficacy parameters. The trial was jointly directed by Dr. Susana Puig, Research Director at the Biomedical Research Institute August Pi i Sunyer and professor at the University of Barcelona as the main research director in Spain, and Prof. Thomas Dirschka, founder of the private dermatology practice CentroDerm as the main research director in Deutschland. As treatment in daylight PDT does not need to be administered at a physician's practice it competes directly with the self-applied topical medications that are much more widely disseminated in Europe, and is consequently also reimbursed by statutory healthcare funds in Germany.

BF-RhodoLED®

BF-RhodoLED® is a lamp designed for PDT, and utilises LEDs emitting red light at a wavelength of approximately 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. In the European version, light energy and fan power settings can be adjusted during a PDT treatment session to reduce any pain caused by the treatment. No other lamp on the market offers comparable power and flexibility. BF-RhodoLED® has been CE-certified since November 2012 and is distributed throughout the EU. For marketing in the USA, the final assembly of the PDT lamp was relocated to Biofrontera's premises, and Biofrontera itself has been performing final assembly since July 2016. From the FDA's perspective, Biofrontera is consequently the manufacturer responsible for the product.

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, drawing together the best of nature and science.

Belixos® Creme 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® Creme, which has been available since 2009, has consequently 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 cosmetically formulated for skin that is inflamed, reddened and prone to skin blemishes, providing an effective treatment for rosacea and acne. The gel texture is formulated to be extra grease-free, has a complex of active substances consisting of anti-inflammatory mahonia and Sepicontrol A5, is antibacterial, removes hardened skin and regulates sebum.

Belixos® Protect is a modern daily care product specially developed for sun-damaged skin. With its skin-regenerative properties deriving from highly concentrated niacinamide, it leaves skin smooth and helps repair damaged skin. It also contains UVA and UVB broad spectrum protection with SPF15 to protect against further light-induced skin ageing and hyperpigmentation.

Belixos® to go is a roll-on acute care product available since July 2016, which utilises a highly precise stainless steel ball to deliver care for itchy skin, insect bites and minor skin irritations. Anti-inflammatory mahonia, calming beach chamomile and the anti-irritative Sepicalm S Complex lead to faster relief for irritations and inflammation.

Belixos® products are manufactured according to stringent quality and environmental regulations. They are free of paraffins, parabens, ethyl alcohol, animal products, dyes and fragrances that may have negative dermatological effects. Its skin compatibility was certified as "very good" by the independent Dermatest Institute. Belixos® is obtainable in selected pharmacies, dermatological institutes and from the online retailer Amazon.

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. In many European countries, however, price and reimbursement status have to be defined before market launch, which can be a very protracted process. To date In Europe, the company has commenced sales and distribution in Germany, the UK, Spain, Austria, the Netherlands, Luxembourg, Belgium, Denmark, Sweden, Norway, Switzerland and Slovenia. The drug is available in these countries at a pharmacy retail price of between just under EUR 200 and approximately 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 through marketing partners. Biofrontera is preparing its own sales operation in the UK, having already terminated its contract with a local marketing company on 31 July 2015. Biofrontera also conducts sales in Slovenia, with a local company supporting it in marketing.

Distribution to public pharmacies generally occurs through pharmaceutical wholesalers, whereas hospital pharmacies are also supplied directly. In addition to regular visits by the field sales force to dermatologists, Biofrontera has presented Ameluz® at major dermatological conferences in Germany and other European countries since it was launched on the market. The feedback from dermatologists has been extraordinarily positive. The market share of Ameluz® in the segment of PDT medications made available by public-sector German pharmacies has long been constant at above 70%, but over the past months of 2016 has reduced proportionally a little again due to the launch of a daylight PDT product identical to Metvix®. Nonetheless, all PDT products together command only a small share of the overall market for preparations to treat actinic keratosis, because only approximately 5% of patients are treated with proprietary medicinal products for PDT. Although PDT achieves the highest healing rates by far, the complexity of the treatment and time required by medical practices to administer it have hindered significant market penetration in the statutory health insurance sector area to date. A film about PDT can be viewed on YouTube, in German at (http://www.youtube.com/watch?v=aK4a3R5kqMA, and in English at http://www.youtube.com/watch?v=2xEO8DWCO8o).

The treatment of actinic keratosis with daylight therapy will play an ever greater role in Europe in the future. Competitor medication Metvix® has already received one approval for this indication, and since recently has been marketed specially for the daylight application under another brand name. Statutory healthcare funds reimburse the treatment as this approach dispenses with additional PDT treatment work in physicians' practices, and patients apply the medication themselves. It can be expected that in the future daylight PDT will gain market shares that to date have been reserved for self-applied topical creams. Biofrontera successfully concluded a Phase III clinical trial on daylight PDT in January 2017, and having submitted the application for approval in the second quarter of 2017 also expects to receive approval for it during the first half of 2018.

Approval for BCC is a prerequisite for the widespread use of Ameluz® in hospitals, as BCC is mainly treated there, whereas this is only quite rarely the case for actinic keratosis. This indication plays an essential role in the breakthrough of Ameluz® especially in European countries outside Germany where dermatologists work mainly in hospitals. BCCs are the most common invasive tumours that affect humans and account for 50% to 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 mostly removed surgically, although this can result in unattractive scar formation. Treatment with 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 approximately 8% annually, from approximately USD 546 million USD 942 million in 2020. However, the market for BCC medications is expected to grow to a multiple of its current size, from approximately USD 236 million today to nearly USD 5 billion over the same period, because the availability of new drugs (Ameluz® is also 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. In Slovenia, Biofrontera conducts its own sales and distribution activities, and is supported in its marketing activities by PHA Farmed Consultancy s.p. 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 through its own branch operation, 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. It was necessary to undergo an independent approval process in these countries, which was conducted by the aforementioned distribution partners in collaboration with Biofrontera. In Switzerland, both the approval and the reimbursement approval were issued in December 2015. Market launch occurred at the start of 2016. In Israel, the Israeli health authorities issued approval for Ameluz® in April 2016. Reimbursement by healthcare insurance funds was approved for immunosuppressed patients. Marketing is expected to start in the coming months.

The contracts with the respective sales partners have been concluded in such a way that Biofrontera has received no downpayment, or only a modest downpayment, 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.

Biofrontera launched Ameluz® in the US market in October 2016. In advance, with the help of a consulting firm specialising in market access and a team of medical advisors, a start was made with analysing the actinic keratosis drug market and reimbursement systems in the American healthcare system. For this, Biofrontera also drew on the experience of DUSA Pharmaceuticals Inc. with a competitor product already sold and distributed in the USA, Levulan Kerastick®. Marketing in the USA is occurring through the company's own subsidiary, Biofrontera Inc., which was founded for this purpose in March 2015. Very qualified and experienced local staff were hired for important key positions in the USA, with hiring continuing. Most of the staff have switched from direct competitors to join Biofrontera. As the drug and the lamp are approved as a combined product in the USA, the speed of market penetration in the USA will also depend in part on the speed of placing the BF-RhodoLED® PDT lamps. Until an individual reimbursement code is issued – which Biofrontera applied for in January 2017 and will prospectively come into force in January 2018 – Ameluz® is being reimbursed in the USA through a so-called miscellaneous code. Although this is a normal procedure for any newly launched medication due to the prescribed application periods, this still makes it difficult to process reimbursement in physicians' practices, and is consequently continuing to hamper sales revenue growth in 2017.

Further development projects

In July 2016, the company agreed a research partnership with Maruho Co., Ltd, ("Maruho"), a Japanese company specialising in dermatology, as part of which possibilities to jointly develop pharmaceutical products based on Biofrontera's proprietary nanoemulsion technology are to be researched. Ameluz® was developed with a similar strategy. The nanoemulsion technology stabilised the active substance and improved skin penetration, leading to greater clinical efficacy. According to the agreement, Maruho will bear all costs connected with the exploratory research of for new product candidates. It is planned that Maruho will be the owner of the new products and that Biofrontera will receive the licence to market in Europe. In some cases of a change of control Maruho has the right but not an obligation to terminate the cooperation agreement.

Patent and trademark developments since 31 December 2015

Nanoemulsion

The patent was issued in Europe on 21 September 2016 (Bulletin 2016/38). Regional phases were launched in Europe for Switzerland, Germany, Spain, France, the UK and Italy.

The Chilean and Israeli share of the patent has also been issued.

A further office action has also been issued in the USA for the "nanoemulsion" patent (PCT/EP2007/011404), to which a response was provided to deadline.

Migraine

An information disclosure statement was submitted to the United States Patents and Trademark Office (USPTO) for the patent "Antimigraine compounds and their use" (US Patent Application No. 14/765,176). An office action was also issued that was answered to deadline in November 2016.

Belixos®

The patent "Pharmaceutical and/or cosmetic composition for treating the skin" (US Patent Application No. 13/081,737) is not being pursued further.

Brand development

The European Community trademark "Daylight-PDT" (Number 014943518) is not being pursued further.

Steering system

The Management Board manages Biofrontera AG, and is responsible for and supervises the operating business. The Management Board receives and reviews internal management reports to this end.

Sales revenue forms the central management metric in the context of such reporting, which is reported by product and region.

Change in liquidity are also utilised as an important key indicator and management metric, and are monitored on a daily basis. Liquidity is defined as the sum of the cash position and bank deposits. Further Research- and development costs as well as equity form important management metrics.

Key financial performance indicators

Sales revenue

Internal steering focuses on sales revenue trends. Consolidated sales revenue comprises sales to both wholesalers and physicians and clinics, as well as sales to our licensing partners.

As medications in Germany are not sold directly to patients, the company also receives data about pharmacies' sales, reported by regional segments, enabling an analysis of prescription trends in Germany.

Liquidity

A daily summary of all funds held on bank accounts is prepared in order to monitor liquidity.

Key non-financial performance indicators

Number of employees

Personnel figures (measured in terms of full-time equivalents/FTEs) represents a further relevant management metric. In the recruitment of personnel, the company focuses primarily on staff possessing the requisite qualifications and expertise to reach the objectives that are set in the operative and administrative areas. Personnel costs are always monitored on the basis of normal salary levels for the sector.

This steering system is applied on a consolidated basis so the entire Group is managed according to standard systems.

Economic and business report for the 2016 financial year for the Biofrontera Group:

- Sales revenue: at EUR 6.1 million (prior-year period: EUR 4.1 million), year-on-year sales revenue growth of 48%. First significant sales revenues in the USA as well as sales revenues from the development partnership with Maruho
- Operating result: EUR -11.8 million (prior-year period: EUR -10.2 million)
- Consolidated loss before tax: EUR -10.6 million (prior-year period: EUR -11.2 million)
- Cash and cash equivalents as of 31 December: EUR 15.1 million (previous year: EUR 4.0 million)
- Undiluted earnings per share amounted to EUR -0.36 (previous year: EUR -0.48)

Biofrontera Group financial position and performance

Sales revenue

The Biofrontera Group generated total sales revenue of EUR 6,130 thousand in the 2016 financial year, equivalent to an increase of more than 48% compared with the previous year's level (EUR 4,138 thousand). Sales revenue in Germany of EUR 2,515 thousand reflected a reduction compared with the previous year's EUR 3,028 thousand. In European countries outside Germany, sales revenue reported a marked increase of 20% to reach EUR 1,247 thousand (previous year: EUR 1,040 thousand). Sales revenue in the USA stood at EUR 1,153 thousand (previous year: EUR 0 thousand). The development projects with Maruho generated EUR 1,177 thousand in the reporting period (previous year: EUR 0 thousand). Licence revenue (one-off payments) amounted to EUR 40 thousand in the 2016 financial year (previous-year period: EUR 70 thousand). Based on disclosure changes in accordance with BilRuG Biofrontera AG has, in its individual statutory financial report, recorded revenues of EUR 2,038 thousand (previous year: EUR 1,814 thousand) for the first time.

Cost of sales, gross profit

The gross profit on sales improved from EUR 2,902 thousand in the 2015 financial year to EUR 4,478 thousand in the 2016 financial year. The gross margin increased to 73%, compared to 70% in the same period in the previous year.

The cost of sales amounted to EUR 1,652 thousand, or 27% of the sales revenue, improving relative to sales revenue compared with the previous year (EUR 1,236 thousand, or 30%).

Development costs

Biofrontera has also continued to invest in research and development and the further development of its products. Research and development costs amounted to EUR 4,640 thousand in the 2016 financial year, a reduction of EUR 1,564 thousand, or 25%, year-on-year. The decrease mainly reflects the EUR 2,072 thousand submission fee (PDUFA fee) paid upon submission of the application for approval to the FDA during the first half of 2015. The FDA reimbursed this fee in March 2016, with the credit being reported under the other income item.

Sales and marketing costs

Sales and marketing costs amounted to EUR 8,763 thousand in the 2016 financial year, a significant increase of EUR 4,593 thousand to more than double the previous year's level (EUR 4,170 thousand). Sales and marketing costs include the costs of our own field sales team in Germany, Spain and the USA, as well as marketing expenses. The increase is chiefly attributable to expenses for the start-up of sales activities and to establish sales structures in the USA.

Administrative costs

Administrative costs increased by EUR 94 thousand year-on-year to EUR 2,853 thousand in the 2016 financial year (previous year: EUR 2,759 thousand). Financing costs shown under administrative costs include primarily consultancy and placement fees in connection with support in the search for investors.

Financial result

The financial result consists primarily of the interest payable for the 2009/2017 warrant bond (EUR 463 thousand, previous year: EUR 439 thousand) and for the 2011/2016 warrant bond placed in 2011 (EUR 727 thousand, previous year: EUR 727 thousand), calculated using the effective interest method. The aforementioned interest expenses on the warrant bond 2009/2017 of EUR 463

thousand (previous year: EUR 439 thousand) include the opposite effect of EUR 204 thousand (previous year: EUR 193 thousand) from the repurchase of part of the warrant bond on 28 February 2014.

The interest on Warrant Bond I for the 2015 financial year was paid at the end of December 2015, and the interest on Warrant Bond II was paid at the beginning of January 2016. The interest for the 2016 financial year for Warrant Bond I was paid at the start of January 2017. In December 2016, Warrant Bond II was repaid early at par plus accrued interest.

Other income and expenses

The submission fee paid to the FDA in 2015 (PDUFA fee) was reimbursed in an amount of EUR 2,140 thousand in March 2016 after a "small business waiver" was granted. This fee was reported under research and development costs in the income statement for 2015. The reimbursement is reported under other income. The individual statutory accounts of Biofrontera AG show other operational income of EUR 298 thousand (previous year: EUR 55 thousand) and other operational expenses of EUR 1,060 thousand (previous year: 492 thousand) after reclassification in accordance with BilRuG.

Investments

The additions to intangible assets and to property, plant and equipment in the reporting period arise mainly from the purchase of special software (EUR 20 thousand; previous year: EUR 0), right-of-use assets connected with the prototype of the PDT lamp (EUR 36 thousand; previous year: EUR 26 thousand), laboratory devices (EUR 290 thousand; 2015: EUR 35 thousand) and fixtures and equipment (EUR 117 thousand; 2015: EUR 42 thousand). The asset disposals with costs totaling EUR 66 thousand (previous year: EUR 20 thousand) resulted primarily from sales of the rental lamps in an amount of EUR 52 thousand (previous year: EUR 20 thousand).

Inventories

Inventories stand at EUR 3,646 thousand (previous year: EUR 1,534 thousand). These included: finished products (Ameluz®) amounting to EUR 751 thousand, BF-RhodoLED® lamps recorded in the inventories amounting to EUR 1,001 thousand and Belixos® products amounting to EUR 67 thousand as well as work in progress, and raw materials and supplies reported at EUR 1,827 thousand.

Receivables

Trade receivables increased by EUR 729 thousand, from EUR 895 thousand as of 31 December 2015 to EUR 1,624 thousand, due to the higher level of sales revenue in the 2016 financial year.

Share capital

The fully paid in share capital of the parent company, Biofrontera AG, amounted to EUR 37,722,433.00 on 31 December 2016. It was divided into 37,722,433 registered shares with a nominal value of EUR 1.00 each. The share capital amounted to EUR 25,490,430.00 on 31 December 2015, and was increased during the course of 2016 financial year initially by a capital increase in February 2016 by an amount of EUR 2,357,384.00, divided into 2,357,384 registered shares, a capital increase in April 2016 of EUR 2,499,999.00, divided into 2,499,999 registered shares, and a further capital increase in November 2016 of EUR 5,012,950.00, divided into 5,012,950 registered shares.

As part of the capital increase implemented in February 2016, the company's share capital was increased against cash capital contributions by EUR 2,357,384.00 through issuing 2,357,384 new ordinary registered shares from authorised capital. Shareholders' subscription rights were excluded for this capital increase. The new shares were offered to selected institutional investors at an issue price of EUR 1.90 per new share, consequently for a total issue amount of EUR 4,479,029.60. These shares were fully placed. The net issue proceeds amounted to EUR 4.4 million.

As part of the capital increase implemented in April 2016, the company's share capital was increased against cash capital contributions by EUR 2,499,999.00 through issuing 2,499,999 new ordinary registered shares from authorised capital. Statutory subscription rights were granted to the shareholders. An "additional subscription" was also offered. In other words, shareholders exercising subscription rights could apply to subscribe for unsubscribed new shares at the subscription price. The subscription price per share amounted to EUR 2.00. The net issue proceeds amounted to EUR 4.9 million.

As part of the capital increase implemented in November 2016, the company's share capital was increased against cash capital contributions by EUR 5,012,950.00 through issuing 5,012,950 new ordinary registered shares from authorised capital. The new shares are dividend-entitled from 1 January 2016. Statutory subscription rights were granted to the shareholders in a 6:1 ratio at the subscription price. The subscription price per new share amounted to EUR 3.00. The net issue proceeds amounted to EUR 14.7 million.

In November 2016, 49,990 subordinated convertible 2016/2021 bonds were issued in a total nominal amount of EUR 4,999,000 ("convertible bond"). The bonds were issued at a subscription price of 100% of the nominal value per bond in a denomination of EUR 100.00 per bond, and were fully placed. Shareholders were granted indirect subscription rights to the bonds. The conversion price amounted initially to EUR 3.00 per share, EUR 4.00 per share from 1 January 2017 and EUR 5.00 per share from 1 January 2018. Shareholders were granted statutory subscription rights in a 607:1 ratio at an issue price of EUR 100.00 per bond. The complete issue volume amounted to EUR 5.0 million.

The exercising of warrant rights from the 2011/2016 warrant bond generated issue proceeds of EUR 2.2 million in the 2016 financial year.

Group equity and company equity

The Group has equity amounting to EUR 15,842 thousand on the basis of IFRS accounting principles.

Biofrontera AG has equity of EUR 95,566 thousand as of 31 December 2016 on the basis of accounting policies pursuant to the German Commercial Code (HGB) (previous year: EUR 65,496 thousand). Overindebtedness in the meaning of insolvency law does not exist at the two subsidiaries Biofrontera Bioscience GmbH and Biofrontera Pharma GmbH, as positive going concern forecasts exist for both companies. The net loss incurred for the year for Biofrontera AG amounts to EUR -1,962 thousand (previous year: EUR -7,263 thousand).

Financial position

The company's capital management body regularly reviews the equity ratio of both the Group and the parent company. The management's objective is to ensure an appropriate equity base within the framework of capital market expectations, and creditworthiness in relation to national and international business partners. The company's Management Board ensures that all Group companies have sufficient equity and debt funding at their disposal.

Cash flow from operating activities reduced year-on-year from EUR -9,717 thousand to EUR -10,740 thousand in 2016.

Cash flow from investing activities diminished by EUR 472 thousand two EUR -455 thousand, especially due to capital expenditure, which increased by EUR 304 thousand to EUR 485 thousand.

Cash flow from financing activities improved by EUR 17,212 thousand year-on-year, from EUR 5,150 thousand to EUR 22,362 thousand. This change arises particularly from the proceeds of new share issues generating EUR 24.2 million of issue proceeds. In the prior-year period, two capital increases with issue proceeds totalling EUR 6.3 million were implemented.

The company was able to meet its payment obligations at all times, but will continue to depend on additional financing measures in the future. To date, Biofrontera has always succeeded in providing the necessary financing for its business operations through injections of equity. As a result of the capital increases implemented in February, April and November 2016, the company currently has sufficient liquidity at its disposal. However, the planned investments in marketing in the USA and obligations arising from the warrant bond that was issued will necessitate further capital measures during the course of the 2017 financial year.

On the basis of its previous, invariably successful experience with capital measures, the Management Board assumes that the liquidity required for business activities can continue to be secured. Should – contrary to expectations – these valid estimates not be realised, a going concern risk would ensue.

Target attainment in 2016:

	Outlook for 2016	Target attainment as 31 December 2016
Group sales revenue	EUR 6 to 7 million	EUR 6.1 million
Research and development costs	EUR 4 to 5 million	EUR 4.6 million
Consolidated result before tax	EUR -11 to -12 million	EUR -10.6 million

Biofrontera reached all its financial targets in 2016. The previous year's forecast was for sales revenue of between EUR 6 million and EUR 7 million. A reduction in sales revenue in Germany was more than offset by sales revenue generated from the development projects with Maruho. Sales revenues in European countries outside Germany were as expected. Initial revenues of EUR 1.2 million were achieved in the USA during the final quarter of the financial year under review.

Biofrontera also made significant investments in research and development in 2016, including in the "regulatory affairs" area. Research and development costs of EUR 4.6 million were in line with budget.

The consolidated result before tax of EUR -10.6 million was also slightly improved compared with the forecast.

Personal matters

Management Board

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

The remuneration of the Management Board members consists of a fixed salary that is paid in twelve equal monthly instalments. In addition, an annual performance-based bonus exists for the Management Board members, 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.

Staff

As of 31 December 2016, 94 employees worked for the Biofrontera Group (previous year: 58). Of these, 20 were employed at Biofrontera AG (previous year: 17), 9 at Biofrontera Bioscience GmbH (previous year: 6) and 41 at Biofrontera Pharma GmbH including the Spanish office (previous year: 34). No staff are employed at Biofrontera Development GmbH or Biofrontera Neuroscience GmbH. Biofrontera Inc. employed a total of 24 staff (previous year: 1).

Employee stock option programme 2010

In order not to be at a disadvantage in the future in recruiting and retaining staff, 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 (VorstAG), such schemes must be linked to the company's long-term performance and profitability. As the stock option programme approved by the Annual General Meeting of the company on 24 May 2007 could not be utilised, the Annual General Meeting held on 2 July 2010 granted the Management and Supervisory boards the authorisation to issue, within the next 5 years, up to 839,500 options to directors and employees. Further related provisions were specified in the invitation to the Annual General Meeting and are available on the company's website. The issue of the first tranche of these options is described in the consolidated financial statements for the financial year ending 31 December 2010. The second tranche occurred in calendar 2011 and is described in the consolidated financial statements for the financial year ending 31 December 2011. In the first half of 2012, a further 116,500 options were issued at an exercise price of EUR 3.30 and EUR 4.09 respectively each (third tranche). On 2 September 2013, 179,500 options were issued with an exercise price of EUR 3.373 each (fourth tranche). In a further tranche (fifth tranche) on 2 April 2014, a total of 159,350 options were issued at an exercise price of EUR 3.43 each. A total of 137,250 options were forfeited by employees leaving the company. A further 106,400 options (from the first tranche) lapsed because the exercise conditions were not met. The cost expensed in the reporting period amounted to EUR 62 thousand (previous year: EUR 103 thousand).

The authorisation to issue options under the 2010 share 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.

Employee stock option programme 2015

After the end of the 2010 employee share option programme, the company's Annual General Meeting on 28 August 2015 authorised the Management and Supervisory boards until 27 August 2020 to issue to Management Board members and employees up to 1,814,984 subscription rights to up to EUR 1,814,984 of the company's ordinary registered shares according to the more detailed specifics of the authorisation resolutions. Further related provisions were specified in the invitation to the Annual General Meeting and are available on the company's website (2015 option programme).

On 18 April 2016, a total of 425,000 options were issued for the first time from the potential 1,814,914 share options (exercise price: EUR 2.49 per option). On 1 December 2016, a further 130,500 options (second tranche) were issued with an exercise price of EUR 3.28 each. A total of 7,500 options were forfeited by employees leaving the company. Due to the blocking period, no options have yet been exercised or forfeited. As a consequence, 1,259,483 options are still outstanding on 31 December 2016. The expenditure recognised in the reporting period was EUR 49 thousand (previous year: EUR 0). No previous year's figures exist as the share option programme was not set up until the 2015 financial year.

Supervisory Board

As a result of the resolution passed by the Annual General Meeting held on 31 May 2016, the Supervisory Board has consisted of the following members since 31 May 2016, with these members acting as representatives of the shareholders:

Dr. Ulrich Granzer	Supervisory Board Chairman, Owner and Managing Director of Ulrich Granzer Regulatory Consulting & Services, resident in Munich, Germany
Jürgen Baumann	Deputy Supervisory Board Chairman, management consultant, resident in Monheim
John Borer	Head of Investment Banking at The Benchmark Company LLC, New York, USA, resident in Jersey City, NJ, USA
Hansjörg Plaggemars	Management Board member of Deutsche Balaton Aktiengesellschaft, Heidelberg, resident in Stuttgart
Mark Reeth	Attorney, resident in Frederick, MD, USA
Kevin Weber	Principal of Skysis, LLC, Scottsdale, AZ, USA, resident in Scottsdale, AZ, USA

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

Hansjörg Plaggemars	OOC CTV Verwaltungs GmbH, Managing Director Stellar Diamonds plc, Non-Executive Board Member Carus Grundstücksgesellschaft am Taubenfeld AG, Supervisory Board Chairman Eurohaus Frankfurt AG, Supervisory Board Chairman Youbisheng Greenpaper AG i.I., Supervisory Board Chairman Ming Le Sports AG, Supervisory Board Chairman Nordic SSW 1000 Verwaltungs AG, Supervisory Board Chairman Balaton Agro Invest AG, Deputy Supervisory Board Chairman Carus AG, Deputy Supervisory Board Chairman Deutsche Balaton Immobilien I AG, Supervisory Board member Ultrasonic AG i.I., Supervisory Board member

In the 2016 financial year, compensation paid to Supervisory Board members amounted to EUR 113 thousand (previous year: EUR 113 thousand). The compensation transactions are classified as short-term employee benefits as per IAS 24.17(a).

Risk, opportunity and forecast report

Risk and opportunity report

Risk management system

Biofrontera's management deploys a comprehensive risk management system to counter risks within the Group.

The risk and opportunity management system for the Biofrontera Group applies equally to Biofrontera AG. By virtue of its holding company function, Biofrontera AG controls all the legally independent entities within the Biofrontera Group. For this reason, risks and opportunities must be assessed on a standard basis across the entire Group.

The primary objective of the Biofrontera Group is to achieve sustainable and long-term growth while increasing the company's value continuously. Risk management plays a major role in achieving this objective. Risk management at Biofrontera involves the identification of risks that could lead to lasting or significant harm to the company's financial position and performance, as well as the responsible analysis and monitoring of such risks and initiation of suitable countermeasures. This requires the establishment of 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 to fully exploit the opportunities arising from Biofrontera's business activities. In the 2016 financial year, Biofrontera's existing risk management structures were further developed to reflect the quality management system required for pharmaceutical manufacturers and businesses as well as 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 integrated into the Group's corporate processes and decision-making processes, thereby forming an integral element of planning and controlling processes Group-wide. 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 Group management staff are involved in Group-wide risk policy and associated reporting. This includes the Management Board, the Group companies' managing directors, and process and project managers.

The Risk Management Team headed by the Chief Executive Officer is responsible for the centrally organised risk management system. It coordinates the individual management bodies and ensures they receive their information continuously and promptly. The Risk Management Team is also responsible for the continuous monitoring of risk profiles, for initiating risk prevention measures, and for corresponding monitoring instruments. The Biofrontera Group management holds regular meetings at which the Group's central and operational departments exchange information relevant to risk management at all levels.

The Risk Management Officer, who is also a member of the Risk Management Team, is the Group-wide contact individual. 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 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, allowing necessary countermeasures to be adopted in good time. Overall monitoring is conducted in relation to the sales activities for Ameluz®, including the PDT lamp, and Belixos®. Risk planning and identification in this area are performed 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 relating to future business development and growth

The Biofrontera Group is endeavouring to achieve its strategic objectives, especially the establishment of its own sales operation in some countries, the identification of sales partners, and approval of development projects. It has already obtained not only European but also especially US approval for Ameluz®, giving it the opportunity to grow rapidly and become very 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 prove to be successful in competition with other treatment options for actinic keratosis or BCC. 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 only insufficient, remuneration from the healthcare systems.

Biofrontera is required to make recourse to suppliers to manufacture its products, and changing such suppliers would entail protracted regulatory processes. Problems at, or with, such suppliers can place a burden, or incapacitate, the company's ability to deliver its products and services, which would lead to a shortfall in revenues. Biofrontera endeavours to minimise such dependencies by establishing alternative suppliers.

No guarantee exists 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, making it possible to analyse the effects that even small changes or delays – with clinical trials, for example – can have on the development process and on its costs. This makes it possible to precisely observe the development risk associated with individual projects and take the steps necessary to minimise the development risk.

Due to the existing loss situation and uncertainties relating to future business expansion, the company's survival will depend substantially on further cash injections from shareholders or other capital investors. Investors' acceptance of this industry and its associated risks as well as the special accounting characteristics and overall fiscal conditions is of great importance in this context. The company cannot influence such circumstances, although they are of crucial importance for the company during its development phase and when it is reliant on the financial markets for injections of the equity its requires.

Patent protection

Patents guarantee the protection of our intellectual property. If our products are marketed successfully, the resultant profits can be deployed for sustainable ongoing investment in research and development activities. Due to the long intervening period between the patent application and the launch of a product, Biofrontera generally has only a few years to earn a suitable income from its intellectual work. 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 defend it successfully, 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 chain. This includes every stage from research and development to disposal, including production, marketing and customer use. Although comprehensive trials are conducted 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 emergence 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 aforementioned risks could exert a considerable negative effect on the company's financial results. As no previously unknown drug side effects have appeared, we consider it highly improbable that risks of this kind will arise.

Purchasing

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 protection of our employees and of the environment, form key priorities. Risks associated with the manufacturing, bottling, storage and transportation of products may result in personal injury or material or environmental damage, and may give rise to an obligation to pay damages. Here 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 established two suppliers of the agent aminolevulinic acid, whose manufacturing processes have been approved by the EMA. Biofrontera is the owner of the Drug Master File for one of the two manufacturers. This will ensure the long-term supply security of aminolevulinic acid. We have also established our own production facilities for the final assembly and final quality control of the BF-RhodoLED® lamp to reduce our dependence on suppliers in this area too.

Employees

Qualified and dedicated staff are a key prerequisite for the company's success. Competitive compensation and extensive training and development opportunities are essential to this end. We also pursue a diversity-orientated personnel policy to exploit the labour market's full potential. To date, Biofrontera has always succeeded in acquiring the qualified staff necessary for the company, so the company also regards this area as bearing 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 severe impairment of our business processes. It is of fundamental importance to us that both internal and external data remain confidential. If the confidentiality, integrity or authenticity of data or information were to be lost, the manipulation and/or uncontrolled outflow of data and know-how could arise. We have adopted appropriate measures to counteract this risk, such as a comprehensive authorisation concept. The measures adopted by the company have always proven adequate to date, so such risk is to be regarded as low.

Law and compliance

The Group may be subjected to litigation or legal proceedings in the future. In particular, this includes risks arising from product liability, antitrust law, competition law, patent law, tax law and 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 disbenefits, and these may harm the company's reputation and ultimately have a negative effect on the company's success and performance.

Liquidity risk

Liquidity risks arise from the possibility that the Group will be unable to fulfil existing or future payment obligations due to not having sufficient 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 statements based on their due dates.

To ensure payment security, cash and cash equivalents are kept available so that all the Group's scheduled payment obligations can be fulfilled on their respective due dates. The level of this liquidity reserve is reviewed regularly and adjusted to current circumstances where necessary.

The company was able to meet its payment obligations at all times, but will continue to depend on additional financing measures in the future. To date, Biofrontera has always succeeded in providing the financing needed for its business operations through injections of equity. As a result of the capital increases implemented in February, April and November 2016, and the issue of subordinated convertible bonds in January 2017, the company currently has sufficient liquidity at its disposal. Until breakeven is reached, however – particularly through obtaining approval in the USA – until the planned investments are made in marketing in the US and until obligations from the issued option bond are met, further capital measures will be required during the 2017 financial year. Such capital measures can comprise equity or debt financing.

On the basis of its previous, invariably successful experience with capital measures, the Management Board assumes that it can continue to secure the liquidity it requires for its business activities. Should – contrary to expectations – these valid estimates not be realised, a going concern risk would ensue.

Litigation

In August 2016, the Cologne District Court served on the company a lawsuit from a shareholder dated 30 June 2016. The lawsuit brought charges for nullity, alternatively rescission, of some of the resolutions passed at the company's Ordinary AGM on 31 May 2016. In particular, the election of Mr. John Borer, Mr. Jürgen Baumann and Mr. Kevin Weber to the company's Supervisory Board was contested. A verbal negotiation meeting was held at the Cologne District Court on 4 November 2016. A further meeting to interview witnesses was held on 3 February 2017, also at the Cologne District Court. The plaintiff withdrew the lawsuit on 9 March 2017.

Forecast report (outlook)

Over the coming two years, Biofrontera will continue to invest considerable funds in new indication approvals for Ameluz® and to further expand sales of Ameluz® in the USA. Biofrontera has established its subsidiaries in the USA at great speed and will further strengthen the number and force of its staff there. To expand the management team, Mr. Randall Wilhoite was appointed Chief Operating Officer of Biofrontera Inc. in February 2017. Biofrontera will be present at the most important American dermatology conferences and will continue to aim for broad-based reporting about white skin cancer and Ameluz® among physicians and the general public. Preparations are currently underway for a so-called "pre-IND meeting" with the US regulator, the FDA. This meeting, in turn, is to form a preparation to expand the US approval to include the BCC indication. The extent to which the FDA sees the preconditions for the expanded approval as having been met by the data gathered in Europe is to be clarified at this meeting. Biofrontera has submitted an application for this meeting to the FDA, which will occur prospectively during the course of the second quarter of 2017. Only subsequently will it be possible to give a timing forecast relating to the expanded approval for BCC in the USA. To expand the approval to include daylight PDT in the EU, Biofrontera has concluded a corresponding Phase III trial with very good results. An application for the new indication is currently being prepared and should be submitted during the course of the second quarter of 2017. We anticipate the expanded approval for the new indication to be issued during the first half of 2018.

Forecast of key financial figures

For the 2017 financial year, Biofrontera expects to achieve sales revenue of approximately EUR 14 million to EUR 18 million. In Germany and other European countries outside Germany, the competitive situation for Biofrontera has changed considerably due to the market launch of a medication for daylight PDT identical to Metvix®. We nevertheless anticipate a resumption of slight growth in 2017 in both Germany and Europe. In the USA, we expect a marked increase in sales revenues in 2017, especially as initial system-related problems with reimbursing the medication have meanwhile largely been resolved. The receipt of an individual reimbursement code for the medication Ameluz® – to be activated prospectively in January 2018 – will significantly simplify and accelerate the acquisition of market shares and related sales revenue growth. Overall, however, sales growth remains very difficult to forecast, generating a considerable fluctuation range of achievable revenues.

To extend the range of indications, Biofrontera will continue to make significant investments in research and development as well as in regulatory affairs in 2017. The development and approval costs will amount to approximately EUR 6 to 7 million. In 2017, Biofrontera will also invest in further expanding its sales and marketing organisation, predominantely in the USA, as a consequence of which sales and marketing costs will increase further compared with 2016 and amount to a total of between approximately EUR 18 million and EUR 21 million. Administrative costs will rise only slightly compared with 2016 and stand at around between EUR 3 million and EUR 4 million.

No significant investments in property, plant and equipment are planned for 2017.

The financial result reflects the interest payments and compounding of interest applying the effective interest method for the still outstanding warrant bond. For this reason, 2017 will represent an improvement compared with 2016.

With the aforementioned conditions and forecasts, the company will achieve a consolidated result of EUR -14 million to EUR -17 million in 2017. The achievement of this result depends significantly on sales revenue trends.

Remuneration report

The total remuneration paid to members of the Management Board in the 2016 financial year and the total accumulated number of stock options issued to the Management Board were as follows as of 31 December 2016:

Prof. Dr. Hermann Lübbert	- Non-performance based salary component:	EUR 363 thousand (31 December 2015: EUR 370 thousand)
	- Performance based salary component:	EUR 72 thousand (31 December 2015: EUR 35 thousand)
	- stock options	231,850 (fair value when granted: EUR 366,435.50) (previous year: 151,850, fair value when granted: EUR 167,236); of which granted in 2016: 80,000 (2015: 0).

Thomas Schaffer	– Non-performance based salary component:	EUR 213 thousand (31 December 2015: EUR 203 thousand)
	- Performance based salary component:	EUR 63 thousand (31 December 2015: EUR 28 thousand)
	- stock options	85,000 (fair value when granted: EUR 157,150) (previous year: 35,000, fair value when granted: EUR 32,650); of which granted in 2016: 50,000 (2015: 0).
Christoph Dünwald	– Non-performance based salary component:	EUR 236 thousand (31 December 2015: EUR 29 thousand)
	- Performance based salary component:	EUR 6 thousand (31 December 2015: EUR 0 thousand)
	- stock options	50,000 (fair value when granted: EUR 124,500) (previous year: 0, fair value when granted: EUR 0); of which granted in 2016: 50,000 (2015: 0).

All 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% (in other words, a level of at least 70% is achieved), the bonus payment is reduced straight-line. No bonus is payable if the targets are missed by a greater margin than this. The measurement 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 early termination of Management Board duties without good grounds 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 case of a takeover bid in accordance with the German Securities Acquisition and Takeover Act (WpÜG) both the Chief Executive Officer and the Chief Financial Officer are eligible for severance payments in the amount of three annual salaries.

To further enhance the long-term incentive effect of variable compensation and consequently align it with the company's sustainable development and growth, the Management Board members have obligated themselves to hold as private assets ordinary shares in the company for share options granted from the 2010 share option programme for a three-year period beginning one month after the options' issue date ("restricted shares"), and thereby be invested in the company. The level of personal commitment is specified differently in detail for each member of the Management Board. An early sale of such restricted ordinary share must be reported immediately to the Supervisory Board Chair, and the company can request a return transfer of an equivalent number of stock options free of charge within a month of receiving such notification, with the most recently granted options being those that must be returned first (last in, first out). A return transfer is not required if the Management Board member can demonstrate that the sale of the restricted shares was necessary to meet pressing 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 options were granted to the Management Board members in 2015. In the 2016 financial year, 80,000 options from the 2015 share option programme were granted to the Management Board Chairman (CEO), and the other Management Board members were each granted 50,000 options.

Other disclosures pursuant to Sections 289 (4) and 315 (4) of the German Commercial Code (HGB)

Management Board members are appointed and removed pursuant to Sections 84 and 85 of the German Stock Corporation Act (AktG). The composition of the Management Board is specified in more detail in Section 9 (3) of the bylaws. Pursuant to this, the Management Board must consist of one or more members. The Management Board comprises three individuals. 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 German Securities Acquisition and Takeover Act (WpÜG).

Pursuant to Sections 119 (1) No. 5, 179 and 133 of the German Stock Corporation Act (AktG), amendments to the bylaws must be approved by a resolution of the Shareholders' 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 Section 179 (2) Clause 2 AktG in combination with Section 22 (2) of the bylaws, instead of the majority of three quarters of the represented share capital stipulated in Section 179 (2) Clause 1 AktG. Pursuant to Section 179 (1) Clause 2 AktG in combination with Section 22 (2) of the bylaws, the Supervisory Board is authorised to make changes that affect only the wording of the bylaws.

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 (AktG).

Accounting risk management system and internal control system

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

The financial accounting process at Biofrontera AG aims to ensure that the figures and information provided in external accounting instruments (bookkeeping, components of the separate and consolidated financial statements, and the combined company and Group management report) are accurate and complete, and comply with the relevant legal requirements and bylaw provisions. The related existing structures and processes also include the risk management system and internal control measures relating to the financial accounting processes. In connection with the growing sales and marketing activities, the internal accounting control system is subject to an ongoing monitoring and improvement process.
The risk management system aims to identify, assess and manage all the risks that could prevent the proper preparation of the separate and consolidated financial statements. Any risks identified must be assessed with regard to their influence on the separate 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 internal control system cover all the areas that are essential for the separate 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 sets of eyes principle and separation of roles are also important control principles in financial accounting processes.

The Management Board assumes overall responsibility for the organisation of the internal control system. The quality management/controlling/risk management areas and the financial accounting department are responsible for the internal control system's coordinated subsystems.

Takeover information

Trading platforms

Biofrontera shares are traded under ticker symbol 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 until 18 February 2016.

Shareholders

The numbers of shares held by the shareholders on 31 December 2016 based on shareholders' most recent mandatory disclosures are as follows:

	31.12.2016 EUR	31.12.2015 EUR
Maruho Deutschland Co., Ltd., Osaka Japan The total share of voting rights is assigned to Maruho Co., Ltd, Osaka, through the company Maruho Deutschland GmbH, Düsseldorf, which is controlled by the former.	7,631,586	4,467,143
Wilhelm Konrad Thomas Zours The voting rights through the chain of subsidiaries listed below are attributed to Mr. Zours: • DELPHI Unternehmensberatung AG • VV Beteiligungen AG • Deutsche Balaton AG • ABC Beteiligungen AG • Heidelberger Beteiligungsholding AG	3,400,907	1,053,154
Universal-Investment-Gesellschaft mbH, Frankfurt am Main, Germany The share of voting rights is attributed to Universal-Investment GmbH through the company FEHO Vemögensverwaltungsgesellschaft.	799,463	799,463
Free float	25,890,477	19,170,670
Total	**37,722,433**	**25,490,430**

Share capital

On 31 December 2016, the fully paid in share capital of the parent company, Biofrontera AG, amounted to EUR 37,722,433.00. It was divided into 37,722,433 registered shares, each with a nominal value of EUR 1.00.

As part of the capital increase implemented in February 2016, the company's share capital was increased against cash capital contributions by EUR 2,357,384.00 through issuing 2,357,384 new ordinary registered shares from approved capital. Shareholders' subscription rights were excluded for this capital increase. The new shares were offered to selected institutional investors at an issue price of EUR 1.90 per new share, consequently for a total issue amount of EUR 4,479,029.60. These shares were fully placed and the implementation of the capital increase was entered in the commercial register on 26 February 2016. The net issue proceeds amounted to EUR 4.4 million.

As part of the capital increase implemented in April 2016, the company's share capital was increased against cash capital contributions by EUR 2,499,999.00 through issuing 2,499,999 new ordinary registered shares from approved capital. Statutory subscription rights were granted to the shareholders. An "additional subscription" was also offered. In other words, shareholders exercising subscription rights could apply to subscribe for unsubscribed shares at the subscription price. The subscription price per share amounted to EUR 2.00. The capital increase was fully placed. The implementation of the capital increase was entered in the commercial register on 26 April 2016. The net issue proceeds amounted to EUR 4.9 million.

As part of the capital increase implemented in November 2016, the company's share capital was increased against cash capital contributions by EUR 5,012,950.00 through issuing 5,012,950 new ordinary registered shares from approved capital. The implementation of the capital increase was entered in the commercial register on 21 November 2016. Statutory subscription rights were granted to the shareholders in a 6:1 ratio. The subscription price per share amounted to EUR 3.00. The net issue proceeds amounted to EUR 14.7 million.

Also in November 2016, 49,990 subordinated convertible 2016/2021 bonds were issued in a total nominal amount of EUR 4,999,000 ("convertible bond"). The bonds were offered at a subscription price of 100% of the nominal value per bond in a denomination

of EUR 100.00 per bond, and were fully placed. Shareholders were granted indirect subscription rights to the bonds. The conversion price amounted initially to EUR 3.00 per share, EUR 4.00 per share from 1 January 2017 and EUR 5.00 per share from 1 January 2018. Shareholders were granted statutory subscription rights in a 607:1 ratio at an issue price of EUR 100.00 per bond. The total issue volume amounted to EUR 5.0 million.

The Biofrontera AG shares were listed on the Regulated Market of the Düsseldorf Stock Exchange in 2006. In August 2012, the company's shares were also admitted to trading on the Regulated Market of the Frankfurt Stock Exchange in response to an application by the company. 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 discontinued as of 18 February 2016.

Existing capital

The company's share capital is conditionally increased by up to EUR 6,434,646.00 by the issuing of up to 6,434,646 new registered no par value ordinary shares (Conditional Capital I). The purpose of the conditional capital increase is (i) to ensure the granting of warrant rights and the agreement of warrant 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 warrant or conversion rights or fulfil their warrant 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 Section 7 of the bylaws in accordance with the use of conditional capital, and after the expiry of all warrant and conversion periods.

The share capital is 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 warrant rights, pursuant to the warrant 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 warrant price set pursuant to the aforementioned authorisation resolutions (issue amount pursuant to Section 193 (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 warrant 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 warrant right are dividend-entitled from the start of the financial year in which they are issued. The Management Board is authorised to determine the further details of the implementation of the conditional capital increase, subject to the approval of the Supervisory Board.

The company's share capital is conditionally increased by EUR 542,400 by the issuing of up to 542,400 no par value registered shares (Conditional Capital III). The purpose of the conditional capital increase is solely to fulfil the warrants 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 warrants 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 warrants. The new shares are dividend-entitled from the start of the financial year in which they are issued by the exercise of warrants.

The company's share capital is 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 (Conditional Capital IV). The purpose of the conditional capital increase is to ensure the granting of warrant rights and the agreement of warrant obligations in accordance with the warrant bond conditions to 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 to 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 warrant or conversion rights or fulfil their warrant or conversion obligations (also in the event that a corresponding company voting right is exercised). The new shares are dividend-entitled from the start of the financial year in which they are issued. The Management Board is authorised to determine the further details of the implementation of the conditional capital increase, subject to the approval of the Supervisory Board.

The company's share capital is conditionally increased by EUR 1,814,984.00 by the issuing of up to 1,814,984 no par value registered shares (Conditional Capital V). The purpose of the conditional capital increase is solely to fulfil the warrant 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 warrants 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 warrants. The new shares are dividend-entitled from the start of the financial year in which they are issued by the exercise of warrants. The Supervisory Board is authorised to amend Section 7 of the bylaws in accordance with the use of conditional capital and after the expiry of all warrant and conversion periods.

The capital measure implemented in January 2017 generated changes relating to Conditional Capital I as well as the corresponding authorisations of the Management Board. Further information on this can be found in the supplementary report.

Corporate governance declaration pursuant to Section 289a HGB including the statement on the German Corporate Governance Code pursuant to Section 161 AktG

Pursuant to Section 289a of the German Commercial Code (HGB), listed stock corporations are required to issue a declaration relating to their corporate governance. This must either be included in the management report or it must be published on the company's website. The current corporate governance declaration 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, 05 April 2017
Biofrontera AG

Prof. Dr. Hermann Lübbert
Chief Executive Officer

Christoph Dünwald
Chief Sales and Marketing 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, 05 April 2017
Biofrontera AG

Prof. Dr. Hermann Lübbert

Thomas Schaffer

Christoph Dünwald

Consolidated balance sheet as of 31 December 2016

Annex 1

Assets

in EUR		31 December 2016	31 December 2015
Non-current assets			
Tangible assets	(1)	644,710.75	372,834.23
Intangible assets	(1)	1,251,882.75	1,901,927.93
		1,896,593.50	**2,274,762.16**
Current assets			
Current financial assets			
Trade receivables	(3)	1,624,066.62	894,558.96
Other financial assets	(4)	1,376,870.39	730,440.34
Cash and cash equivalents	(7)	15,126,096.05	3,959,207.16
		18,127,033.06	**5,584,206.46**
Other current assets			
Inventories	(2)		
Raw materials and supplies		1,350,334.68	590,420.47
Unfinished products		477,098.97	42,723.50
Finished products and goods		1,818,889.76	900,505.05
Income tax reimbursement claims	(5)	32,980.20	32,220.80
Other assets	(4)	175,749.68	72,879.33
		3,855,053.29	1,638,749.15
		21,982,086.35	**7,222,955.61**
Total assets		**23,878,679.85**	**9,497,717.77**

Liabilites

in EUR		31 December 2016	31 December 2015
Equity	(9)		
Subscribed capital		37,722,433.00	25,490,430.00
Capital reserve		98,676,784.29	79,525,292.28
Capital reserve from foreign currency conversion adjustments		(154,204.12)	(1,188.65)
Loss carry forward		(109,823,695.69)	(98,620,285.49)
Net loss of the year		(10,579,204.16)	(11,203,410.20)
		15,842,113.32	**(4,809,162.06)**
Long-term liabilities			
Long-term financial liabilities	(10)	3,596,896.89	11,229,946.00
Current liabilities			
Current financial liabilities			
Trade payables	(11)	2,093,154.20	1,043,425.65
Short-term financial debt	(9)	274,424.06	830,174.00
Other financial liabilities	(13)	58,458.32	37,622.28
		2,426,036.58	**1,911,221.93**
Other current liabilities			
Income tax provision	(8)	0.00	0.00
Other provisions	(12)	1,823,673.82	1,041,860.80
Other current liabilities	(13)	189,959.24	123,851.10
		2,013,633.06	1,165,711.90
		4,439,669.64	**3,076,933.83**
Total liabilities		**23,878,679.85**	**9,497,717.77**

Consolidated statement of comprehensive income for the 2016 financial year

Annex 2

in EUR	Note	01.01.-31.12.2016	01.01.-31.12.2015
Sales revenue	(15)	6,130,270.09	4,137,917.39
Cost of sales	(16)	(1,652,247.11)	(1,235,504.25)
Gross profit from sales		4,478,022.98	2,902,413.14
Operating expenses			
Research and development costs	(17)	(4,640,324.84)	(6,203,986.93)
General administrative costs	(19)	(2,853,053.95)	(2,759,334.78)
thereof financing costs		(826,080.68)	(264,924.08)
Sales costs	(18)	(8,763,405.57)	(4,170,044.72)
		(16,256,784.36)	**(13,133,366.43)**
Loss from operations		**(11,778,761.38)**	**(10,230,953.29)**
Interest expenses	(20)	(1,207,022.19)	(1,168,551.42)
Interest income	(20)	2,935.14	9,225.68
Other expenses	(21)	(47,548.30)	(32,046.20)
Other income	(21)	2,451,192.57	218,915.03
		1,199,557.22	**(972,456.91)**
Profit/loss before income tax	(23)	**(10,579,204.16)**	**(11,203,410.20)**
Income tax		0.00	0.00
Profit or loss for the period	(23)	**(10,579,204.16)**	**(11,203,410.20)**
Expenses and income not included in profit/loss			
Items which may in future be regrouped into the profit and loss statement under certain conditions Translation differences resulting from the conversion of foreign business operations		(153,015.47)	(1,188.65)
Other income total		(153,015.47)	(1,188.65)
Total profit/loss for the period		**(10,732,219.63)**	**(11,204,598.85)**
Non-diluted (=diluted) earnings per share	(22)	(0.36)	(0.48)

Statement of changes in equity for 2016

Annex 3

	Ordinary shares number	Subscribed capital EUR	Capital reserve EUR	Capital reserve from foreign currency conversion adjustments EUR	Accumulated loss EUR	Total EUR
Balance as at 01 January 2015	**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
Costs of equity procurement	0	0.00	(495,769.88)	0.00	0.00	(495,769.88)
Foreign currency conversion adjustment	0	0.00	0.00	(1,188.65)	0.00	(1,188.65)
Increase in capital reserve from the stock option programme	0	0.00	102,964.00	0.00	0.00	102,964.00
Net loss of the year	0	0.00	0.00	0.00	(11,203,410.20)	(11,203,410.20)
Balance as at 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)**
Capital increase	9,870,333	9,870,333.00	14,647,544.60	0.00	0.00	24,517,877.60
Conversion from convertible bond 2016/2021	1,603,050	1,603,050.00	3,231,341.65	0.00	0.00	4,834,391.65
Conversion from option bond 2011/2016	758,620	758,620.00	1,486,895.20	0.00	0.00	2,245,515.20
Foreign currency conversion adjustment	0	0.00	0.00	(153,015.47)	0.00	(153,015.47)
Costs of equity procurement	0	0.00	(321,316.20)	0.00	0.00	(321,316.20)
Changes in capital reserves pursuant to the issuance of the convertible bond 2016/2021	0	0.00	(4,247.24)	0.00	0.00	(4,247.24)
Increase in capital reserve from the stock option programme	0	0.00	111,274.00	0.00	0.00	111,274.00
Net loss of the year	0	0.00	0.00	0.00	(10,579,204.16)	(10,579,204.16)
Balance as at 31 December 2016	**37,722,433**	**37,722,433.00**	**98,676,784.29**	**(154,204.12)**	**(120,402,899.85)**	**15,842,113.32**

Consolidated cash flow statement for the 2016 financial year

Annex 4

in EUR	01.01.-31.12.16	01.01.-31.12.15
Cash flows from operations		
Profit/loss for the period	(10,579,204.16)	(11,203,410.20)
Adjustments to reconcile profit/loss for the period to cash flow into operations		
Financial result	1,204,087.05	1,159,325.74
Depreciation	830,779.04	811,681.84
(Gains)/losses from disposal of assets	5,630.83	115.00
Non-cash expenses and income	(412,109.68)	(22,203.75)
Changes in operating assets and liabilities		
Trade receivables	(729,507.66)	(585,574.61)
Other assets and income tax assets	(870,059.80)	(11,314.11)
Inventories	(2,112,674.39)	(140,126.97)
Trade payables	1,049,728.55	75,987.99
Provisions	786,762.28	149,945.42
Other liabilities	86,944.18	48,255.77
Net cash flow from operational activities	**(10,739,623.76)**	**(9,717,317.88)**
Cash flows from investment activities		
Purchase of intangible and tangible assets	(484,537.07)	(180,303.54)
Interest received	2,935.14	183,978.17
Revenue from sale of intangible and tangible assets	26,295.86	13,353.71
Net cash flow from (into) investment activities	**(455,306.07)**	**17,028.34**
Cash flows from financing activities		
Proceeds from the issue of shares	24,196,561.40	6,313,472.92
Proceeds from conversions of convertible bonds 2016/2021	4,830,144.41	0.00
Proceeds from conversions of option bond 2011/2016	2,245,515.20	0.00
Interest paid	(841,603.24)	(1,224,598.00)
Increase/(decrease) in long-term financial debt	(7,633,049.11)	455,647.62
Increase/(decrease) in short-term financial debt	(435,749.94)	(394,424.00)
Net cash flows from financing activities	**22,361,818.72**	**5,150,098.54**
Net increase (decrease) in cash and cash equivalents	11,166,888.89	(4,550,191.00)
Cash and cash equivalents at the beginning of the period	3,959,207.16	8,509,398.16
Cash and cash equivalents at the end of the period	**15,126,096.05**	**3,959,207.16**
Composition of financial resources at the end of the period		
Cash and cash balances and cheques	15,126,096.05	3,959,207.16

Notes to the consolidated financial statements as of 31 December 2016

Information about the company

Biofrontera AG (www.biofrontera.com), 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, all with head office at Hemmelrather Weg 201, 51377 Leverkusen, Germany, 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" or "Biofrontera") 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 and US drug approval for an independently developed drug, Ameluz®. In December 2011, Ameluz® was approved in Europe to treat light and moderate actinic keratosis. In September 2016, European approval was expanded to treat field cancerisation, and in January 2017 to treat basal cell carcinoma. In May 2016, the FDA issued approval in the USA for lesion-directed and field-directed treatment of actinic keratosis in combination with the red light lamp BF-RhodoLED®. In addition, a range of cosmetic products is to be expanded. The first product in this range, Belixos® Creme, 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, as well as in July 2016 Belixos® to go, a practical 5 ml roll-on applicator with a stainless steel roller, with simple and hygienic application leading to an immediate cooling effect for the affected skin. Two further clinical development projects, one a dermatological project and one for the prevention of migraines, have been spun off into dedicated subsidiaries and are not being actively pursued at the present time.

The product Ameluz® (development name BF-200 ALA), which was approved in Europe at the end of 2011, has been tested for European approval in one Phase II and two Phase III clinical trials to treat actinic keratosis. In preparation for approval in the USA, two Phase I trials and a further Phase III trial were conducted. Ameluz® consists of a combination of the drug aminolevulinic acid (ALA) and a patent-protected nanoemulsion (BF-200), with the latter chemically stabilising 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. In September 2016, approval was expanded to treat field cancerisation, in other words, larger related areas permeated by tumour cells. Approval in the USA occurred on 10 May 2016, which now opens up the world's largest healthcare market to Biofrontera. Market launch occurred in October 2016. In addition, Biofrontera has carried out another Phase III trial for the treatment of basal cell carcinoma. This trial formed the basis for the expansion of the existing EU approval for this indication, which was issued in January 2017.

In November 2012, Biofrontera's BF-RhodoLED® PDT lamp received pan-European approval for use as a medical device and has since been sold in parallel with Ameluz®. In Europe, doctors can opt to use any of the lamps approved for PDT, whereas in the USA the approval of Ameluz® is combined with utilisation of the BF-RhodoLED® lamp. It is consequently approved as a combination product along with the drug.

In July 2016, the company agreed a research partnership with Maruho Co., Ltd, ("Maruho"), a Japanese company specialising in dermatology, in which possibilities to jointly develop pharmaceutical products based on Biofrontera's proprietary nanoemulsion technology are to be researched. This corresponds to the same strategy with which Ameluz® was also developed. The nanoemulsion technology stabilised the active substance and improved skin penetration, leading to greater clinical efficacy. This principle is also to be applied to other substances as part of the partnership with Maruho. According to the agreement, Maruho will bear all costs connected with the exploratory research of for new product candidates. It is planned that Maruho will be the owner of the new products and that Biofrontera will receive the licence to market in Europe.

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 drug's good efficacy, 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 intestine, 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 by seeking funding providers who will benefit directly from the development of these products. For this reason, the two projects were acquired by Biofrontera AG and transferred 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 was 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 policies

Basis for preparation of the consolidated financial statements

The consolidated financial statements for Biofrontera AG for the financial year from 1 January 2016 to 31 December 2016 have 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, statutory provisions pursuant to Section 315a (1) of the German Commercial Code (HGB) have been complied with.

The assets and liabilities are recognised and measured in accordance with the IFRS that were mandatory on 31 December 2016.

Standards, amendments to standards and interpretations applied for the first time in the consolidated financial statements for 31 December 2016:

Standards and interpretations requiring first-time mandatory application

Standard / Interpretation	First-time mandatory application as per IASB	First-time mandatory application in the EU
Amendments to IAS 19 "Employee	1 July 2014	1 February 2015
Annual Improvements Project	1 July 2014	1 February 2015
Amendments to IAS 1 "Presentation of	1 January 2016	1 January 2016
Amendments to IAS 16 "Property, Plant and Equipment" and IAS 38	1 January 2016	1 January 2016
Amendments to IAS 16 "Property, Plant and Equipment" and IAS 41	1 January 2016	1 January 2016
Amendments to IAS 27 "Separate Financial Statements": Equity	1 January 2016	1 January 2016
Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities" and IAS 28 "Interests in Associates and Joint Ventures": Investment Entities: Applying the Consolidation Exception	1 January 2016	1 January 2016
Amendments to IFRS 11 "Joint Arrangements": Acquisitions of Interests in Joint Operations	1 January 2016	1 January 2016
Annual Improvements Project Cycle 2012-2014	1 January 2016	1 January 2016

With the exception of minor changes due to IAS 1, no changes have arisen for the consolidated financial statements of Biofrontera AG.

Standards and interpretations applied early voluntarily
(No mandatory application, although EU endorsement has already occurred)

Standard / Interpretation	First-time mandatory application as per IASB	First-time mandatory application in the EU
IFRS 15 "Revenue from Contracts with Customers" (including supplements)	1 January 2018	1 January 2018
IFRS 9 "Financial Instruments"	1 January 2018	1 January 2018

Standards and interpretations not (yet) applicable in the EU
(EU endorsement has not yet occurred)

Standard / Interpretation	First-time mandatory application as per IASB	First-time mandatory application in the EU
Amendments to IAS 7 "Statements 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 "Interest 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	Postponed for an indefinite period	Not yet known
Amendments to IAS 40 "Investment Property": Transfers of Investment Property	1 January 2018	Not yet known
Amendments IFRS 2 "Share-based Payment": Classification and Measurement of Share-based Payment Transactions	1 January 2018	Not yet known
Amendments to IFRS 4 "Insurance Contracts": Applying IFRS 9 Financial Instruments together with IFRS 4 Insurance Contracts	1 January 2018	Not yet known
IFRS 14 "Regulatory Deferral Accounts"	1 January 2016	Not recognised
IFRS 16 "Leases"	1 January 2019	Not yet known
IFRIC 22 "Foreign Currency Transactions and Advance Consideration"	1 January 2018	Not yet known
Annual Improvements Project Cycle 2014-2016	01.01.2017/01.01.2018	Not yet known
Clarification of IFRS 15 "Revenue from Contracts with Customers"	01 January 2018	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 in the notes, which should enable the readers of financial statements to assess the changes in liabilities arising from the company's financing activities. The amendments are to be applied the first time in the first reporting period of a financial year beginning on or after 1 January 2017. 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 effects on its consolidated financial statements.

In May 2014, the IASB issued the new standard IFRS 15. The aim of this new standard concerning revenue recognition is to amalgamate the various rules previously contained in different 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 to be 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 2018. The first application must in principle be carried out retrospectively, but various simplification options are available; earlier application is permitted.

The Group pursues instalment sales over several years which include a financing element. Furthermore, the adoption of the new standard IFRS 15 may lead in individual cases to a different approach in revenue recognition of licences. The evaluation of individual license agreements is not yet completed. Requirements to make expanded disclosures will also arise.

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 on 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-time application date 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 statements, and will define an adoption date and transitional method, provided that the standard is adopted by the EU in this form.

In July 2014, the IASB approved the final version of IFRS 9 "Financial Instruments". The new standard includes revised regulations for the classification and measurement of financial assets, including impairment regulations, and supplements the new hedge accounting regulations published in 2013. Furthermore, more extensive disclosure obligations pursuant to IFRS 9 are to be complied with. The Group anticipates effects on the classification of financial instruments as well as expanded disclosures in the notes to the financial statements. The more precise effects, including as a result of the modified impairment model, are currently being examined.

The accounting policies applied are consistent with those applied on 31 December 2015, with the exception of the new and revised standards and interpretations described above that were applied from the 2016 financial year for the first time.

The consolidated financial statements as at 31 December 2016 are presented in euros (EUR) or thousands of euros.

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 subdivided to some extent according to their respective terms in the notes to the consolidated financial statement for 31 December 2016. The income statement is prepared applying the cost of sales method. In this reporting format, the net sales revenue is set against the expenses incurred in achieving it, subdivided into cost of sales, research and development costs, sales costs and general administration costs.

The consolidated financial statements for 31 December 2016 contain 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.

On 05 April 2017, the Management Board approved the consolidated financial statements for the financial year ending 31 December 2016 for publication and forwarding to the Supervisory Board.

Basis of consolidation

The consolidated financial statements for the financial year ending 31 December 2016 include 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 exercising control. The following companies have been included in the consolidated financial statements:

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

The basis for the consolidation of the companies included in the consolidated financial statements are the financial statements (or HBII pursuant to IFRS) of these companies prepared for 31 December 2016 pursuant to uniform principles. The consolidated financial statements for 31 December 2016 have been prepared on the basis of uniform accounting policies (IFRS).

The subsidiaries have been fully consolidated from the date of acquisition. The date of acquisition is the date when the parent company obtained control of these subsidiaries. The subsidiaries are included in the consolidated financial statements until control over these companies no longer exists.
All inter-company balances and income and expenses have been eliminated on consolidation. Results of intra-group transactions have been eliminated.

Translation of amounts in foreign currencies

The consolidated financial statements for 31 December 2016 have been prepared in EUR (or thousands of EUR), which is the functional currency of all the German companies included in the consolidated financial statements, 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 recognised in the foreign currency on the balance sheets of the foreign, economically independent subsidiaries, are converted to euros applying the relevant period-end exchange rate (2016: 1,052 USD/EUR, previous year: 1,091 USD/EUR). Income and expense items are translated applying the average exchange rates (2016: 1,107 USD/EUR, previous year: 1,102 USD/EUR) applicable to the relevant period. The differences resulting from the valuation of equity at historical rates and applying the period-end exchange rates are reported as a change not affecting profit or loss and carried directly to equity within the other equity components.

Transactions realised in currencies other than EUR are reported using the exchange rate on the date of the transaction. Assets and liabilities are translated applying the closing exchange rate for each balance sheet date. Gains and losses arising from such currency translations are recognised in income.

Application of estimates

The preparation of the consolidated financial statements for 31 December 2016 in accordance with 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 – as reported on the balance sheet date, and revenues and expenses arising 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 lives of non-current assets and the formation of provisions, as well as income taxes. Estimates are based on historical experience and other assumptions that are considered appropriate in the circumstances. They are continuously reviewed but may vary from the actual values.

The carrying amounts of items affected by estimates are presented in the respective explanatory remarks concerning the items in the notes to the consolidated financial statements.

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 recognised on the balance sheet at historical acquisition and production cost less scheduled depreciation.

Depreciation of fixtures and equipment is generally applied straight-line over the estimated useful life of assets (generally three to thirteen years). The main useful lives are unchanged:

- IT equipment 3 years, straight-line
- Fixtures and equipment 4 years, straight-line
- Office and laboratory facilities 10 years, straight-line
- Laboratory devices 13 years, straight-line

Since 1 January 2008, low value assets with purchase 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 depreciated over five years.

Intangible assets

Purchased software is recognised at cost less amortisation applied straight-line over a three-year useful life.

Purchased intangible assets consist of licenses and other rights. They are recognised at cost less accumulated amortisation. Only intangible assets purchased from third parties are capitalised as assets, as the requirements for the recognition of internally generated intangible assets are not met. These intangible assets are capitalised as assets and generally amortised straight-line over an estimated useful life of between 4 and 20 years.

No intangible assets exist with indefinite useful lives.

Borrowing costs are not recognised as part of the purchase cost of the acquired assets but are instead expensed in the period in which they arrived, because the Group has no qualifying assets in the meaning of IAS 23.5.

Impairment of assets

The company tests assets for impairment when indications exist that the carrying amount of an asset exceeds its recoverable amount. A possible impairment requirement of assets held for use is evaluated by comparing the carrying amount of an asset with the cash flows that the asset is expected to generate in the future. When such an asset is considered to be impaired, the impairment loss is measured at the amount by which the carrying amount of the asset exceeds its recoverable amount. Assets that are to be sold are reported at the lower of the carrying amount or 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, current (short-term) investments, trade payables and receivables as well as financial debt. Biofrontera does not currently deploy derivative financial instruments. Due to the short terms of the current financial investments, trade payables and trade receivables, the carrying amounts of these items correspond to their fair values. The current financial investments are assigned to the "financial investments held to maturity" category, and other receivables and liabilities are assigned to the "loans and receivables" category. The financial liabilities are measured applying the effective interest method, less 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 minor importance. Trade receivables are regularly reviewed with respect to potential default risk.

Various safeguarding criteria are applied when selecting of current capital investments (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 any default risks to exist 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 identified at an early stage, using simulations of various scenarios. Current liquidity is reported 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 implemented in February, April and November 2016, and another capital increase implemented in January 2017, the company currently has sufficient liquidity at its disposal. Especially as a result of independent marketing in the USA, however, further capital measures will be required until breakeven is reached.

As of 31 December 2016, Biofrontera held no financial positions that were exposed to interest rate risks.

Financial investments held to maturity

The company classifies the securities held as current financial investments as "financial investments held to maturity", in accordance with IAS 39.9. As of the 31 December 2016 reporting date, 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 written up by a further EUR 267 thousand (depreciation previous year: EUR 100 thousand), to EUR 1,500 thousand, as of 31 December 2016, due to an increase in the market price. In accordance with IAS 32, the bonds are reported on a net basis with the corresponding bond debt.

Inventories

Raw materials and supplies, as well as finished and unfinished goods, are recognised at the lower of cost or net realisable value. Borrowing costs are not capitalised. Cost is calculated applying the first-in-first-out method (FIFO). A value adjustment is made to the inventories on the balance sheet date if the net realisable value is lower than the carrying amount.

Trade receivables

Trade receivables are reported at their nominal value. Any value adjustments are booked directly against the relevant receivable. Receivables denominated in foreign currencies have been translated into euros applying the exchange rates on the balance sheet date, with any translation differences being recognised in profit or loss.

Cash and cash equivalents

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

Trade payables, overdrafts

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

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 (equity-settled share-based payments) are valued at the fair value on the date of granting. The fair value of the obligation is capitalised as a personnel expense over the retention period. Obligations relating to cash-settled share-based payment transactions are recognised as liabilities and are measured at the fair 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 performed pursuant to IFRS 2.41 and IFRS 2.43. The costs are recognised over the

vesting period. The fair value of both cash-settled and equity-settled share-based payment transactions is generally determined applying internationally recognised methods.

Warrant bonds

In accordance with IAS 32, warrant bonds are classified as hybrid financial instruments that represent a debt security with an embedded conversion or subscription option. The issuer of such a financial instrument, which contains both a liability and an equity component, is required to present the liability component and the equity component separately from the financial instrument originally reported on the balance sheet. At the start, the market value of the liability component corresponds to the present value of the contractually fixed future cash flows discounted at the prevailing market interest rate valid for financial instruments as of this date, which have a comparable credit status and lead essentially to the same cash flows given the same conditions, but where no exchange or subscription option exists. Subsequent measurement is performed applying the effective interest method. The liability is derecognised to the extent that the obligation underlying the liability is fulfilled, terminated or expires. The equity instrument consists of the embedded option to convert the liability into issuer's equity. The market value of the option comprises its present 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 present 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 through 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 utilised 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 IFRS valuation and tax law valuation. Deferred tax liabilities are generally recognised for all taxable temporary differences – claims from deferred taxes are only recognised to the extent that it is probable that taxable profits will be available to utilise the claims. The carrying amount of deferred income tax assets 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 assets 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 to realise the deferred tax asset.

Deferred tax liabilities and deferred tax assets are offset if a right to offset exists, and if they are levied 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 leases that have been agreed are classified as either finance leases or operating leases. If 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 statements have usually concluded contracts that are classified as operating leases. In this case, ongoing lease payments are expensed as they are incurred. Agreed leases that are classified as finance leases are recognised as assets at the lower of the present value of the minimum lease payments or the fair value of the leased asset at the beginning of the lease, and depreciated over the shorter of the lease duration or useful life, if the transfer of ownership to the lessee at the end of the contract term is insufficiently certain.

Revenue recognition

The company recognises revenue in accordance with IAS 18 if the risks and opportunities connected with ownership have transferred to the customer. The company realises its revenue primarily through the sale of its products. Income from milestone

and licensing agreements with third parties are recognised once the underlying contractual conditions come into force. The receipt of revenue can always be fully and immediately recognised as revenue if the conditions of IAS 18 IE 20 are met in the form of a one-off contract start payment.

Revenue and other income are recognised if 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 is recognised as revenue. Revenue is deemed to be realised when the deliveries and services owed have been provided and substantial risk and chances have been passed to the acquirer.

Most of the revenues are generated by product sales. The sale of Ameluz® almost exclusively occurs through pharmaceutical wholesalers or in Europe also directly to pharmacies or hospitals. Above and beyond this, in 2016 a considerable portion of sales revenue was achieved through passing costs on to Maruho Co. Ltd as part of the development partnership that has been agreed.

In the case of direct sales of the BF-RhodoLED® lamps, the delivered products and services on which amounts are owed are settled only after complete installation, since the installation services requires specialised knowledge, is not just an ancillary service and, for legal reasons, the lamp may only be used by the customer after successful installation. In the case of lamps on loan, in other words, in the case of lamps already installed for testing by buyers before a purchase, the preconditions are met through the origination of a valid purchase agreement and the generation of an outgoing invoice.

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

Revenues are recognised less revenue based trade taxes and sales deductions. Expected sales deductions, for instance rebates, discounts or returns, are recognised based on estimated values at revenue recognition. Payment terms for Ameluz® include short-term payment terms with a possibility for sales rebates. Instalment payments over 48 months, which include a financing component, are sometimes agreed upon with the sale of BF-RhodoLED®.

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

Research and development expenses

Pursuant to IAS 38, development costs are recognised as "intangible assets" under certain conditions. Research costs are recognised 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 management making significant assumptions. In the management's opinion, due to uncertainties related to the development of new products, the criteria prescribed under IAS 38.57 "Intangible Assets" for capitalising development costs as assets are only fulfilled by the Biofrontera Group if the prerequisites for the expansion of the European approval and the approval in the USA are met, and if it is likely a future economic benefit will accrue to the company.

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 consequently expensed in the period in which they are incurred.

Notes to the consolidated balance sheet

1. Intangible assets and property, plant and equipment

Changes in non-current assets in the 2016 financial year, as well as accumulated depreciation, amortisation and impairment losses, are presented in the statement of changes in non-current assets. Property, plant and equipment consist mainly of office and business equipment and laboratory and production facilities.

The additions to intangible assets and to property, plant and equipment in the reporting period arise mainly from the purchase of software to compare important documents (EUR 20 thousand; previous year: EUR 0), right-of-use assets connected with the prototype of the PDT lamp (EUR 36 thousand; previous year: EUR 26 thousand), as well as further laboratory devices (EUR 290 thousand; previous year: EUR 35 thousand) and other fixtures and equipment (EUR 117 thousand; previous year: EUR 42 thousand). The asset disposals with costs totalling EUR 66 thousand (previous year: EUR 20 thousand) resulted primarily from sales of the rental lamps in an amount of EUR 52 thousand (previous year: EUR 20 thousand).

The right-of-use assets reported with a net carrying amount totalling EUR 1,112 thousand relate mainly to rights totalling EUR 1,079 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 related patents and know how. The right-of-use assets that are acquired are amortised over their estimated remaining useful life, from their date of acquisition, due to their direct usability. This useful life is derived from the term of the patents issued and acquired by Biofrontera AG and is reviewed annually pursuant to IAS 38.104. The remaining amortisation period amounts to 2 years (previous year: 3 years). No indications of impairment exist.

Consolidated statement of changes in non-current assets in 2016

	Cost					Accumulated depreciation, amortisation and impairment losses					Carrying amounts	
	1 Jan. 16 EUR	Currency translation	Additions EUR	Disposals EUR	31 Dec. 16 EUR	1 Jan. 16 EUR	Currency translation	Additions EUR	Disposals EUR	31 Dec. 16 EUR	31 Dec. 16 EUR	31 Dec. 15 EUR
I. Property, plant and equipment												
Operating and business equipment	3,476,916.05	1,986.27	420,685.67	65,683.04	3,833,904.96	3,104,081.82	294.68	**119,827.70**	35,010.00	3,189,194.20	**644,710.75**	**372,834.23**
II. Intangible assets												
1. Software and licences	418,895.51	274.59	25,136.08	0.00	444,306.18	295,052.08	30.51	**9,250.46**	0.00	304,333.05	**139,973.13**	**123,843.43**
2. Right-of-use assets	6,053,339.09	0.00	35,526.00	0.00	6,088,865.09	4,275,254.59	0.00	**701,700.88**	0.00	4,976,955.47	**1,111,909.62**	**1,778,084.50**
	6,472,234.60	274.59	60,662.08	0.00	6,533,171.27	4,570,306.67	30.51	**710,951.34**	0.00	5,281,288.52	**1,251,882.75**	**1,901,927.93**
	9,949,150.65	**2,260.86**	**481,347.75**	**65,683.04**	**10,367,076.23**	**7,674,388.49**	**325.19**	**830,779.04**	**35,010.00**	**8,470,482.72**	**1,896,593.50**	**2,274,762.16**

Consolidated statement of changes in non-current assets in 2015

	Cost					Accumulated depreciation, amortisation and impairment losses					Carrying amounts	
	1 Jan. 15 EUR	Currency translation	Additions EUR	Disposals EUR	31 Dec. 15 EUR	1 Jan. 15 EUR	Currency translation	Additions EUR	Disposals EUR	31 Dec. 15 EUR	31 Dec. 15 EUR	31 Dec. 14 EUR
I. Property, plant and equipment												
Operating and business equipment	3,342,769.00	0.00	154,418.76	20,271.71	3,476,916.05	3,003,237.00	0.00	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	0.00	418,895.51	281,912.08	0.00	13,140.00	0.00	295,052.08	123,843.43	136,983.43
2 Right-of-use assets	6,027,454.31	0.00	25,884.78	0.00	6,053,339.09	3,584,360.57	0.00	690,894.02	0.00	4,275,254.59	1,778,084.50	2,443,093.74
	6,446,349.82	0.00	25,884.78	0.00	6,472,234.60	3,866,272.65	0.00	704,034.02	0.00	4,570,306.67	1,901,927.93	2,580,077.17
	9,789,118.82	**0.00**	**180,303.54**	**20,271.71**	**9,949,150.65**	**6,869,509.65**	**0.00**	**811,681.84**	**6,803.00**	**7,674,388.49**	**2,274,762.16**	**2,919,609.17**

2. Inventories

Inventories comprise finished products, work in progress, and raw materials and supplies at the sales companies.

Inventories amount to EUR 3,646 thousand (previous year: EUR 1,534 thousand). In assessing the consumption of inventories, the sequence of consumption is assumed to be based on the first-in-first-out (FIFO) method.

3. Trade receivables

The trade receivables are mainly attributable to the sale of Ameluz®, the BF-RhodoLED® PDT lamp and the medical cosmetic product Belixos®, as well as receivables due from Maruho arising from revenues from development projects. It is expected that all trade receivables will be settled within twelve months of the balance sheet date. Value adjustments for doubtful receivables have not been applied. As of the reporting date, no receivables existed that were overdue but not value-adjusted (previous year: EUR 20 thousand).

4. Other financial and miscellaneous assets

The other assets comprise mainly prepayments and accrued income (EUR 707 thousand; previous year: EUR 116 thousand), prepayments rendered for studies (EUR 570 thousand; previous year: EUR 585 thousand) and VAT reimbursement claims (EUR 174 thousand; previous year: EUR 57 thousand). No individual value adjustments were applied during the reporting year (previous year: EUR 0 thousand).

5. Income tax reimbursement claims

These consist of claims for tax refunds relating to withheld capital gains tax, plus the Solidarity Surcharge (EUR 33 thousand; previous year: EUR 32 thousand).

6. Securities

The valuation of securities classified as financial investments held to maturity is based on amortized costs. On 31 December 2016, the company's holdings in its own Warrant Bond I 2009/2017 had a nominal value of EUR 1,500 thousand (previous year: EUR 1,500 thousand). The warrant bonds held by Biofrontera were written up in fiscal year 2016 by EUR 267 thousand (previous year: write-down of EUR 100 thousand), to EUR 1,500 thousand (previous year: EUR 1,233 thousand) due to an increase in the market price. In accordance with IAS 32, the bonds are offset against the bond debt.

7. Cash and cash equivalents

Cash and cash equivalents relate to cash in hand, cheques, bank deposits and money deposits with a term of up to three months at the time of acquisition amounting to EUR 15,126 thousand (previous year: EUR 3,959 thousand). The carrying amounts 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 reported a net loss before tax on 31 December 2016 and on 31 December 2015. 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 German Corporation Tax Reform Act (UStRG 2008). Including the 5.5% Solidarity Surcharge, this results in a combined tax rate of 15.8% (previous year: 15.8%). Due to the basic federal rate of 3.5% on businesses and the fact that it is no longer possible to deduct business tax as an operating expense, the resulting tax rate, taking into account the local business tax rate, is 16.6% (previous year: 16.6%).

The following table shows changes in the Group's existing deferred tax claims deriving, as a matter of principle, from tax loss carryforwards (the previous year's figures have been adjusted to the amounts determined for tax purposes):

	31 December 2016		31 December 2015	
	Loss carried forward	Deferred tax assets	Loss carryforward	Deferred tax assets
	kEUR	kEUR	kEUR	kEUR
Corporation tax including Solidarity Surcharge	111,742	17,683	104,757	16,583
Business tax	100,716	16,744	94,915	15,784
Total		**34,427**		**32,367**

These loss carryforwards have an unlimited carryforward period under current German law.

Due to the lack of predictability regarding future taxable profits, the existing deferred tax claims deriving, as a matter of principle, from loss carryforwards (EUR 34,427 thousand; previous year: EUR 32,367 thousand) and tax deductible differences of EUR 3 thousand (previous year: EUR 33 thousand) were not recognised on 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:

	31.12.2016	31.12.2015
	kEUR	kEUR
Consolidated earnings before tax	(10,579)	(11,203)
Expected income tax reimbursement at the tax rate of the parent company	**3,433**	**3,635**
Differences arising from different tax rates	(14)	0
Tax reductions due to changes in permanent differences	10	161
Tax increases due to non-deductible expenses	(222)	(187)
Changes in unrecognised deferred tax assets		
- from active temporary differences	3	33
- from loss carryforwards	(2,060)	(3,602)
Other effects	(1,140)	(40)
Income taxes as per statement of comprehensive income	0	0

9. Equity

The fully paid in share capital of the parent company, Biofrontera AG, amounted to EUR 37,722,433.00 on 31 December 2016. It was divided into 37,722,433 registered shares with a nominal value of EUR 1.00 each. On 31 December 2015, the share capital amounted to EUR 25,490,430.00 and was increased by a total of EUR 9,870,333.00, divided into 9,870,333 registered shares, during the course of the 2016 financial year as a result of three capital increases.

As part of the capital increase implemented in February 2016, the company's share capital was increased against cash capital contributions by EUR 2,357,384.00 through issuing 2,357,384 new ordinary registered shares from approved capital. Shareholders' subscription rights were excluded for this capital increase. The new shares were offered to selected institutional investors at an issue price of EUR 1.90 per new share, consequently for a total issue amount of EUR 4,479,029.60. These shares were fully placed and the implementation of the capital increase was entered in the commercial register on 26 February 2016. The net proceeds amounted to EUR 4.4 million.

As part of the capital increase implemented in April 2016, the company's share capital was increased against cash capital contributions by EUR 2,499,999.00 through issuing 2,499,999 new ordinary registered shares from approved capital. Statutory subscription rights were granted to the shareholders. An "additional subscription" was also offered. In other words, shareholders exercising subscription rights could apply to subscribe for unsubscribed shares at the subscription price. The subscription price per share amounted to EUR 2.00. The capital increase was fully placed. The implementation of the capital increase was entered in the commercial register on 26 April 2016. The net issue proceeds amounted to EUR 4.9 million.
As part of the capital increase implemented in November 2016, the company's share capital was increased against cash capital contributions by EUR 5,012,950.00 through issuing 5,012,950 new ordinary registered shares from approved capital. The

implementation of the capital increase was entered in the commercial register on 21 November 2016. Statutory subscription rights were granted to the shareholders in a 6:1 ratio. The subscription price per share amounted to EUR 3.00. The net issue proceeds amounted to EUR 14.7 million.

Also in November 2016, 49,990 subordinated convertible 2016/2021 bonds were issued in a total nominal amount of EUR 4,999,000 ("convertible bond"). The bonds were offered at a subscription price of 100% of the nominal value per bond in a denomination of EUR 100.00 per bond, and were fully placed. Shareholders were granted indirect subscription rights to the bonds. The conversion price amounted initially to EUR 3.00 per share, EUR 4.00 per share from 1 January 2017 and EUR 5.00 per share from 1 January 2018. Shareholders were granted statutory subscription rights in a 607:1 ratio at an issue price of EUR 100.00 per bond. The total issue volume amounted to EUR 5.0 million.

The exercising of warrant rights from the 2011/2016 warrant bond generated issue proceeds of EUR 2.2 million in the 2016 financial year.

The Biofrontera AG shares were listed on the Regulated Market of the Düsseldorf Stock Exchange in 2006. In August 2012, the company's shares were also admitted to trading on the Regulated Market of the Frankfurt Stock Exchange in response to an application by the company. 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 discontinued as of 18 February 2016.

The numbers of shares held by the shareholders on 31 December 2016, based on the most recent compulsory disclosures of the shareholders, are as follows:

	31.12.2016 EUR	31.12.2015 EUR
Maruho Deutschland Co., Ltd., Osaka Japan The total share of voting rights is assigned to Maruho Co., Ltd, Osaka, through the company Maruho Deutschland GmbH, Düsseldorf, which is controlled by the former.	7,631,586	4,467,143
Wilhelm Konrad Thomas Zours The voting rights through the chain of subsidiaries listed below are attributed to Mr. Zours: • DELPHI Unternehmensberatung AG • VV Beteiligungen AG • Deutsche Balaton AG • ABC Beteiligungen AG • Heidelberger Beteiligungsholding AG	3,400,907	1,053,154
Universal-Investment-Gesellschaft mbH, Frankfurt am Main, Germany The share of voting rights is attributed to Universal-Investment GmbH through the company FEHO Vemögensverwaltungsgesellschaft.	799,463	799,463
Free float	25,890,477	19,170,670
Total	**37,722,433**	**25,490,430**

Consolidated equity determined in accordance with IFRS is managed as capital. The company's capital management body regularly reviews the equity facilities available to the Group. 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 company's Management Board ensures that all Group companies have sufficient capital at their disposal in the form of equity and debt funding. Financing measures occurred in February 2016, April 2016 and November 2016.

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

The following items are reported as of 31 December 2016 in connection with the 2009/2017 bond with warrants that was issued, the 2011/2016 bond with warrants that was issued in July 2011 (Tranche 1) and December 2011 (Tranche 2), and the 2016/2021 convertible bond:

	31.12.2016 EUR	31.12.2015 EUR
Non-current financial liabilities (measured at amortised cost)	3,596,896.89	11,229,946.00
Current financial debt (accrued interest from nominal interest rate)	273,424.06	830,174.00
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
Capital reserve (equity component: 2016/2021 convertible bond)	323,155.01	0.00

The interest effects of the warrant bonds on the non-current borrowings were initially calculated applying an effective annual interest rate of 14.35% p.a. for the 2009/2017 warrant bond, 9.8% p.a. for the first tranche of the 2011/2016 warrant bond and 5.8% p.a. for the second tranche of the 2011/2016 warrant bond as well as 7.9% p.a. for the convertible bond 2016/2021.

In accordance with IAS 32.37, equity procurement costs less any related income tax benefits are to be deducted from equity. In the 2016 financial year, costs of raising equity totalling EUR 321 thousand (previous year: EUR 496 thousand) were recognised in connection with the capital increases that were implemented.

In the event of the company achieving an annual surplus, the Management and Supervisory boards are authorised to transfer 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 carried forward, to retained earnings. It is not permissible to transfer more than half of the annual surplus to retained earnings if, after such a transfer, the other retained earnings 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 and Supervisory boards proposed a share option programme for employees to the Annual General Meeting, which approved the initiative. Accordingly, 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 839,500 and a term of six years from the issue date, in other words, until 24 November 2016. For this, conditional capital amounting to EUR 839,500 was approved 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 Section 192 (1) No. 3 of the German Stock Corporation Act (AktG). The conditional capital was registered on 30 July 2010 in the commercial register of the Cologne District Court, under commercial register sheet number 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 issue date was 24 November 2010. The granting of options is made without any consideration being rendered in return. On 24 November 2010, 106,400 options (first tranche) were issued with an exercise price per share of EUR 1.91. On 30 September and 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 (fifth tranche).

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 on the Frankfurt Stock Exchange in floor trading and in 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 Section 9 (1) of the German Stock Corporation Act (AktG).

The options granted can only be exercised after expiry of a blocking period. The blocking 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 reached (hereinafter referred to as the "minimum reference price"). The reference price is equal to the arithmetical average (unweighted) of the closing prices on the Frankfurt Stock Exchange in floor trading and Xetra trading for the company's shares between the 15th and the 5th stock market day (in each case inclusive) before the start of the respective exercise window. The minimum reference price is adjusted in the following cases to align the specified performance target with changed circumstances:

- In the event of a capital increase from company funds being implemented 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 implemented from company funds without issuing new shares (Section 207 (2) Clause 2 of the German Stock Corporation Act [AktG]), the minimum reference price is not changed.
- In the case of a capital reduction, no adjustment of the minimum reference price is implemented, provided that the total number of shares is not changed by the capital reduction, or if the capital reduction is connected to a capital repayment or purchase of treasury shares. 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 proportionally with the capital reduction or share split.

Other adjustments to the minimum reference price are not implemented.

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

a) on the 6th and subsequent 14 banking days after the date of the Annual General Meeting (exclusive),
b) on the 6th and subsequent 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 blocking 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 November 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 entails share-based payment transactions in which the terms of the arrangement provide the company with a choice of settlement, the company has decided, in accordance with IFRS 2.41 and IFRS 2.43, to recognise the transactions pursuant to the provisions for equity-settled share-based payments (IFRS 2.10-29). For this reason, the fair value of a share from this share option programme with a grant date of 24 November 2010 was determined, on the basis of a binomial model, to have a fair value of EUR 0.57 / share option. For the share options issued on 31 December 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 pro rata amounts are recognised in instalments over the vesting period until the end of the blocking period as personnel expenses and as an increase in the capital reserve. Share price volatilities of 45.78% and 51.3% were applied in calculating the fair value of the options granted in 2010 and 2011, volatilities of 53.5% and 65% were applied for the options granted in 2012, volatility of 39.2% was applied for the options granted in 2013, and volatility of 32.3% for the options granted in 2014 (based on the reporting date volatility). A dividend yield of 0% was applied in all cases, as well as risk-free rates of respectively 1.75% and 1.21%, and 0.9% and 0.82% in 2012 as well as 0.71% in 2013 and 0.68% in 2014, and a standard 20% annual beneficiary turnover rate. No share options were issued in financial year 2015. The authorisation to issue options under the 2010 share option programme ended on 1 July 2015.

The blocking period for the first tranche ran until 30 November 2014, and the blocking period for the second tranche ran until 30 September 2015. The option rights from the first tranche expired on 24 November 2016, as the exercise conditions were not met. No options from the second tranche had been exercised as of the reporting date.

The blocking period for the third tranche ran until 30 March 2016, and the blocking period for the fourth tranche ended on 11 May 2016. No options had been exorcised from these tranches up to the reporting date.

No options from the fifth tranche could be exercised due to the blocking period.

A total of 137,250 options were forfeited by employees leaving the company.

By resolution of the Annual General Meeting on 28 August 2015, the Conditional Capital III planned for the servicing of options under this programme was reduced to EUR 542,400.00.

The cost expensed in the reporting period amounted to EUR 62 thousand (previous year: EUR 103 thousand).

2015 share option programme

At the Annual General Meeting on 28 August 2015, the Management Board and Supervisory Board proposed a new share option programme for employees to the Annual General Meeting, which approved the initiative. Accordingly, the Management Board or, to the extent that the beneficiaries are Management Board members, the Supervisory Board, are entitled until 27 August 2020 to issue up to 1,814,984 subscription rights to up to EUR 1,814,984 of the company's ordinary registered shares, whose exercise is tied to certain targets.

The programme has a total nominal volume of EUR 1,814,984 and a term of five years from the issue date, in other words, until 27 August 2020. For this, conditional capital amounting to EUR 1,814,984 was approved by means of the issuing of up to 1,814,984 registered no par value unit shares with a proportional amount of the share capital of EUR 1.00 per share, in accordance with Section 192 (1) No. 3 of the German Stock Corporation Act (AktG). The conditional capital was registered on 18 September 2015 in the commercial register of the Cologne District Court, under commercial register sheet number 49717. Eligibility for the 2015 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 granting of options is made without any payment being provided in return.

The conditions of the 2015 share option programme are to a large extent identical to those of the 2010 share option programme, therefore, with respect to the 2015 share option programme, we refer to the explanations of the conditions of the share option programme 2010 provided above, however 20 banking days are being used instead of 14 banking days.

The inclusion of a "comparison with a reference index" as performance target instead of "achievement of a minimum reference price of EUR 5.00" as performance target is deemed to be a major difference in the conditions of the 2015 share option programme compared to the 2010 share option programme. The fair value of each option of this share option programme was calculated on the grant date of the first tranche on 18 April 2016 based on a Monte Carlo risk simulation at a fair value of EUR 1.00/option. The fair value of each option of this share option programme was calculated on the grant date 01 December 2016 based on a Monte Carlo risk simulation at a fair value of EUR 1.30/option. A volatility of the share price of approximately 50.6% was used to calculate the fair value of the options granted in the first tranche and a volatility of approximately 49.0% for the second tranche (based on daily rates, annualised assuming 250 trading days per annum), an earning yield of 2.31% for the first tranche (based on daily rates, annualised assuming 250 trading days per annum) and 7.00% for the second tranche respectively (based on a Capital Asset Pricing Model (CAPM)) and a total risk adjusted interest rate of 5.92% for the first tranche and 13.26% for the second tranche respectively as well as a standard annual beneficiary turnover rate of 12% for both tranches.

On 18 April 2016, 425,000 options (first tranche) were issued with an exercise price per share of EUR 2.49. On 1 December 2016 (second tranche) a further 130,500 options were issued with an exercise price of EUR 3.28 each.

A total of 7,500 options were forfeited by employees leaving the company.

The total option value for options issued as at 31 December 2016 was therefore EUR 1,462,875. The pro rata amounts are recognised in instalments over the vesting period until the end of the blocking period as personnel expenses and as an increase in the capital reserve. The expenditure recognised in the reporting period was EUR 49 thousand (previous year: EUR 0).

10. Financial liabilities

On 26 June 2009, Biofrontera announced the placement of a warrant bond with a term ending on 1 January 2018. As part of this financing measure on the part of the company, a warrant 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 par. The warrant bonds bear **interest** on the following scale:

- from 01.09.2009 to 30.12.2010 at an annual rate of 4%;
- from 31.12.2010 to 30.12.2011 at an annual rate of 6%;
- from 31.12.2011 to 31.12.2017 at an annual rate of 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, in other words, the interest for 2009 does not become due until then. An ordinary call on the bond 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 bond, with each of these providing the irrevocable right to acquire a registered voting-entitled no par value ordinary share in Biofrontera AG with a notional proportion of the share capital of EUR 1.00, at a warrant price of EUR 5.00 each. The warrant right expires on 30 December 2017. The share resulting from the exercising of a warrant right is dividend-entitled from the beginning of the financial year in which it originated from the exercising of the option right and payment of the capital contribution. To provide financing for the warrant rights, conditional capital of the company amounting to up to EUR 500,000.00 was approved at the Extraordinary General Meeting held on 17 March 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 measured at its present value of EUR 3,238,744.00 on the issue date, and the carrying amount of the non-current financial liability amounts to a total of EUR 3,419 thousand applying the effective interest method as of 31 December 2016 (31 December 2015: EUR 2,836 thousand). The current (due within one year) portion of this financial liability amounts to EUR 274 thousand (31 December 2015: EUR 394 thousand). The nominal interest for 2015 was paid in the subsequent financial year at the start of January 2016, and for the year 2016 on 31 December 2016. See section 6 for details of the warrant bonds held by Biofrontera.

On 7 June 2011, the Management Board resolved, with Supervisory Board approval 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 connected with ten detachable warrants issued by the company; each warrant entitles the holder to buy one registered voting-entitled no par value ordinary share in the company with an interest in the share capital of EUR 1.00 each at an option price of EUR 3.00. If all the warrant 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. To provide financing for the option rights, conditional capital of up to EUR 2,500,000.00 was approved at the company's General Meeting on 10 May 2011 and entered in the commercial register on 18 May 2011. Warrant Bond II carries a coupon of 5% p.a. The accrual of interest on each warrant bond ended on 31 December 2016. Interest was paid annually on 1 January for the previous year, commencing on 1 January 2012 with a payment of EUR 195 thousand for the period 20 July 2011 until 31 December 2011. A nominal total of EUR 8,715 thousand of individual warrant bonds of Warrant Bond II was issued as a result of two transactions that exchanged the convertible bonds for Warrant Bond II in July and December 2011 and the direct subscription from the initial issue. With the early call of this warrant

bond, the principal repayment of EUR 8,715 thousand and resultant interest owing for the 1 January 2016 to 5 December 2016 period of EUR 405 thousand was disbursed on 6 December 2016 (previous year: EUR 436 thousand).

The term of the **2016/2021 convertible bond** begins on the date of its initial issue ("issue date") and ends on 31 December 2020.

The individual bonds carry 6% annual interest on their par value from 1 January 2017 (inclusive). The interest payments are payable annually subsequently on 1 January of each year, commencing on 1 January 2018.

The bonds can be converted into the company's ordinary no par value registered shares, each of which has a nominal share of EUR 1.00 in the share capital. The shares are dividend-entitled from the year when the conversion right is exercised.

During the term, the holders of the bonds are entitled to convert all bonds into the company's shares. The initial conversion price is staggered. From the start of the term until 31 December 2016, the initial conversion price amounts to EUR 3.00 per share. From 1 January 2017 until 31 December 2017, the conversion price amounts to EUR 4.00 per share. From 1 January 2018, the conversion price amounts to EUR 5.00 per share.

At the end of the term of the convertible bond, the company is entitled to deliver shares instead of repaying the bonds. Moreover, the company is entitled to convert the bonds into shares at any time if the average price of the company shares exceeds EUR 5.00 on one occasion. In both cases, the initial conversion price amounts to EUR 5.00.

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

kEUR	31.12.2016					
	2017	2018	2019	2020	2021	Total
Warrant bond 2009/2017:						
Principal repayment		5,226				5,226
Interest payment	394					394
Warrant bond 2011/2016:						
Principal repayment	0					0
Interest payment						0
Convertible bond 2011/2021:						
Principal repayment					190	190
Interest payment	11	11	11	11	11	55

The position was as follows in the previous year:

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

11. Trade payables

The trade payables (EUR 2,093 thousand; previous year: EUR 1,043 thousand) increased by EUR 1,050 thousand from the previous year.

12. Other provisions

Other provisions report the following changes:

Biofrontera Group	EUR 01.01.2016	Utilised	Released	Added	EUR 31.12.2016
Bonuses for employees	142,741.00	142,741.00	0.00	505,517.10	505,517.10
Outstanding vacation	82,015.08	82,015.08	0.00	197,597.55	197,597.55
Outstanding invoices	659,674.96	398,510.46	6,402.00	681,331.38	936,093.88
Costs for financial statements and auditing	109,200.00	108,940.00	260.00	154,000.00	154,000.00
Miscellaneous other provisions	48,229.76	22,178.64	1,728.16	6,142.33	30,465.29
Total provisions	**1,041,860.80**	**754,385.18**	**8,390.16**	**1,544,588.36**	**1,823,673.82**

Other provisions concern various individually identifiable risks and contingent liabilities. Provisions classified as current are expected to be utilised prospectively within the subsequent financial year.

13. Other financial and other current liabilities

	31 December 2016 kEUR	31 December 2015 kEUR
Payroll tax	114	97
Financial leasing	4	12
Credit card payments	28	16
Wages and salaries	57	10
Other	45	26
	248	**161**

14. Reporting on financial instruments

During the course of its operating activities, the Group is exposed to market price and credit risk, as well as liquidity risk, which could have an effect on its financial position and performance.

Market price risk: Interest-rate risk is deemed minor as existing interest-rate modalities for the Biofrontera Group's relevant financing facilities can generally be adapted to market conditions short-term to medium-term. No cash flow risk exists in relation to fixed interest warrant bonds. Due to the fixing of interest, no disadvantageous changes can occur to the interest payments. As the liabilities are not recognised at fair value but instead 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 carrying amount 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 (previous year: EUR 0 thousand); in addition, no individual value adjustments were applied to trade receivables in the reporting year (previous year: EUR 0).

Based on the input factors used at the valuation methods fair values are divided into different steps of the fair value hierarchy:

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

Level 2: Fair value valuations using inputs 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 inputs 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 performed during the 2016 financial year. With regard to financial liabilities, the full amount of non-current and current financial liabilities (EUR 3,871 thousand; previous year: EUR 12,060 thousand) is allocated to Level 1. This involves financial debt arising from the two warrant bonds.

Biofrontera reports under other operating expenses value adjustments to trade receivables and miscellaneous financial obligations allocable to the "loans and receivables" category. The currency translation losses arise mainly from trade payables. The net gains and losses generally include specific value adjustments and currency conversion effects.
The financial assets and liabilities can be subdivided into measurement categories with the following carrying amounts, and net gains and losses:

Financial assets on 31.12.2016 (EUR)	Fair value	Carrying amounts					Net gains (+) or losses (-)
			Loans and receivables	Financial instruments recognised at fair value in profit or loss (excluding "held-for-trading")	Financial assets available-for-sale	TOTAL CARRYING AMOUNTS	
Financial assets						0	0
Liquid assets	15,126,096		15,126,096			15,126,096	79
Trade receivables	1,624,067		1,624,067			1,624,067	0
Other current financial receivables and assets	1,376,870		1,376,870			1,376,870	0
TOTAL	**18,127,033**		**18,127,033**	**0**	**0**	**18,127,033**	**79**

Financial liabilities on 31.12.2016 (EUR)	Fair value	Carrying amounts					Net gains (+) or losses (-)
		Other liabilities	Financial instruments recognised at fair value in profit or loss (excluding "held-for-trading")			TOTAL CARRYING AMOUNTS	
Financial liabilities current	274,424	274,424				274,424	0
Trade payables	2,093,154	2,093,154				2,093,154	(72,546)
Other financial liabilities current	58,458	58,458				58,458	0
Other financial liabilities non-current	3,596,897	3,596,897				3,596,897	0
TOTAL	**6,022,933**	**6,022,933**	**0**	**0**	**0**	**6,022,933**	**(72,546)**

Financial assets on 31.12.2015 (EUR)	Fair value	Carrying amounts					Net gains (+) or losses (-)
			Loans and receivables	Financial instruments recognised at fair value in profit or loss (excluding "held-for-trading")	Financial assets available-for-sale	TOTAL CARRYING AMOUNTS	
Financial assets						0	0
Liquid assets	3,959,207		3,959,207			3,959,207	104
Trade accounts receivable	894,559		894,559			894,559	0
Miscellaneous current financial receivables and assets	730,440		730,440			730,440	0
TOTAL	**5,584,206**		**5,584,206**	**0**	**0**	**5,584,206**	**104**

Financial liabilities on 31.12.2015 (EUR)	Fair value	Carrying amounts					Net gains (+) or losses (-)
		Other liabilities	Financial instruments recognised at fair value in profit or loss (excluding "held-for-trading")			TOTAL CARRYING AMOUNTS	
Financial liabilities current	830,174	830,174				830,174	0
Trade accounts payable	1,043,426	1,043,426				1,043,426	(21,594)
Other financial liabilities current	37,622	37,622				37,622	0
Other financial liabilities non-current	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)**

Liquidity risk: The refinancing of the Biofrontera Group companies is generally performed centrally by Biofrontera AG. A risk exists 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 2016, cash and cash equivalents totalling EUR 15,126 thousand (31 December

2015: EUR 3,959 thousand) are available. See the relevant balance sheet notes on (undiscounted) payments from financial debt due in the next years.

Notes to the consolidated statement of comprehensive income as of 31 December 2016

15. Sales revenue

The Biofrontera Group recognised sales of EUR 6,130 thousand in the 2016 financial year (previous year: EUR 4,138 thousand), representing an increase of 48% compared with the previous year. This includes downpayments of EUR 40 thousand (previous year: EUR 70 thousand). Revenues from selling products in Germany reduced by 17% to EUR 2,515 thousand (previous year: EUR 3,028 thousand), while revenues generated in European countries outside Germany grew by 20% to EUR 1,247 thousand (previous year: EUR 1,040 thousand). For the first time, revenues were also generated from the sale of products in the USA in an amount of EUR 1,153 thousand. Revenues in the USA were achieved using a title model with one wholesaler. Revenues of EUR 1,177 thousand were generated in the financial year from the development partnership with Maruho.

16. Cost of sales, gross profit

The gross profit on sales improved from EUR 2,902 thousand to EUR 4,478 thousand. The gross margin increased to 73%, compared to 70% in the same period in the previous year.

The cost of sales amounted to EUR 1,652 thousand, equivalent to 27% of sales revenue (previous year: EUR 1,236 thousand, or 30%).

17. Development costs

Research and development costs amounted to EUR 4,640 thousand in the 2016 financial year, a reduction of EUR 1,564 thousand, or 25%, year-on-year. The decrease mainly reflects the EUR 2,072 thousand submission fee (PDUFA fee) paid at submission of the application for approval to the FDA during the first half of 2015. The FDA reimbursed this fee in March 2016, with the credit being reported under the other income item.

18. Sales and marketing costs

Sales and marketing costs of EUR 8,763 thousand reflect an approximately 110% increase compared with the previous year's period (EUR 4,170 thousand). The sales and marketing costs include the costs of our own field sales team in Germany, Spain and in the US, as well as marketing expenses. The increase is mainly attributable to expenses for the start-up of sales activities and to establish sales structures in the USA.

19. Administrative costs

Administrative costs increased by EUR 94 thousand year-on-year to EUR 2,853 thousand in the 2016 financial year (previous year: EUR 2,759 thousand). 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 463 thousand, previous year: EUR 439 thousand) and for the 2011/2016 warrant bond placed in 2011 (EUR 727 thousand, previous year: EUR 727 thousand), calculated using the effective interest method. The aforementioned interest expenses on the warrant bond 2009/2017 of EUR 463 thousand (previous year: EUR 439 thousand) include the opposite effect of EUR 204 thousand (previous year: EUR 193 thousand) from the repurchase of part of the warrant bond on 28 February 2014. The interest on Warrant Bond I for the 2015 financial year was paid at the end of December 2015, and the interest on Warrant Bond II was paid at the beginning of January 2016. The interest for the 2016 financial year for Warrant Bond I was paid at the start of January 2017. In December 2016, Warrant Bond II was repaid early at par plus accrued interest.

21. Other income (expenses), net

The submission fee paid to the FDA in 2015 (PDUFA fee) was reimbursed in an amount of EUR 2,140 thousand in March 2016 after a "small business waiver" was granted. This fee was reported under research and development costs in the income statement for 2015. The reimbursement is reported under other income. The difference to the amount originally paid results from currency translation differences.

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.

	31.12.2016	31.12.2015
Number of weighted ordinary shares in circulation (on average)	29,742,634	23,156,343.32
Net loss for the year in EUR	(10,579)	(11,203)
Undiluted earnings per share in EUR	**(0.36)**	**(0.48)**

When calculating diluted earnings per share for the 2015 and 2016 financial years, the warrant bond 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, have been taken into account as a matter of principle. As the Group achieved negative results for the year in the 2015 and 2016 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 about the consolidated statement of comprehensive income

The other income only includes conversion adjustments from the conversion of the foreign business entity into the Group's currency.

Cost of materials

The cost of materials included in the cost of sales amounted to EUR 1,245 thousand for the 2016 financial year (previous year: EUR 947 thousand).

Depreciation, amortisation and impairment losses

Depreciation and amortisation on tangible and intangible assets of EUR 831 thousand in the 2016 financial year and of EUR 812 thousand in the previous year is included in the following items in the statement of comprehensive income:

	31.12.2016 kEUR	31.12.2015 kEUR
Research and development costs	689	691
General administrative costs	127	113
Cost of sales	9	8
Sales	6	0
Depreciation, amortisation and impairment losses	**831**	**812**

Personnel costs

	31.12.2016 kEUR	31.12.2015 kEUR
Wages and salaries	5,753	3,557
Social security charges	908	482
Costs for pension schemes	33	34
Total	**6,694**	**4,073**

24. Staff

On average, the Biofrontera Group employed 64 people in the 2016 financial year (previous year: 46 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 from leases are as follows:

	2016 EUR	2015 EUR	2016 EUR	2015 EUR	2016 EUR	2015 EUR
	≤ 1 year		1 year to 5 years		> 5 years	
Operating leases						
Leases for business premises	519,725	424,277	1,870,316	2,156,013	1,619,895	1,619,895
Leases for cars	274,219	144,693	375,067	177,517	0	0
Operating and business equipment	23,375	17,789	36,833	35,267	0	0

Lease-related expenses for the reporting period amounted to EUR 237 thousand (previous year: EUR 176 thousand).

On the balance sheet date, a **finance lease** existed for a server leased by Biofrontera AG with a carrying amount of EUR 4 thousand (previous year: EUR 12 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 expensed (previous year: EUR 11 thousand).

On the balance sheet date of 31 December 2016, the present value of the sum of future minimum lease payments is reconciled to their present values as follows:

All amounts in kEUR	Minimum lease payments	Discounting	Present value
Up to 1 year:	7	2	4
Between 2 and 5 years:	0	0	0
More than 5 years:	0	0	0

26. Notes to the cash flow statement

The cash flow statement is presented in accordance IAS 7. The net loss for the year 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.

Interest paid out amounted to EUR 842 thousand (previous year: EUR 1,225 thousand). The change resulted from the two interest payments for Warrant Bond I made in the 2015 financial year: firstly, on 1 January 2015 for the 2014 financial year, and, secondly, on 31 December 2015 interest for the 2015 financial year. Interest received amounted to EUR 3 thousand (previous year: EUR 184 thousand), consisting of interest received for deposits. In the previous year, the interest received from Warrant Bond I held by the company itself already accrued to the company as of 30 December 2015.

27. Members of the Management Board

Prof. Hermann Lübbert was the Management Board Chairman (Chief Executive Officer/CEO) in the reporting period. The CEO also holds a professorial chair at Bochum University in Germany. Prof. Lübbert was appointed to the Management Board from 27 March 2015 until 31 October 2020 by way of Supervisory Board resolution.

Mr. Thomas Schaffer is the Chief Financial Officer. Mr. Schaffer was appointed to the Management Board from 9 April 2015 until 30 November 2020 by way of Supervisory Board resolution.

Mr. Christoph Dünwald is the Management Board member responsible for the Sales and Marketing areas. With a Supervisory Board resolution of 9 July 2015, Mr. Dünwald was appointed to the Management Board until 15 November 2017.

The remuneration of the Management Board members consists of a fixed salary that is paid in twelve equal monthly instalments. In addition, an annual, performance-based bonus exists for the Management board members, 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 1 January until 31 December 2016 period consisted of a salary and a bonus as well as 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 1,402 thousand (previous year: EUR 866 thousand). This was allocated as follows

Prof. Dr. Hermann Lübbert	– Non-performance based salary component:	EUR 363 thousand (31 December 2015: EUR 370 thousand)
	- Performance based salary component:	EUR 72 thousand (31 December 2015: EUR 35 thousand)
	- stock options	231,850 (fair value when granted: EUR 366,435.50) (previous year: 151,850, fair value when granted: EUR 167,236); of which granted in 2016: 80,000 (2015: 0).
Thomas Schaffer	– Non-performance based salary component:	EUR 213 thousand (31 December 2015: EUR 203 thousand)
	- Performance based salary component:	EUR 63 thousand (31 December 2015: EUR 28 thousand)
	- stock options	85,000 (fair value when granted: EUR 157,150) (previous year: 35,000, fair value when granted: EUR 32,650); of which granted in 2016: 50,000 (2015: 0).
Christoph Dünwald	– Non-performance based salary component:	EUR 236 thousand (31 December 2015: EUR 29 thousand)
	- Performance based salary component:	EUR 6 thousand (31 December 2015: EUR 0 thousand)
	- stock options	50,000 (fair value when granted: EUR 124,500) (previous year: 0, fair value when granted: EUR 0); of which granted in 2016: 50,000 (2015: 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 31 May 2016, the Supervisory Board has consisted of the following members since 31 May 2016:

Dr. Ulrich Granzer	Chairman of the Supervisory Board, Owner and Managing Director of Ulrich Granzer Regulatory Consulting & Services, resident in Munich, Germany
Jürgen Baumann	Deputy Chairman of the Supervisory Board, management consultant, resident in Monheim
John Borer	Head of Investment Banking at The Benchmark Company LLC, New York, USA, resident in Jersey City, NJ, USA
Hansjörg Plaggemars	Management Board member of Deutsche Balaton Aktiengesellschaft, Heidelberg, resident in Stuttgart
Mark Reeth	attorney, resident in Frederick, MD, USA
Kevin Weber	Principal of Skysis, LLC., Scottsdale, AZ, USA, resident in Scottsdale, AZ, USA

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

Hansjörg Plaggemars	OOC CTV Verwaltungs GmbH, Managing Director Stellar Diamonds plc, Non-Executive Board Member Carus Grundstücksgesellschaft am Taubenfeld AG, Supervisory Board Chairman

Eurohaus Frankfurt AG, Supervisory Board Chairman
Youbisheng Greenpaper AG i.I., Supervisory Board Chairman
Ming Le Sports AG, Supervisory Board Chairman
Nordic SSW 1000 Verwaltungs AG, Supervisory Board Chairman
Balaton Agro Invest AG, Deputy Supervisory Board Chairman
Carus AG, Deputy Supervisory Board Chairman
Deutsche Balaton Immobilien I AG, Supervisory Board member
Ultrasonic AG i.I., Supervisory Board member

In the 2016 financial year, compensation paid to Supervisory Board members amounted to EUR 113 thousand (previous year: EUR 113 thousand). The compensation transactions are classified as short-term employee benefits as per IAS 24.17(a).

During the reporting period, the company availed itself of additional advisory services from Supervisory Board member 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 2016 financial year, advisory services amounting to EUR 10 thousand (previous year: EUR 62 thousand) were provided by Granzer Regulatory Consulting & Services. Accounts payable to Granzer Regulatory Consulting & Services amounted to EUR 7 thousand on 31 December 2016 (31 December 2015: EUR 0 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 July 2016, Biofrontera AG signed a research cooperation partnership (a collaboration and partnership agreement) with Maruho Co., Ltd, as part of which possibilities to jointly develop pharmaceutical products based on Biofrontera's proprietary nanoemulsion technology are to be researched. According to this agreement's provisions, Biofrontera, as part of research services, will conduct the requisite work for the exploratory research of these product candidates. Maruho is bearing the related costs. It is planned that Maruho will be the owner of the new products and that Biofrontera will receive the licence to market in Europe.

This development partnership generated revenue of EUR 1,177 thousand in the financial year under review (previous year: EUR 0 thousand). Receivables due from Maruho amounted to EUR 472 thousand as of 31 December 2016 (31 December 2015: 0).

In the 2016 financial year, no further reportable transactions or relationships with related parties existed beyond the aforementioned 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 business areas, as it is a listed company and consequently enjoys optimal access to the capital market.

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

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 Section 289a HGB including the statement on the German Corporate Governance Code required by Section 161 AktG

The Management and Supervisory boards of Biofrontera AG have issued the corporate governance statement as required pursuant to Section 289a of the German Commercial Code (HGB), including the statement required pursuant to Section 161 of the German Stock Corporation Act (AktG), and have made these available to shareholders on the Biofrontera AG website (www.biofrontera.com).

31. Auditor's fees and services

The total fee invoiced by the auditor Warth & Klein Grant Thornton AG for the 2016 financial year consists of the following:

	2016 kEUR	2015 kEUR
Auditing services	184	122
[of which for the previous year]	[50]	[16]
Other certification services	55	43
	239	**165**

32. Events after the reporting date

On 24 January 2017, the company announced that the issue of up to 49,990 subordinated convertible bonds that had been approved in December 2016 had been placed in full in a total nominal amount of up to EUR 4,999,000 ("convertible bond").

On 30 January 2017, the European Commission followed the positive vote by the Committee for Medicinal Products for Human Use (CHMP) of the European Medicines Agency (EMA) and issued the expansion of the approval of Ameluz® to treat basal cell carcinoma. The extended approval comprises the treatment of superficial and/or nodular basal cell carcinoma in adults where surgical removal is ruled out due to potential morbidity or due to an undesirable cosmetic result.

On 6 February 2017, the company announced positive preliminary results for the primary endpoint of the clinical Phase III trial to investigate the efficacy and safety of the prescription medication Ameluz® in combination with daylight photodynamic therapy (PDT). The trial reached its primary regulatory endpoint and proved the non-inferiority ($p<0.001$) of Ameluz® in daylight-PDT in relation to the comparator product Metvix® in treating mild or moderate actinic keratosis, a superficial skin cancer. After just one PDT, the trial reached its primary endpoint at 78.7% complete lesion clearance in a half side comparison per patient in treatment with Ameluz® and daylight-PDT, in comparison with 75.0% lesion clearance in treatment with Metvix® and daylight-PDT. The company published detailed results of this trial on 13 March 2017. Ameluz® has also reported higher results in all relevant secondary endpoints than the competitor product, with the greatest differences between Ameluz® and the competitor product arising for patients under 65 years of age and for patients treated under cloudy weather.

On 9 March 2017, the lawsuit of a shareholder of 30 June 2016 was withdrawn by the plaintiff. The lawsuit brought charges for nullity, alternatively rescission, of some of the resolutions passed at the company's Ordinary Annual Shareholder Meeting on 31 May 2016. In particular, the election of Mr. John Borer, Mr. Jürgen Baumann and Mr. Kevin Weber to the company's Supervisory Board was contested.

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

Leverkusen, Germany, 05 April 2016

Prof. Dr. Hermann Lübbert
Chief Executive Officer

Thomas Schaffer
Chief Financial Officer

Christoph Dünwald
Chief Sales and Marketing Officer

Auditor's Report:

We have audited the consolidated financial statements prepared by Biofrontera AG, Leverkusen/Germany – 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 1 January 2016 to 31 December 2016. 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 1 January 2016 to 31 December 2016 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, complies with the legal requirements, as a whole provides a suitable view of the Group's position and suitable presents the opportunities and risks of future development.

Without modifying our opinion, we would like to point out the statements made in the combined management report. As mentioned in the section " Risk, opportunity and forecast report " under "Liquidity risk", during the financial year 2017 additional capital measures will be needed until the break-even is reached, for the planned investments into marketing in the USA and to meet obligations from the issued option bond. On the basis of its previous, invariably successful experience with capital measures, the Management Board assumes that the liquidity required for business activities can be further ensured. If these valid estimates are, contrary to expectations, not realized, this could constitute a threat to the company's continued existence.

Düsseldorf, 5 April 2017

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