Biofrontera

Experts in photodynamic therapy

Biofrontera – in a new light

Annual report 2017

Key figures and highlights 2017

Highlights 2017

- Sales increased by 96% to EUR 12 million. Significant sales revenue growth in the USA.
- Received approval by the European Commission of label extension for Ameluz® to include treatment of basal cell carcinoma in January 2017
- Significant improvement of liquidity through loan agreement with European Investmentbank
- Appointment of Randall Wilhoite as COO of U.S. subsidiary and strengthening of U.S. sales support services
- Agreement with FDA concerning Ameluz® development plan for BCC
- J-Code and new CPT-Codes become effective in January 2018
- NASDAQ listing in combination with capital increase in February 2018
- Received approval by the European Commission for Ameluz® in combination with daylight PDT in March 2018

Key consolidated figures calculated in accordance with IFRS

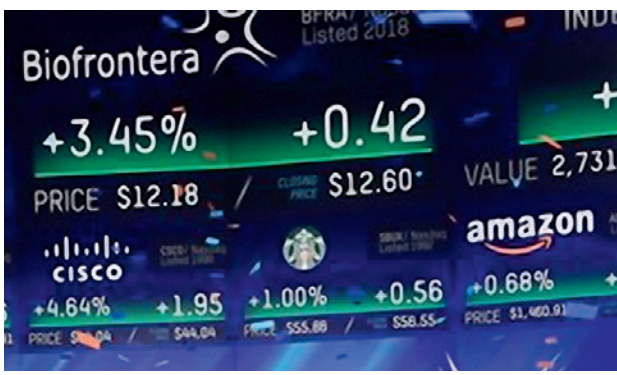
In kEUR	31.12.2017	31.12.2016
Profit & Loss		
Sales revenue	12,025	6,130
sales revenue from product sales	10,602	4,913.5
sales revenue from development projects	1,423	1,177
down payments	0	40
Research and development costs	(4,225)	(4,640)
Sales costs	(16,922)	(8,764)
General administrative costs	(3,097)	(2,853)
Loss from operations	(13,934)	(11,779)
Total result for the period	(15,248)	(10,732)
Cash flow		
Cash flows from operational activities	(13,119)	(10,259)
Cash flows from investment activities	(375)	(455)
Cash flows from financing activities	9,451	21,881

In kEUR	31.12.2017	31.12.2016
Balance sheet		
Balance sheet total	19,848	23,879
Current liabilities (w/o provisions)	1,577	2,616
Long-term liabilities	12,355	3,597
Equity, subscribed capital and capital reserve	139,186	136,399
Equity ratio	17%	66%
Liquid funds	11,083	15,126
Employees as at 31 December	123	94
Biofrontera share		
Shares outstanding	38,416,828	37,722,433
Share price (closing Xetra)	4.15	3.16

Over 40% share price increase between the listing resolution and the day after the NASDAQ listing

A listing on NASDAQ and an IPO on the world's most important technology and biotechnology market offers a company like Biofrontera major opportunities. It enables us to present ourselves with greater credibility and self-confidence in our operative business in the U.S.. We enjoy access to the most important capital markets and most experienced investors in this area, and our shareholders have a chance to achieve a significantly better valuation of their company. After just a few weeks on NASDAQ we can say that taking this step was the right decision. The share price of Biofrontera AG has increased considerably since our related announcement, and our sales are feeling the effects of the company's markedly better positioning in the USA. Our Management and Supervisory boards had long conducted discussions about a NASDAQ listing. Over the past two years, we have discussed and evaluated the opportunities and risks at many conferences and in many discussions with banks and investor representatives, and presented our company to important capital market representatives. At our Annual General Meeting in May 2017, we also informed our shareholders about our considerations.

Following an in-depth review of the situation – including by the U.S. stock market regulator –, we finally decided on 11 January 2018 on a NASDAQ listing in combination with a capital increase. And, on February 14, 2018, it occurred: the first trading day of our ADS (American Depositary Shares) on NASDAQ! One Biofrontera ADS corresponds to two Biofrontera shares, and it traded at USD 13, significantly higher than its USD 9.88 issue price.



We now enjoy direct access to the world's most important and largest capital market. And – not to forget – the U.S. market is also the world's largest pharmaceuticals market. Our share price gained more than 40% in the period between passing our listing resolution and the day after the NASDAQ listing alone. With the NASDAQ listing, however, we are primarily pursuing long-term objectives and strategies. We aim to grow further and with our current positioning we now have significantly more ways to exploit growth opportunities and position the company even better and on a more stable basis worldwide.

NASDAQ, we're coming

Thomas Schaffer
Chief Financial Officer

"With the listing on NASDAQ we have enhanced our visibility, broadened our investor base and further improved our financing options. US investors regard a listing in their home market as a type of quality seal, which gives them a significantly better perception of smaller companies like us. At the same time, we are boosting our products' recognition in the US pharmaceuticals market, and we are enhancing our reputation among customers, suppliers and potential employees."

NASDAQ

According to information provided by NASDAQ itself, NASDAQ (National Association of Securities Dealers Automated Quotations) is the largest electronic stock exchange in the USA. As at first especially young growth and technology stocks were registered in this computer trading system after it was founded in 1971, NASDAQ is often referred to as the „tech" stock exchange. NASDAQ has meanwhile developed into a trading platform for several thousands of companies in numerous sectors, including pharmaceuticals and biotechnology.

What is an ADS?

American Depositary Shares (ADSs) refer to US dollar-denominated share certificates embodying a certain number of a foreign company's deposited shares. Such certificates give U.S. investors the opportunity to purchase and trade U.S. securities without the need to make recourse to foreign securities.

In Biofrontera's case, one ADS represents two ordinary shares of Biofrontera AG with a par value of EUR 1.00 per share. The ADS programme of Biofrontera AG is managed by BNY Mellon as the U.S. custodian bank.

Facts about the U.S. listing

Opening price on NASDAQ	USD 13.00 per ADS
First trading day	14 February 2018
Subscription price	USD 9.88 per ADS (EUR 4.00 per share)
Subscription period	30 January – 12 February 2018
Placing volume in the U.S.	1,300,483 ADS (1,215,000 + 85,483 from greenshoe), corresponding to 2,600,966 shares
NASDAQ ticker symbol	BFRA
Share capital following U.S. listing	44,416,828 shares

Our U.S. footprint

In a country where Apple is building hospitals, Amazon is setting up health insurance, and Uber is conveying patients to physicians with its Uber Health service, Biofrontera – with Ameluz® and photodynamic therapy – aims to revolutionise the treatment of non-melanoma skin cancer.

Randy Wilhoite has been COO of our U.S. branch operation since March 2017. He is chiefly responsible for the infrastructure of our U.S. subsidiary. We have set ourselves an ambitious target: Biofrontera is to become the leading PDT company in the U.S.. Customer confidence plays a key role in this context, as physicians expect not only a high-quality product but also excellent service from our company. We took many important steps in 2017 to strengthen customer relationships, and brought the order registration, invoicing and customer service areas back in-house, which had previously been performed for us by a large pharmaceuticals logistics company when we started our activities in the U.S.. In other words, we are now in sole command of our customer relationships, and we contract other companies to implement only pure logistics and the technical service of our lamps. And it goes without saying that we have further established our sales operation and medical liaison department. Today we can deliver our services to customers from New York to Los Angeles, from Miami to Seattle, and even on Hawaii, in all their PDT matters.

Following a fourth quarter of 2017 characterised by strong sales, Ameluz® received its own reimbursement code (J-Code) in early 2018, enabling the medication to be reimbursed through patients' insurance policies. This makes the reimbursement process simple and secure for physicians. Following a year during which Ameluz® was reimbursed only as part of a so-called Miscellaneous Code, this makes selling far easier for us. Furthermore, the CMS (Center of Medical Services) in the U.S. reviewed the reimbursement codes for performing photodynamic therapy – in other words, the compensation of the medical treatment. For the first time, PDT will be reimbursed at a higher rate than cryotherapy, which has been the most widely distributed treatment for actinic keratosis in the U.S. to date.

Prospects for Ameluz® are thus good, but doctors need to be convinced of the new treatment methods' benefits. This is not an easy task and requires constant effort as well as time. The potential inherent in the U.S. spurs us on daily, however. The world's largest pharmaceuticals market offers us enormous opportunities. Today, PDT has comprised approximately only 3% of the 12.6 million actinic keratosis treatments in the U.S.. If we succeed in establishing PDT as the preferred treatment, we, as an innovative provider, will benefit disproportionately from such potential growth. If the new indications for Ameluz® for which we are striving then come to bear in the future, the establishment of our own organisation will have been more than worthwhile.

Christoph Dünwald
Chief Sales and Marketing Officer

"We see enormous sales growth from PDT in the U.S. medium-term. In 2016, around 12.6 million actinic keratosis treatments were performed in the U.S., including around 370,000 with PDT. Most patients are still treated with cryotherapy, but I'm confident we can motivate physicians to rethink now we have the new billing codes. If they were to treat just one percent of actinic keratosis patients with Ameluz® instead of cryotherapy in the future, this would already generate USD 30 million more sales for Ameluz®. In Europe, the approval of daylight PDT with Ameluz® also opens up entirely new market opportunities, which we will seize. We have strengthened ourselves considerably in our sales and marketing in the past two years and expect these investments to already pay off this year."

2015

04/ Founding of Biofrontera Inc.

11/ Christoph Dünwald becomes CCO

07/ Application for approval filed with FDA

12/ FDA issues Small Business Waiver

2016

02/ First presentation of Phase III trial data in the USA (South Beach Symposium)

06/ Appointments to key positions (medical science, finance, operations)

05/ FDA issues approval for Ameluz®

10/ Ameluz® sales launch

2017

01/ New US website

08/ Agreement with FDA concerning Ameluz® development plan for BCC

09/ Jeffrey Holm becomes VP Marketing

10/ One year of Ameluz® in the USA: 425 physicians, USD 5 million of sales

03/ Randall Wilhoite becomes COO of U.S. branch operations

08/ Integration of marketing and sales support into Biofrontera Inc.

10/ Ameluz® obtainable in veterans' healthcare

12/ IND submitted for BCC trial

2018

01/ J-Code and new CPT-Codes become effective

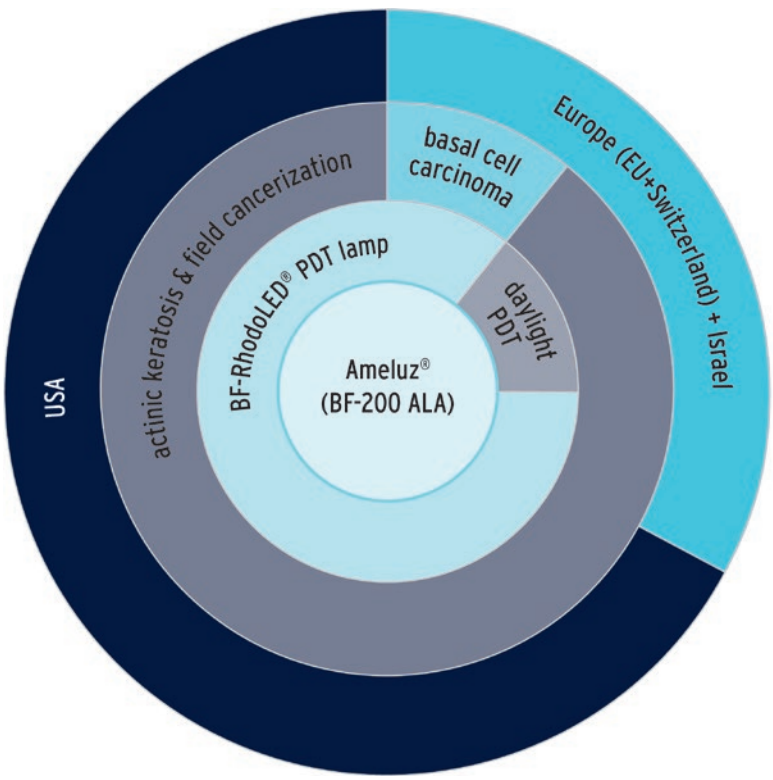
02/ NASDAQ listing

The USA is the largest pharmaceuticals market in the world by far. Around half of the 20 biggest pharmaceutical companies are based there. Measured in terms of market capitalisation, the healthcare sector is the second largest sector in the S&P 500 share index and the fastest growing overall. For good reason, Americans regard themselves as technology leaders and innovation drivers in medicine and pharmaceuticals.

What is a J-Code and what are CPT-Codes?

Since 2 January 2018, Ameluz® has had its own J-Code with the name J7345. Why is this important? In the USA, physicians purchase such medications – which are applied in connection with a medical procedure – directly from the manufacturer. In other words, they pre-finance such purchases. Once they have performed a treatment, they can then easily use the J-Code to apply for reimbursement from the respective authority. Without a J-Code, they must use an unspecific Miscellaneous Code, which requires considerably greater effort for both physicians and payors. This means, a large proportion of the administrative burden previously incurred by physicians is now dispensed with. The new CPT-Codes, which also became effective on 2 January 2018, make Ameluz® even more attractive for physicians to utilise. The CPT-Code determines the amount of additional reimbursement physicians receive for applying Ameluz®. And the two new codes 96573 and 96574 – which are reserved for so-called healthcare professionals – receive significantly higher payments than the previous 96567 code, which is now applicable only for PDT treatments performed by less qualified personnel. At up to USD 249 per treatment, physicians thereby receive a much more attractive payment than previously, especially as – although cryotherapy is compensated by the number of lesions treated – compensation reaches only USD 148 for the treatment of 15 and more lesions, at which point it is capped.

Our mission is to make photodynamic therapy with Ameluz® accessible to all patients with field cancerisation and actinic keratosis.



In the U.S., we are gradually tapping the largest market for actinic keratosis. To date mainly cryotherapy – freezing, in other words – has been deployed in the U.S. to treat non-melanoma skin cancer, a treatment that can lead to permanent white skin marks or even scar formation. Our medication Ameluz®, in combination with photodynamic therapy, is not only extremely effective but also achieves an outstanding cosmetic result. Ameluz® is the only PDT medication approved in the U.S. to treat larger areas. Since January, we have had our own reimbursement code for Ameluz® in the U.S., which makes it a lot more attractive for US dermatologists to prescribe. A growing number of physicians and patients are deciding in favour of our innovative treatment method.

We have also made great progress in Europe. In early March 2018, the European Commission issued its approval for daylight PDT for field cancerisation and actinic keratosis. And finally, the 90 percent of the market for statutory health-insured individuals is opening up for us in Germany, as with daylight PDT the time-consuming procedure in the medical practice is dispensed with (which makes Ameluz® applied with a lamp procedure a not automatically reimbursed treatment form). After application, the patient spends approximately two hours in natural daylight. This treatment is similarly effective to conventional PDT but has higher recurrence rates.

PDT for everyone!

Prof. Dr. Hermann Lübbert
Chief Executive Officer

"In recent years, we have successfully reached one milestone after another in optimising the strategic market positioning of our product Ameluz®. All the signs now point to growth: photodynamic therapy with Ameluz® is a highly effective way to treat actinic keratosis and basal cell carcinoma. The large-area treatment of field cancerisation is leading to outstanding cosmetic results and reducing the light-induced signs of skin ageing. Daylight PDT in Europe and improved billing codes in the U.S. open up enormous market potential for Ameluz®. Our investments to expand the indications and approvals of Ameluz® offer additional growth opportunities."

Daylight or lamp?

A lamp is traditionally deployed as a light source in photodynamic therapy. Biofrontera has developed the BF-RhodoLED® for photodynamic therapy with Ameluz®, which is easy to use and very energy-efficient. No other lamp on the market offers comparable power and flexibility. The advantage with treating with a lamp is that the affected areas need to be illuminated for just a few minutes. Furthermore, the lamp can be used to treat not only field cancerisation and actinic keratosis but also basal cell carcinoma.

Field cancerisation and actinic keratosis can be treated similarly effectively with daylight. Although the illumination effect must occur over a longer period, the treatment has the advantage of being largely pain-free. In addition, daylight treatment in Germany is also open to patients with statutory health insurance, while photodynamic therapy in combination with the BF-RhodoLED® lamp is only reimbursed by private health insurers. Conventional PDT nevertheless enjoys its status because of the higher recurrence rates in daylight PDT observed in our studies. For this reason, a combination of low-pain daylight PDT with conventional PDT would be ideal.

USA and EU in numbers

58,000,000 Americans suffer from actinic keratosis	At least 5,000,000 Europeans suffer from actinic keratosis, presumably significantly more
Around 12.6 million actinic keratosis treatments annually	Around 2.1 million actinic keratosis treatments annually
Around 370,000 PDT treatments annually (relates to drug sales of approx. USD 130 million)	Around 120,000 million actinic keratosis treatments annually (relates to drug sales of approx. EUR 22 million)
27,000 tubes of Ameluz® sold in 2017	28,000 tubes of Ameluz® sold in 2017
Sales in all federal states of the U.S.	Sales in 8 EU countries + Israel and Switzerland
Approval of Ameluz® for - actinic keratosis (mild and moderate) on the face and scalp - treatment of individual actinic keratoses on larger areas - conventional PDT	**Approval of Ameluz® for** - actinic keratosis (mild and moderate) on the face and scalp - field cancerisation - superficial and nodular basal cell carcinomas - conventional and daylight PDT
Sales 2017: EUR 6.3 million	Sales 2017: EUR 4.3 million

Together to success

Our employees are the key to our success. Day by day, they work with motivation and full commitment to further advance Biofrontera. In Germany and America, a total of 130 colleagues from the most varied departments such as research, development, regulatory, production, quality management, marketing and sales work together closely and based on trust. Only together can we be successful.

Dr. Beate Schmitz –
Director Clinical Trial Management, Leverkusen

I head up the implementation of clinical trials. As with all my colleagues, the work this entails is significant, especially as we are now performing clinical trial management in-house ourselves. Documents for clinical trials need to be prepared and approved, agreements need to be concluded with trial centres, implementation must be monitored and results reports have to be produced. On clearly defined tasks, we work together with Clinical Research Organisations, which support us in data recording, data management, statistics and monitoring, and abroad in requirements typical for the relevant country. I'm very proud to have worked together on ensuring Ameluz® made a successful market launch. Our work forms an important basis for the market success of Ameluz®.

Dr. Montserrat Foguet – Vice President Regulatory Affairs and Production, Leverkusen

I head up the Regulatory Affairs and Pharmaceuticals Production departments. Firstly, I'm concerned with legislation and directives. My responsibilities include receiving and maintaining approvals for medications in the EU and the USA. I'm the contact point for the approvals authorities such as the FDA, the EMA and the German Federal Institute for Drugs and Medical Devices (BfArM), and I'm responsible for communicating with these authorities. As the head of production, I coordinate the work of our contract manufacturers, and ensure our medications are produced in compliance with our instructions. I also ensure sufficient medications are always available for sale in our various markets. I can also be creatively involved in the new formulations area. We're testing the potential of our nanoemulsion technology with various substances. In other words, we're working on potential new medications. Biofrontera is a special company, and we're all proud of our success.

Dr. Markus Osterloh –
Senior Manager Regulatory Affairs Medical Devices, Leverkusen

My task is to ensure our BF-RhodoLED® medical product is safe to use and is always compliant with all market approval requirements in our target markets. Together with my colleagues, I'm responsible for implementing any adjustments that might be required if and when problems arise. For this, we define the development and production processes and ensure the quality of BF-RhodoLED® remains at a consistently high level. We also prepare relevant documents for the approvals process, which we then submit to the authorities and other audit organisations. I'm very motivated by the ambitious targets we've set ourselves at Biofrontera, and by the conviction we can also achieve them.

Dr. Wiebke Meyer-Wendt – Director Quality Management, Leverkusen

I'm responsible for maintaining and improving our quality management system. All departments are audited as part of regular self-inspections, involving reviewing compliance with the regulations for our processes, working instructions and regulatory requirements. This forms a good basis for the inspections that various authorities conduct annually at our company, as a manufacturer of pharmaceuticals, medical products and cosmetics. My department is also responsible for the market clearance of our pharmaceuticals and medical products. To this is added the supervision and qualification of our suppliers – ranging from on-site auditing and quality assurance agreements through to supervising the quality of delivered goods, such as by incoming goods inspections. My work at Biofrontera presents me with new challenges constantly. But that's not a problem, as we all „pull together" here.

Darrell Lowman –
Quality Assurance Director, Wakefield

My task at Biofrontera is quality management in the U.S.. As the company's local representative in matters relating to product control, safety and efficacy, I'm in constant communication with my German colleagues as well as with our field sales force, suppliers, customers, patients and regulatory authorities. I conduct quality management training in the U.S. and I'm also responsible for the controlling, approval and cataloguing of our marketing material. I appreciate the family-type atmosphere and good working climate at Biofrontera and I'm proud we can offer our customers a high-quality medication to treat actinic keratosis.

Jeff Holm –
Vice President of US Marketing, Wakefield

I joined Biofrontera a year ago to establish marketing as well as the training platform that provides content-based orientation for our field sales force and managers in the U.S.. In my role as VP Marketing, I've developed the strategic framework to establish the U.S. business. Our strategy consists not just of expanding our market shares within the existing PDT market. No, our aims are higher! We're tasked with convincing providers to switch from topical treatments and cryotherapy to PDT – as this is basically the treatment I'd select for myself. So, there's a lot to do in the U.S. market, and every day I look forward to rolling up my sleeves and contributing my part to our success.

Bryan Rose –
Director of Market Access, Wakefield

I ensure that as many patients as possible receive refunded access to our product. To achieve this, I speak with health insurance companies, regulatory authorities and other payors. If I succeed in convincing them of the clinical and economic benefits of Ameluz®, then they include our Ameluz® treatment in their reimbursement lists. I enjoy working at Biofrontera because here I can work on establishing a company in the U.S. from the ground up. Because of this, I have a broad spectrum of tasks, and my work always is very varied and entails a lot of responsibility.

Letter to the shareholders

Dear shareholders,

We look back on a very successful 2017 financial year, which was largely devoted to the USA topic. After launching Ameluz® in the US pharmaceutical market in October 2016, we established our organisation with all requisite functions, and at the same time advertised our products in the market. Overall, we achieved a doubling in sales revenues compared with the previous year, whereby approximately half of our sales revenue this year already derived from the USA. Despite the significance of the US market, the new indication to treat basal cell carcinoma and the results of the Phase III trial on daylight PDT also represent quite important milestones for the European market. All in all, some extremely important long-term activities were successfully concluded during 2017, which in sum have positioned our Ameluz® medication to enjoy outstanding market opportunities both in the USA and in Europe. We have been working towards this strategically for many years and are correspondingly proud of the results.

During the first half of 2017, our sales in the USA faced the challenge of some unavoidable start-up difficulties. An individual J-Code (a product-specific billing code), which dermatologists require to bill the medication without problem, was still lacking. This is only issued by the American administration in the year following the application. For its part, the application can only be submitted in the January following the approval of the medication. Consequently, physicians' billing systems were unable to seamlessly communicate with those at the health insurance funds, and refunds were frequently turned down. Especially with a product such as Ameluz®, which we sell directly to the physician without a pharmacy as an intermediary, the ability to reimbursement is important so physicians do not lose all their invested capital. To support physicians in billing, we availed ourselves of the services of the company Pinnacle from the midyear stage. Not least because of this, billing problems then increasingly diminished toward the second half of the year. In November, the Centres for Medicare and Medicaid Services (CMS) held out the prospect of an individual J-Code for Ameluz®, which became effective on 1 January 2018. This code is meanwhile integrated into almost all billing systems, and Ameluz® is gradually being reimbursed at its full price by almost all insurers. The last transition difficulties should have been tackled during the course of 2018.

Biofrontera was required to clear a further hurdle with the certifications of our local subsidiary Biofrontera Inc. in the individual states of the USA. Only with such licences is it possible to sell pharmaceuticals in the respective states, and a separate licence is even frequently required for medical products (Biofrontera's PDT lamp BF-RhodoLED®). In order to quickly enter the market following approval, after the market launch Biofrontera initially utilised the existing licences of a wholesaler to which it exclusively directly sold all products, and which was then responsible for resale and the entire commercial processing. Besides the related costs, Biofrontera was thereby also not always able to respond sufficiently quickly and flexibly to dermatologists' requirements. For this reason, the fact that Biofrontera has finally gained possession of all its individual licenses itself and has been able to take over the entire operative processing has exerted a very positive impact. Since summer 2017, Biofrontera Inc. has been the direct business partner to American dermatologists, with the wholesaler now acting only as a provider of warehousing and logistics services to Biofrontera.

A further important event of 2017 was the review of the procedural billing codes (CPT-Codes) for PDT in the US market. This was enabled, as with Ameluz® a new medication with a somewhat different application protocol had arrived in the U.S. market compared with the previously available PDT medication. This situation was utilised by the American Medical Association to advance the introduction of additional CPT-Codes for PDT. For the first time, the physician can now receive around USD 100 more for PDT with Ameluz® than can be billed at maximum for the dominant cryotherapy treatment. For PDT with the application protocol of the competitor product, the physician receives USD 60 less than is the case with Ameluz®, given correct interpretation of the codes. As a consequence, a good chance exists of also significantly expanding Ameluz® PDT into the cryotherapy area.

In January 2017, the European Commission approved the new indication for Ameluz® to treat superficial and nodular basal cell carcinoma. We also received the data from the Phase III clinical trial for daylight PDT in the first quarter of 2017, and in June we applied for the approval for daylight PDT with Ameluz®. In the first quarter of 2018, we received this approval from the European Commission, shortly after the one-year follow-up of this trial showed a significantly superior effect compared with the competitor product Metvix®, which is especially based on considerably lower recurrence rates.

While the doubling of our sales revenues from around EUR 6 million in 2016 to approximately EUR 12 million in 2017 is certainly a very pleasing success, at the start of the year we expected even faster growth rate, which led us to downgrade our forecast slightly in autumn. Towards the end of the year, the positive developments and the new market opportunities already became evident, and revenue in the fourth quarter picked up significantly. This positive trend continued in the first quarter of 2018, and our forecast for 2018 envisages total sales revenues (excluding revenues from research partnerships) at between

EUR 16 million and EUR 20 million, and consequently further considerable growth of 35-70%. The EUR 15.8 million net loss incurred for 2017 was within the planned range.

This growth was accompanied by the further expansion of our corporate structures. Overall, the number of employees increased from 94 individuals on 31 December 2016 to 123 on 31 December 2017, with a large proportion of the new staff being appointed in the USA. As of 31 December 2017, 48 staff were active in the USA, including 35 in sales and marketing or as advisory scientists, providing support to the sales force in the field in responding to scientific questions.

The necessary financing was secured by a EUR 5.0 million convertible bond issued in January as well as a very prestigious loan from the European Investment Bank. To date, an amount of EUR 10 million has been drawn from the loan, which has been approved for a total of EUR 20 million. The conditions are significantly more favourable than with comparable debt financing offered to companies in our sector.

Given considerable fluctuations, the stock market price per share has performed well during the year. The share price started the year at around EUR 3.00 and ended 2017 at approximately EUR 4.00. The positive performance of the Biofrontera share accelerated significantly as part of the listing on the US technology stock market, NASDAQ. This listing was very successfully implemented in early 2018, when the share's valuation leaped, accompanied by a marked rise in liquidity.

All of these successes and our share's value appreciation are attributable to the efforts of our creative and extraordinarily committed employees. We are grateful to have such colleagues. We take this opportunity to not only bestow our generous praise on them, but also to say a very warm thank you.

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

Following our long-term strategy, the success story of Biofrontera has been continued for a further year and has gained significant momentum.

Kind regards

Prof. Dr. Hermann Lübbert Christoph Dünwald Thomas Schaffer

Management Board of Biofrontera AG

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 been listed in the Regulated Market of the Düsseldorf Stock Exchange since 2006, and on the Regulated Market of the Frankfurt Stock Exchange since 2012. Since February 2018, Biofrontera shares are also traded in the form of ADSs (American Depositary Shares) on the US NASDAQ Capital Market.

The Biofrontera share

Key share data

Share class	Registered shares (no par value)
Stock exchange	Frankfurt Stock Exchange, NASDAQ Capital Market
Other trading platforms	XETRA, Berlin, Düsseldorf, Munich, Stuttgart, Tradegate
Shares in issue as of 31 December 2017	38,416,828
Share capital	EUR 38,416,828
ISIN	DE0006046113
WKN (German Securities Identification)	604611
Ticker symbol	B8F
Tracker symbol Nasdaq	BFRA
Designated Sponsor	Lang & Schwarz Broker GmbH
Share price as of 31 December 2017	EUR 4.15
52-week high* (22 February 2017)	EUR 4.86
52-week low* (9 November 2017)	EUR 3.05
Market capitalisation as of 31 December 2017	EUR 159.5 million
Average daily trading volume (52 weeks as of 31 December 2017)	51,875 shares per day

* based on XETRA closing prices

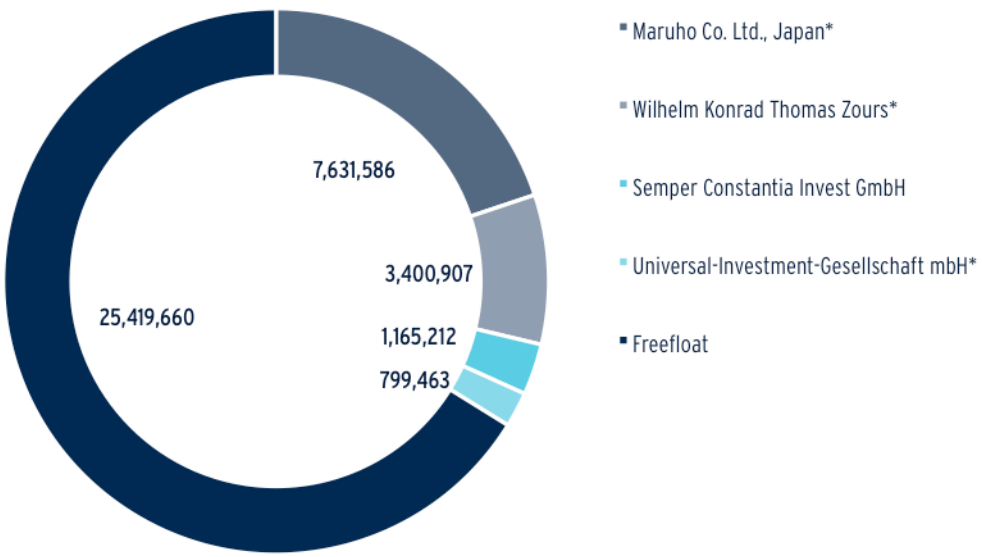
Share price performance

The capital market environment in Germany proved positive overall in 2017. Political uncertainties were largely eclipsed, with only the intensification of the conflict between the USA and North Korea placing markets under slightly more pressure during the third quarter. The price of the Biofrontera stock was chiefly affected by specific corporate news. At the start of the year, the stock registered a sharp rise of 53.8% within just seven weeks, reaching its high of EUR 4.86 on 22 February 2017. This increase was most likely triggered by the European Commission's approval of a new indication for Ameluz® for basal cell carcinoma at the end of January, the positive results of the Phase III trial for Ameluz® with daylight PDT reported in early February, and progress made with establishing sales and marketing in the USA. The share price subsequently consolidated before incurring price losses at the end of June. It rapidly recovered, however, thanks to positive corporate news from the USA, e.g. the agreement reached with the FDA concerning the Ameluz® development plan for basal cell carcinoma, the inclusion of Ameluz® PDT in the US veteran administration's federal supply schedule, and strong sales growth in the first year after market launch. A further setback in the share price to EUR 3.05 occurred in November, however, due to the somewhat weak third quarter and related correction in the sales revenue and earnings guidance for the 2017 financial year. The stock gained ground again in December thanks to strong sales revenue figures from the USA for the autumn months and the prospect of accelerated market penetration after receiving the J-Code from January 2018, and again exceeded the EUR 4 level in early December. It closed the end of the year at a price of EUR 4.15. Starting from previous year's close of EUR 3.16, this represents a solid share price appreciation of 31.3% for 2017. After the end of the financial year, the share continued to outperform, with especially the announcement of the NASDAQ listing on 11 January 2018 catering for a sharp price increase of almost 50% to EUR 6.21 as of 31 January 2018.

Share price chart

Shareholder structure

The shareholder structure of Biofrontera AG as of 31 December 2017 is as follows (based on voting rights notifications as per 31 December 2017):



* 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, maturity date	8 years, 31/12/2017 (repaid early on 03/08/2017)
Step coupons	4 % (2010), 6 % (2011), 8 % (2012)
Par value/denomination	EUR 100.00

Key data for the 2016-2021 Convertible Bond	
Stock exchange	Not admitted to trading
WKN (German Securities ID)	A2BPFQ
ISIN	DE000A2BPFQ5
Term, maturity date	4 years, 31/12/2020
Coupon	6 %
Par value/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
Adjusted conversion price since March 2018	EUR 4.75

Key data for the 2017-2022 Convertible Bond	
Stock exchange	Düsseldorf, since February 2017
WKN (German Securities ID)	A2BPDE
ISIN	DE000A2BPDE6
Term, maturity date	5 years, 31/12/2021
Coupon	6 %
Par value/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
Adjusted conversion price since March 2018	EUR 4.75

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.

Roadshows and conferences provide 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 2017 financial year, including at capital market centres in the USA and many important European cities. Biofrontera participated mainly at internationally oriented, Healthcare-sector conferences in 2017, but was also represented at events with a more specialist focus.

For private investors, Biofrontera uses its own format to explain and discuss central corporate topics in detail. At this year's shareholder evening on 29 November 2017, investors' questions related mainly to the company's future prospects in the USA. For example, responses were given to questions relating to the size of the markets for actinic keratosis and basal cell carcinoma, and about competitors and general structures (US dermatologists' practice structure, off-label use).

Along with quarterly statements for the first and third quarter and the half-year financial report, Biofrontera informed investors, analysts and further interested capital market participants in a total of 12 press releases and 22 investor relations 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 28 November 2017.

The Ordinary Annual General Meeting of Biofrontera AG was held on 24 May 2017 in Leverkusen. A total of 58 percent of the voting capital of Biofrontera AG comprising 38,416,428 shares as of this date were represented there. Attendance thereby improved considerably compared with the previous year. The management's proposals relating to authorising the Management Board to create a new Authorized Capital I with the possibility to exclude subscription rights only for fractional amounts as well as a new Authorized Capital II with the possibility to exclude subscription rights for fractional amounts as well as pursuant to Section 186 (3) Clause 4 of the German Stock Corporation Act (AktG) achieved the requisite three-quarters majority of the share capital represented. One shareholder brought a lawsuit against the AGM resolution to create the Authorized Capital II, however. This claim was rejected by the District Court of Cologne in the first instance, although the claimant has filed an appeal against this decision. For this reason, Authorized Capital II has not yet been entered in the company's articles of association.

Biofrontera implemented only a smaller capital measure in 2017. In January 2017, 49,990 convertible bonds in a total nominal amount of EUR 4,999,000 were issued and successfully placed. No further capital measures were implemented in 2017.

In May, Biofrontera entered into a loan agreement with the European Investment Bank (EIB), in which the EIB provides the Biofrontera Group a loan of up to EUR 20 million. The repayment is secured by a guarantee from the European Fund for Strategic Investments (EFSI). The loan can be drawn in three tranches. The first tranche of EUR 10 million was drawn in July and partly utilised to repay the 2009/2017 warrant bond in an amount of EUR 5.5 million including interest. A further EUR 10 million can be utilised in two tranches after achieving certain operative milestones. Each tranche must be repaid five years after being drawn.

Analyst coverage

Biofrontera is covered by the following analysts:

Broker	Analyst
The Benchmark Company, LLC	Raymond Myers
Dawson James Securities	Robert M. Wasserman
Lake Street Capital Markets	Bruce Jackson
Shore Capital Stockbroker Limited	Tara Raveendran
sc-consult GmbH	Holger Steffen

Roadshows

Date	Location
23-26 January 2017	New York
1 February 2017	Munich
28 March 2017	Monaco
29 March 2017	Paris
30 March 2017	Vienna
10-13 April 2017	New York
19 April 2017	Zürich
20 April 2017	Geneva
22 June 2017	London
12 July 2017	New York
20 July 2017	Munich
25 July 2017	Vienna
23 October 2017	Bremen
26 October 2017	Zürich
2-3 November 2017	London
10 November 2017	Munich
24 November 2017	Amsterdam

Conferences

Date	Conference
9-12 January 2017	JP Morgan 35th Annual Healthcare Conference (San Francisco)
22-23 February 2017	McGuire Woods 14th Annual Healthcare and Life Sciences Finance Conference (Chicago)
6-8 March 2017	Cowen 37th Annual Healthcare Conference (Boston)
9 May 2017	8th DVFA Spring Conference (Frankfurt)
15-16 June 2017	Marcum Micro Cap Conference (New York)
20 June 2017	Prior Capital Market Conference (Frankfurt)
10-12 September 2017	Rodman & Renshaw 19th Annual Global Investment Conference (New York)
19 October 2017	3rd Annual Dawson James Small Cap Growth Stock Conference (Jupiter)
16 November 2017	9th Annual McGuire Woods Pharmaceutical and Medical Device Conference (Chicago)
27-29 November 2017	Equity Capital Forum (Frankfurt)
14 December 2017	Benchmark's Annual Micro Cap Discovery One on One Conference (Chicago)

Corporate governance report for the 2017 financial year 2017 including the corporate governance declaration pursuant to Sections 289 f, 315b HGB for Biofrontera AG and the Group

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 December 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 of the 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 (Bundesanzeiger), 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 2017, 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 7 February 2017, 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).

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 to be appropriate from the current perspective. This is because, in the Supervisory Board's opinion, it is not possible to abstractly determine a length of time that could usefully be specified as a general maximum limit for the term of office. Instead, each case should be assessed individually as to whether the existing length of membership on the Supervisory Board might conflict with proper and impartial fulfilment of the mandate.

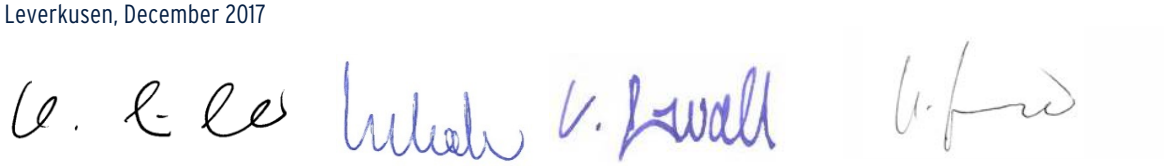
Structure of remuneration for the Supervisory Board (No. 5.4.6)

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 required at present, especially as the members generally have around the same workloads resulting from membership of the various committees.

Reporting (No. 7.1.2)

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

Leverkusen, December 2017



Prof. Dr. Hermann Lübbert Thomas Schaffer Christoph Dünwald
Management Board of Biofrontera AG

Dr. Ulrich Granzer
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 2017 financial year

Dear Shareholders

In the 2017 financial year, Biofrontera AG and its subsidiaries reported very pleasing developments in the areas the Supervisory Board considers important: in May 2016, the FDA (U.S. Food and Drug Administration), approved Ameluz® to treat mild and moderate actinic keratosis on the face and scalp for marketing in the USA. Sales and marketing in the USA started in October 2016. The 2017 financial year was then entirely characterised by the expansion of our sales and marketing activities in the USA, where we are seeing a very dynamic trend. Approximately one year after market launch, we are achieving more revenue in the USA with our Ameluz® product than in Europe. The issuance of a product-specific J-Code to simplify cost reimbursement for prescribing physicians proved very important in this connection, as has the amendment of reimbursement amounts for photodynamic therapy (CPT-Codes) as of 1 January 2018, with which we are very pleased.

We also made good progress in the area of new indications for Ameluz®. The European Commission approved a new indication for Ameluz® to treat superficial and nodular basal cell carcinoma, for example. A further Phase III trial, whose study protocol we are currently discussing with the FDA, is required for Ameluz® to also receive this new indication for the US market. Additionally, in March 2018, the European Commission issued approval for Ameluz® in combination with photodynamic daylight therapy (daylight PDT), thereby enabling future utilisation of Ameluz® without special lamps as light sources. The approval for daylight PDT should significantly increase the market potential for Ameluz® in Europe and improve the reimbursement status of the medication in Germany.

The third very important aspect reflects our successful capital market activities. In 2017, we received a loan from the European Investment Bank with a total volume of EUR 20 million, of which an initial tranche of EUR 10 million has already been drawn down. In February 2018, Biofrontera AG achieved a further major and important milestone: listing on the US NASDAQ Stock Market accompanied by the placing of a capital increase. This has laid the financial foundation for the company's further successful growth.

I would like to take this opportunity on behalf of the entire Supervisory Board to extend my very warm thanks to you, esteemed shareholders, for your commitment and trust, because, without the financial resources provided by our shareholders, the support for the strategy pursued by the Management and Supervisory boards, and especially also our shareholders' patience, the successful implementation of Biofrontera's long-term strategy would have been impossible to date.

Supervision and consultation

The Supervisory Board's activities included supervising and consulting with the Management Board concerning the management of the company and the Group. In the reporting year, the Supervisory Board monitored the Management Board's activities and discussed future business decisions and plans with it.

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 discussions with the Management Board were based on reports by the Management Board, and also involved reviewing and taking into consideration business documents and draft resolutions. 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 Management Board provided the Supervisory Board with regular, timely and comprehensive reports. The Supervisory Board was continuously informed by the Management Board, both during and outside meetings, about the company's current performance. Based on the Management Board's written and verbal reports, the Supervisory Board comprehensively discussed business developments and the company's situation at its meetings. Furthermore, the Chief Executive Officer and the Supervisory Board Chairman regularly exchanged information and ideas. In particular, the Supervisory Board was consulted about decisions of fundamental significance for the company. Deviations in business performance from the plans were explained to the Supervisory Board by the Management Board, and discussed with it. Additionally, the Supervisory Board

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.

If Management Board decisions required Supervisory Board approval or if the Management Board sought approval in relation to particular measures, the Supervisory Board was briefed in advance by way of information and documents of relevance for 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.

Consultations and areas of focus

In fulfilling its responsibilities, the Supervisory Board held six meetings during the reporting year. The Supervisory Board also passed resolutions outside the scope of meetings.

16 February 2017

In a telephone conference on 16 February 2017, the Management Board informed the Supervisory Board about various debt financing possibilities under discussion, including negotiations with the European Investment Bank, which subsequently led to a financing arrangement. A listing on the US NASDAQ Stock Market was also discussed. The Supervisory Board was unanimous that plans for a listing on the US NASDAQ Stock Market should be pursued further.

5 April 2017

The meeting on 5 April 2017 concerned the financial statements. The Management Board reported on achievements in 2016. Furthermore, current developments, including the financial and liquidity positions, were discussed. Focus areas included sales figures and developments in the USA. After discussing the 2016 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 2016 financial year were adopted as a consequence.

23 May 2017

At the meeting on 23 May 2017, the Supervisory Board requested information about the Group's financial development. The R&D & Market Access Committee reported to the plenary board. Related questions under discussion included the reimbursement of Ameluz® in the USA and the importance of the J-Code for future business development.

14 July 2017

Discussion at the 14 July 2017 meeting included planning, including tax planning, as well as a lawsuit pending against AGM resolutions of 24 May 2017. The Supervisory Board also approved the early repayment of a warrant bond.

29 September 2017

The Management Board initially reported at this meeting on progress in the research and development area, especially in relation to new indications for Ameluz®. Furthermore, the Management Board reported on sales revenue trends, marketing activities and the financial position. Moreover, the billing procedure in the USA and the expected issuing of the J-Code as of 1 January 2018 were discussed.

6 December 2017

At this meeting, the Management Board reported in depth on business development during the first nine months of 2017 and provided an outlook for the 2017 results. The Supervisory Board also concerned itself with the budget planning for 2018, which it approved. In addition, the Management Board reported on current trends in the research & development area as well as regulatory matters. Furthermore, the Supervisory Board discussed a successor for Mark Reeth, who had stepped down from the Supervisory Board, and unanimously proposed the appointment of Mr. Reinhold Eyring to the Cologne Registry Court. As part of this meeting, the Supervisory Board reallocated the personnel composition of the Supervisory Board committees.

Members' meeting attendance

Apart from the 23 May 2017 meeting, all members participated at all of the aforementioned Supervisory Board meetings. One member was unable to attend the 23 May 2017 meeting.

Supervisory Board committees

The Supervisory Board has currently formed an Audit Committee, a Nomination Committee, a Personnel Committee and an R&D & Market Access Committee. The Supervisory Board appoints a Supervisory Board member as committee chair in each case. Pursuant to the rules of 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 were 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 2017.

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. At 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, at companies as defined in Section 264d of the German Commercial Code (HGB), at least one 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: Hansjörg Plaggemars, Jürgen Baumann and John Borer. Mr. Baumann is the current chair.

The committee met once during the reporting year: with the auditor in order to prepare for the Supervisory Board's financial statements meeting on 5 April 2017.

On 5 April 2017, the committee made its recommendation to the plenum regarding the selection of the auditor for the 2018 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 Audit Committee comprised the following individuals: Jürgen Baumann, John Borer and Dr. Ulrich Granzer. Mr. Baumann is the current chair.

The committee met on 5 April 2017. The meeting discussed target attainment by the Management Board members during 2016 as well as setting performance targets for 2017, which the plenum adopted correspondingly on 5 April 2017.

R&D & Market Access Committee

The R&D & Market Access Committee deals with key issues related to product development. It also concerns itself with questions concerning sales and marketing and the refunding of Ameluz® in the target markets, especially the USA. Moreover, it examines opportunities arising for licence business and related contractual contacts, and consults with the Management Board concerning specific negotiations. It comprises the following individuals at present: Hansjörg Plaggemars, Dr. Ulrich Granzer and Kevin Weber. Dr. Granzer is the current chair. The committee met on 5 April 2017 and 12 May 2017.

Nomination Committee

In addition to the chair, the Nomination Committee includes two further Supervisory Board members who are elected to the committee. The Nomination Committee's task is to propose suitable candidates for the Supervisory Board's election proposals to the AGM. 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 currently comprises: Dr. Ulrich Granzer, Hansjörg Plaggemars and John Borer. Dr. Granzer is the chair.

Separate and consolidated financial statements for 2017

The audit firm Warth & Klein Grant Thornton AG Wirtschaftsprüfungsgesellschaft, Düsseldorf, was appointed auditor and Group auditor for the 2017 financial year by the Annual General Meeting on 24 May 2017 and was subsequently awarded the corresponding mandate by the Supervisory Board. The auditor's statement of independence was obtained. Warth & Klein Grant Thornton AG Wirtschaftsprüfungsgesellschaft audited the separate and consolidated financial statements of Biofrontera Aktiengesellschaft, which the Management Board prepared, and the combined management report for the 2017 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 25 April 2018 and at the subsequent financial statements meeting of the Supervisory Board on the same day – 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 25 April 2018, as well as the corporate governance declaration.

The Supervisory Board has further informed himself about the results of the audit of the F-1 registration statement prepared by Warth & Klein Grant Thornton AG for the listing of Biofrontera's securities on the NASDAQ Capital Market.

Auditor responsible

Since the 2017 financial year, Dr. Thomas Senger has served Biofrontera AG as the company's mandated independent auditor in the auditing of the financial statements.

Corporate governance and compliance declaration pursuant to Section 161 AktG

Further information on corporate governance is available in the annual report and online at www.biofrontera.com, under "Investors" / "Corporate Governance", as well as in the corporate governance declaration. Details of the Supervisory Board's objectives regarding its composition and the status of implementation are also published there.

Conflicts of interest

Dr. Granzer advised the company in 2017 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 dossiers. 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.

Mr. John Borer is a senior staff member, but not a shareholder of The Benchmark Company, LLC. Along with two further investment banks, The Benchmark Company, LLC, advised Biofrontera AG as part of its US stock market listing. Mr. Borer was not involved in coordination regarding the question of mandating The Benchmark Company, LLC.

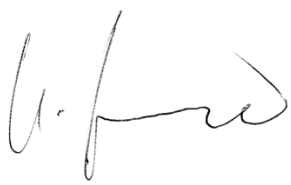
By way of precaution, it should be noted that Deutsche Balaton Aktiengesellschaft, Heidelberg, whose Management Board included Mr. Hansjörg Plaggemars until 31 May 2017, held a total of 8.28 % of the shares and voting rights in Biofrontera Aktiengesellschaft in the reporting year on the basis of published voting rights notifications.

Personnel changes on the Supervisory Board

Mr. Mark Reeth relinquished his mandate as a member of the Supervisory Board with effect as of 31 October 2017. The Cologne District Court appointed Mr. Reinhard Eyring, resident in Kronberg, Taunus, lawyer and partner in the Ashurst LLP legal practice in Frankfurt am Main, as Mr. Reeth's successor as a member of the company's Supervisory Board pursuant to Section 104 (1) and (2) of the German Stock Corporation Act (AktG).

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, dedication and outstanding performance during the past financial year.

Leverkusen, 25 April 2018



Dr. Ulrich Granzer
Chairman of the Supervisory Board

Combined management report for parent company and Group as of 31 December 2017

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 2017 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. The registered office of Biofrontera Inc. is located in Wakefield, Massachusetts, 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 secures 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 CE certificate for BF-RhodoLED®) is responsible for the manufacturing and also the further licensing and marketing of the Biofrontera Group's approved products. Biofrontera Inc. is responsible for US 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 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, which is intended for the treatment of severe chronic urticaria, is now the responsibility of Biofrontera Development GmbH, while the product BF-1, which is intended for the prophylactic treatment of migraines, is the responsibility of Biofrontera Neuroscience GmbH. This outsourcing of development candidates has created a structure through which the financing of the further development of these two products can be uncoupled from the normal Group financing.

Group strategy

The Biofrontera Group's strategic objective is to position itself globally as a pharmaceuticals company specialising in photodynamic therapy (PDT). Focus areas of activity include further expanding our products' sales, as well as extending the approvals of Ameluz® to include further indications to enhance its brand potential.

Biofrontera is the first German start-up 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® to dermatologists in Germany, as well as in Spain since March 2015. Ameluz® is available in the United Kingdom, but will not be actively marketed by Biofrontera until 2018 due to the new indications for field cancerisation, basal cell carcinoma (BCC) and the application of daylight PDT, which by then should have been granted prospectively. Licensing partners distribute the drug in some other European Union countries, as well as in Israel and Switzerland.

A U.S. subsidiary, Biofrontera Inc., based in Wilmington, Delaware, has been set up to market in the USA. The U.S. subsidiary has established all functions and meanwhile received all licences required for a sales and marketing company in the pharmaceuticals and medical products area. Many important aspects such as approvals, production, IT, clinical trials etc. continue to be covered exclusively by the German companies with worldwide responsibility.

For all of the markets Biofrontera serves, Ameluz® is produced by a contract manufacturer in Switzerland. The PDT lamp is produced at Biofrontera's headquarters in Leverkusen, Germany.

After regulatory progress in 2016 was dominated by the important approval of Ameluz® by the American regulator, the FDA, in May 2016, important new indications were subsequently received, especially in Europe. The approval to treat field cancerisation was granted in July 2016, directly followed by the application for the new indication for basal cell carcinoma. The European Commission already issued the approval to treat superficial and nodular basal cell carcinomas in January 2017. In June 2017, Biofrontera applied for an expansion of the approval of Ameluz® to include daylight PDT for actinic keratosis (AC) and field cancerisation, with the positive vote of the European Medicines Agency being granted in January 2018 and approval by the European Commission in March 2018.

Although the potential of Ameluz® is far from being exhausted (Biofrontera is currently pursuing approval for basal cell carcinoma in the USA, too, and the efficacy of PDT for some further indications has already been shown), the company has thereby already succeeded in placing the product outstandingly in the market in both Europe and the USA.

The USA will represent the most important market for Ameluz® long-term. Already half of the sales revenues were generated there in 2017, and these are set to grow further in 2018. For this reason, it is logical that Biofrontera's focus is increasingly directed to the USA. This factor also lies behind the decision to list the company in our largest market, thereby strengthening our credibility to US customers and investors. Especially for this reason, Biofrontera listed the company's shares on the NASDAQ technology stock exchange in February 2018.

The 2017 business year was again a quite crucial and very successful year for Biofrontera, when it made further important preparations for a successful future. Given this, and the related challenges for Biofrontera, the Group also strengthened its personnel base. The number of the company's staff grew from 94 to 123 during the course of 2017, with 48 of these staff already being employed in the USA.

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 significant superiority compared to its direct competitor product Metvix® was proven 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, and thereby form squamous cell carcinoma. The combination of Ameluz® with light treatment is an innovative approach that constitutes a form of photodynamic therapy (PDT). The product information approved by the European Medicines Agency (EMA) explicitly mentions the significant superiority of Ameluz® for removing all of a patient's keratoses compared to its direct competitor product.

In the Phase III approval trials, Ameluz® showed excellent healing rates and demonstrated 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, all keratoses were completely removed in 87% of patients treated with Ameluz®, and as many as 96% were completely eradicated in terms of the number of individual keratosis lesions (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 trial's results 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 both 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 of 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).

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 consideration. All the skin-ageing parameters that were tested improved significantly as a result of the treatment. An improvement in the UV-induced skin ageing 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 skin surface. Whereas twelve weeks after the last PDT, 63% of patients were already free of such cosmetic damage, this percentage rose to 72.2% after a year. 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.

Based on the Phase III trial for field therapy, the European Commission, after a positive vote, approved Ameluz® to treat field cancerisation, and the results relating to an improvement in skin appearance were included in the official product information in the EU.

Two 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.

Based on the aforementioned trials, Biofrontera received approval for Ameluz® in the USA in May 2016. The approved indication relates to "lesion- and field-directed PDT for mild and moderate actinic keratosis on the face and scalp".

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 ("field cancerisation"). 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 occurs to the relevant lesions within two years on average. The fact that doctors are taking actinic keratosis increasingly seriously as a consequence, 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 applying 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 utilised 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 AK-patients treated in the Phase III trial were observed by the trial doctors for 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. In the three trials, patients who had received Ameluz® PDT with an LED lamp had recurrence rates between 22% and 40% after 12 months. The recurrence rate is defined in this context as the percentage of patients exhibiting at least one AC again after 12 months. These figures lie considerably below the recurrence rates for all other AK therapies described in the literature.

The overall advantages of Ameluz® in terms of effectiveness, handling, user-friendliness and skin rejuvenation effects, as well as the high healing and comparatively low recurrence rates of PDT in the treatment of actinic keratoses, lead to the expectation that this treatment option will attract to an even greater extent the attention of dermatologists over the next few years. This will be helped by the expansion in 2017 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 especially 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. 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. The trials results have been available since January 2016 and confirm the company's positive expectations. 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. The clinical endpoint of the trial was the total cure rate for all lesions on each treatment side 12 weeks after treatment. The secondary clinical endpoint comprised determining medication safety and additional efficacy parameters. The trial was jointly directed by Dr. Susana Puig, Research Director at the August Pi I Sunyer Biomedical Research Institute 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 Germany. 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 of 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 proved the non-inferiority (relevant from a regulatory standpoint) of Ameluz® compared with Metvix®. All relevant secondary endpoints produced comparable or higher healing rates for Ameluz® in relation to Metvix®.

While the difference in the healing rates between the two products was quite slight after three months, statistically significant differences were evident during the one-year subsequent observation period. Three months after one-off treatment with daylight PDT, 79.8% of Ameluz® and 76.5% of Metvix® patients were fully clinically healed. One year after treatment, however, 19.9% of lesions were recurring after Ameluz® PDT and 31.6% after Metvix® PDT ($p<0.01$). The recurrence rates for lesions that are more difficult to treat, such as moderately thick lesions (Olsen II) or lesions on the scalp, amounted to 20.5% and 23.4% respectively for Ameluz® and 34.3% and 43.7% respectively for Metvix® ($p<0.01$).

In 2017, Biofrontera applied for the approval of daylight PDT with Ameluz®, and in March 2018 it received approval from the European Commission to treat actinic keratosis and field cancerisation with Daylight PDT. 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. 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. It is anticipated that the significantly superior efficacy one year after PET compared with Metvix® will make market penetration by Ameluz® easier.

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 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 on the best of both nature and science.

The **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.

Other specialist regenerative cosmetic products for skin problems have been developed over the past two years. 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® 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 must 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. In Benelux and Slovenia, Biofrontera cancelled its contracts with its sales partners in 2017, as the local sales revenues generated by these partners failed to justify our regulatory expense.

Ameluz® is marketed in Germany as well as in Spain by Biofrontera's own field sales force, and in other European countries through marketing partners. In the UK, Biofrontera already terminated its contract with a local marketing company on 31 July 2015. As basal cell carcinoma and daylight PDT have now been approved, Biofrontera will become active again in this market with its own sales team. By way of preparation, the company has applied for reimbursement for Ameluz® in its basal cell carcinoma indication. Both the Scottish Medicine Consortium (SMC) as well as the corresponding regulator in Wales have recognised the reimbursement of Ameluz®. The SMC has recommended prescribing Ameluz® to treat superficial or nodular basal cell carcinomas (BCC) within the UK National Health Service (NHS). The Scottish regulator's decision will be accepted within the UK if no separate process is conducted there.

In Germany, 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%, although over the past months of 2016 has receded by a slight proportion due to the launch of a daylight PDT product identical to Metvix®. Although the market share of Ameluz® in conventional PDT rose again in 2017, the PDT market reported strong growth overall especially thanks to daylight PDT, for which Ameluz® was not yet approved during this year. It is expected that daylight PDT will gain market shares in the future that to date have been reserved for self-applied topical creams.

Approval for BCC is a prerequisite for the widespread application of Ameluz® in hospitals, as BCC is mainly treated there, whereas this is only relatively 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 to USD 942 million by 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.

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. In Denmark, Sweden and Norway, Ameluz® is marketed by Desitin Arzneimittel GmbH, and in Austria by Pelpharma Handels GmbH. The contracts with PHA Farmed Consultancy s.p. for Slovenia and with Bipharma N.V. for the Benelux countries were terminated by Biofrontera during the course of 2017, as the revenues achieved by the sales partners in their respective regions were too low to justify the additional regulatory expense incurred. Louis Widmer SA has been granted the Ameluz® distribution licence for Switzerland and Liechtenstein, and the Ameluz® distribution licence for Israel has been granted 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 in Israel started in summer 2017, with very modest sales revenues having been generated to date.

The contracts with the sales partners were 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. Marketing in the USA is being realised 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. Some of the staff have switched from direct competitors to join Biofrontera. Although the medication market for AK as well as the reimbursement systems in US healthcare were intensively analysed in advance with the help of a market access consulting company and an advisory group, the lack of a specific reimbursement code (J-Code) for Ameluz® initially proved to be a major disadvantage. Until an individual reimbursement code was issued – for which Biofrontera applied in January 2017 and which came into force in January 2018 – Ameluz® had to be 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 made it difficult to process the reimbursement at physicians' practices, and consequently continued to hamper sales revenue growth in 2017. Especially as Ameluz® – as a so-called "buy-and-bill" medication – is purchased directly by the physician, the reimbursement risk as well as the additional work entailed in the reimbursement without a special reimbursement code remains with the physician. This reduces the willingness to stock up with larger volumes of the new medication.

The medication and the lamp have been approved as a combination product in the USA. For this reason, their market penetration speeds mutually affect each other. The relevance of lamp sales for Biofrontera sales revenues is less than originally assumed, however, as physicians in the U.S. are very willing to also utilise Ameluz® off-label with other lamps. Physicians are permitted to utilise medications "off-label" outside the approval, although the company is not permitted to market on such a basis.

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 for new product candidates. The plan is that the parties should be joint owners of the intellectual property they develop. In terms of marketing, Biofrontera is to receive the license in Europe. As the agreement is limited to Europe, further regional rights have not yet been discussed or determined. The agreement was initially limited to 31 December 2017 and was extended until 31 March 2018. The parties are currently discussing a potential further extension or expansion.

Patent and trademark developments since 31 December 2016

Nanoemulsion

The "nanoemulsion" patent was issued in September in Hong Kong.

A further office action has been issued for the share of the patent in the USA.

The patent in Argentina is no longer being pursued.

Migraine

The patent "Antimigraine compounds and their use" (US Patent Application No. 14/765,176) was issued in the USA (US 9,708,304).

A further office action was issued for the European part of the patent, which will be responded to by the deadline.

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.

In addition, liquidity trends are utilised as an important key indicator and management metric. Liquidity trends are monitored daily. Liquidity is defined as the sum of the cash position and bank deposits. Furthermore, research & development costs as well as sales & marketing costs and equity form important management metrics.

Key financial performance indicators

Sales revenue

Internal steering focuses on sales revenue trends. Consolidated sales revenue comprises sales to wholesalers, 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) represent 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 2017 financial year for the Biofrontera Group:

- Sales revenue: EUR 12.0 million (prior-year period: EUR 6.1 million), equivalent to year-on-year sales revenue growth of 96%. Significant sales revenue growth in the USA
- Operating result: EUR -13.9 million (prior-year period: EUR -11.8 million)
- Consolidated result before tax: EUR -16.1 million (prior-year period: EUR -10.6 million)
- Liquid assets as of 31 December: EUR 11.1 million (previous year EUR 15.1 million)
- Undiluted earnings per share amounted to EUR -0.42 (previous year EUR -0.36)

Biofrontera Group financial position and performance

Sales revenue

The Biofrontera Group generated EUR 12,025 thousand of sales revenue in the 2017 financial year (previous year EUR 6,130 thousand), representing 96% year-on-year growth. Revenues from the sale of products in Germany increased by 6% to EUR 2,673 thousand (previous year EUR 2,515 thousand), while revenues generated in European countries outside Germany grew by 30% to EUR 1,616 thousand (previous year EUR 1,247 thousand). In the USA, revenues from the sale of products registered significant growth of 448% to EUR 6,312 thousand (previous year EUR 1,153 thousand). After all necessary individual state licenses to distribute pharmaceuticals and medical products in the USA had been acquired, Biofrontera placed product sales under its own management at the start of the second half of 2017. Sales in the USA had previously been processed through a wholesaler as part of a title model. The development partnership with Maruho generated revenue of EUR 1,423 thousand in the 2017 financial year (previous year EUR 1,177 thousand).

In its separate financial statements for the 2017 financial year prepared according to the accounting regulations of the German Commercial Code (HGB), Biofrontera AG reported sales revenue of EUR 2,598 thousand (previous year EUR 2,038 thousand).

Cost of sales, gross profit

The gross profit on sales improved from EUR 4,478 thousand to EUR 10,310 thousand. The gross margin increased to 86%, compared to 73% in the same period in the previous year. The year-on-year gross margin improvement mainly reflects the higher revenue portion from sales markets in the USA and Europe served directly by Biofrontera, where all of the margin generated remains with Biofrontera, by contrast with sales through licence partners.

Moreover, start-up costs to fulfil FDA requirements connected with the approval issued in 2016 were incurred in 2016, which were no longer incurred in 2017. Accordingly, the cost of sales rose only slightly to EUR 1.715 thousand, thereby reaching 14% of sales revenue (previous year EUR 1,652 thousand, or 27%).

Development costs

Research and development costs amounted to EUR 4,225 thousand in the 2017 financial year, compared with EUR 4,640 thousand in the prior-year period. This year-on-year reduction is chiefly due to a decrease in FDA fees to maintain the US approval in the 2017 financial year.

Sales and marketing costs

Sales and marketing costs of EUR 16,922 thousand reflect a 93% increase compared with the previous year's period (EUR 8,764 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. This increase is mainly attributable to expenses for the further establishment and expansion of sales structures, and the marked rise in the number of staff in the USA.

Administrative costs

Administrative costs increased by EUR 244 thousand year-on-year to EUR 3,097 thousand in the 2017 financial year (previous year EUR 2,853 thousand). Financing costs shown under administrative costs include primarily consultancy and placement fees in connection with support for the search for investors. The rise in administrative costs is attributable not least to a greater requirement for legal advice due to lawsuits brought by a shareholder.

Financial result

The financial result chiefly comprises the interest expenses on the 2009/2017 warrant bond calculated applying the effective interest method (EUR 331 thousand; previous year EUR 463 thousand), the 2016/2021 and 2017/2011 convertible bonds placed in 2016 and 2017 (EUR 189 thousand; previous year EUR 13 thousand) as well as the EIB loan made available in July 2017 (EUR 516 thousand; previous year EUR 0 thousand). The aforementioned interest expenses on the warrant bond 2009/2017 of EUR 331 thousand (previous year EUR 463 thousand) include the opposite effect of EUR 146 thousand (previous year EUR 204 thousand) from the repurchase of part of the warrant bond on 28 February 2014. In August 2017, the warrant bond was repaid early at par plus accrued interest.

Other income and expenses

After having generated other income of EUR 2,451 thousand in the 2016 financial year, mainly due to the repayment of the FDA submission fee of EUR 2,140 thousand, other income in the 2017 financial year amounted to EUR 260 thousand. Other expenses rose by EUR 1,285 thousand to EUR 1,333 thousand in the 2017 financial year. This change reflects chiefly currency exchange rate losses on intragroup US dollar loans made by Biofrontera AG to Biofrontera Inc.

Investments

The capital expenditure in the reporting period arises predominantly from the purchase of software (EUR 15 thousand; previous year EUR 25 thousand), right-of-use assets connected with the prototype of the PDT lamp (EUR 99 thousand; previous year EUR 36 thousand), as well as further laboratory devices (EUR 194 thousand; previous year EUR 290 thousand) and other fixtures and equipment (EUR 83 thousand; previous year EUR 117 thousand). The asset disposals with costs totalling EUR 16 thousand (previous year EUR 65 thousand) resulted primarily from sales of the rental lamps in an amount of EUR 16 thousand (previous year EUR 52 thousand).

Inventories

Inventories amount to EUR 3,733 thousand (previous year EUR 3,646 thousand). These included: finished products (Ameluz®) amounting to EUR 598 thousand, BF-RhodoLED® lamps recorded in the inventories amounting to EUR 1,011 thousand, Belixos® products amounting to EUR 90 thousand, merchandise in the amount of EUR 32 thousand as well as work in progress, and raw materials and supplies reported at EUR 2,002 thousand.

Receivables

Trade receivables reduced slightly, by EUR 63 thousand, from EUR 1,624 thousand as of 31 December 2016 to EUR 1,561 thousand in the 2017 financial year.

Share capital

The fully paid in share capital of the parent company, Biofrontera AG, amounted to EUR 38,416,828.00 on 31 December 2017. It was divided into 38,416,828 registered shares with a nominal value of EUR 1.00 each. On 31 December 2016, the share capital amounted to EUR 37,722,433.00 and was increased during the course of the 2017 financial year through the exercising of conversion rights from the 2016/2021 Convertible Bond as well as from the 2017/2022 Convertible Bond by an amount of EUR 694,395.00, divided into 694,395 registered shares.

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. In the 2017 financial year, bonds in a nominal amount of EUR 106,800 were converted into the company's shares. Pursuant to section 12 of the terms and conditions of the bonds, the conversion price was reduced in March 2018 by EUR 0.25 to EUR 4.75.

On 23 December 2016, the company's Management Board approved the issue of a further convertible bond, which was placed in full in an amount of EUR 5.0 million in January 2017. The bond's initial conversion price amounts to EUR 3.50, to EUR 4.00 from 1 April 2017 and to EUR 5.00 from 1 January 2018. The bonds carry 6% p.a. interest on their par value from 1 February 2017. Unless previously converted, the bond is to be repaid in cash on 1 January 2022. As of 31 December 2017, bonds in a nominal amount of EUR 2,337,200 were converted into the company's shares. Pursuant to section 11 of the terms and conditions of the bonds, the conversion price was reduced in March 2018 by EUR 0.25 to EUR 4.75.

Group equity and company equity

The Group has equity amounting to EUR 3,381 thousand based on IFRS accounting principles.

Biofrontera AG has equity of EUR 94,491 thousand as of 31 December 2017 based on accounting standards pursuant to the German Commercial Code (HGB) (previous year EUR 95,566 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 -3,995 thousand (previous year EUR -1,962 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 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 equity and debt funding at their disposal.

Cash flow from operating activities reduced year-on-year, mainly due to the increased net loss, by EUR 2,860 thousand from EUR -10,259 thousand to EUR -13,119 thousand in 2017.

Cash flow from investing activities increased by EUR 80 thousand two EUR -375 thousand, especially due to a reduction in capital expenditure, which decreased by EUR 87 thousand to EUR 397 thousand.

Cash flow from financing activities reduced by EUR 12,429 thousand year-on-year, from EUR 21,881 thousand to EUR 9,451 thousand. In 2017, cash flow from financing activities especially includes proceeds from drawing down the EIB loan in an amount of EUR 10 million less transaction costs, proceeds from the issuance of the convertible bond 2017/22 in an amount of EUR 5.0 million as well as the early repayment of Warrant Bond I including accumulated interest in an amount of EUR 5.2 million, as well as payments for option bonds held by the company in an amount of EUR 1.6 million. The prior-year period was characterised by the issuing of New Shares with total issue proceeds of EUR 24.2 million.

The company was able to meet its payment obligations at all times, but might continue to depend on additional financing measures in the future. To date, Biofrontera has always succeeded in obtaining the necessary financing for its business operations through injections of equity. The company currently has sufficient liquidity available thanks to the first tranche of EUR 10 million of the European Investment Bank (EIB) loan in July 2017, although especially thanks to the proceeds from the capital increase implemented in February 2018.

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

Target attainment in 2017

	Forecast 2017	Revised forecast 2017	Target attainment as of 31/12/2017
Group sales revenue	EUR 14 -18 million	EUR 12 million	EUR 12.0 million
Research and development costs	EUR 6 to 7 million		EUR 4.2 million
Sales and marketing costs	EUR 18 to 21 million		EUR 16.9 million
Administrative costs	EUR 3 to 4 million		EUR 3.1 million
Consolidated result before tax	EUR -14 to -17 million	EUR -18 million	EUR -16.1 million

In 2017, Biofrontera achieved its financial targets based on the forecast it revised in November 2017. The company failed to fully achieve its originally expected sales revenue reflecting start-up difficulties in ramping up sales in the USA due to the lack of a J-Code. Research and development costs fell short of their budgeted amount, as costs for the BCC trial will not be incurred until 2018. Sales and marketing costs were also below budget, as most of the new hires in the USA occurred somewhat later during the year.

The consolidated result before tax of EUR -16.1 million lies within the range of the original expectations, although was slightly more positive than in the revised forecast, as some costs connected with clinical trials as well as legal advisory costs proved somewhat lower than planned.

Personal matters

Management Board

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

The remuneration of the Management Board members consists of a fixed salary that is paid in twelve equal monthly instalments. In addition, 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 2017, 123 employees worked for the Biofrontera Group (previous year 94). Of these, 23 were employed at Biofrontera AG (previous year 20), 13 at Biofrontera Bioscience GmbH (previous year 9) and 39 at Biofrontera Pharma GmbH including the Spanish office (previous year 41). No staff are employed at Biofrontera Development GmbH or Biofrontera Neuroscience GmbH. Biofrontera Inc. employed a total of 48 staff (previous year 24).

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. The Annual General Meeting held on 2 July 2010 granted the Management and Supervisory boards the authorisation to issue, up to 839,500 options to directors and employees over the next 5 years. 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.

The vesting period for the first tranche ran until 24 November 2014, and the vesting period for the second tranche ran until 30 September 2015 or 07 October 2015 respectively. The option rights from the first tranche expired on 24 November 2016 and from the second tranche the option rights expired on 30 September or 07 October 2017 respectively, as the exercise terms were not met. The vesting period for the third tranche ran until 23 March 2016 or 11 May 2016 respectively, and the vesting period for the fourth tranche ended on 02 September 2017. No options had been exercised from these tranches up to the reporting date. No options from the fifth tranche could be exercised due to the vesting period. A total of 142,250 options were forfeited by employees leaving the company.

The cost expensed in the reporting period amounted to EUR 42 thousand (previous year EUR 62 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.

In March 2018, the exercise prices were adjusted pursuant to section 11 of the options' terms and conditions. The exercise price for the third tranche now amounts to EUR 3.02 and EUR 3.81 respectively, for the fourth tranche to EUR 3.093 and for the fifth tranche to EUR 3.15.

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 2015 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 1,814,984 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. On 28 April 2017, a further 329,000 options (third tranche) were issued at an exercise price of EUR 4.02 each and on 28 November 2017 a further 300,500 options (fourth tranche) were issued at an exercise price of EUR 3.33 each. A total of 41,500 options were forfeited by employees leaving the company. Due to the vesting period, no options have yet been exercised or forfeited. As a consequence, 629,983 options are still outstanding on 31 December 2017. The cost expensed in the reporting period amounted to EUR 139 thousand (prior-year period: EUR 49 thousand).

In March 2018, the exercise prices were adjusted pursuant to section 13 of the options' terms and conditions. The exercise price for the first tranche now amounts to EUR 2.25, EUR 3.04 for the second tranche, EUR 3.78 for the third tranche and EUR 3.09 for the fourth tranche.

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	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 consultant, Value Consult, resident in Stuttgart
Kevin Weber	Principal of Skysis, LLC., Scottsdale, AZ, USA, resident in Scottsdale, AZ, USA

Mark Reeth relinquished his Supervisory Board mandate as of 31 October 2017.

Mark Reeth	Attorney, resident in Frederick, MD, USA

Based on a resolution of the Cologne District Court of 1 February 2018, the Supervisory Board includes the following member as a representative of the shareholders:

Reinhard Eyring	Partner of Ashurst LLP law firm, Frankfurt/Main, resident in Kronberg/Taunus.

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 Director Eurohaus Frankfurt AG, Management Board member Youbisheng Green Paper AG, Supervisory Board Chairman Ming Le Sports AG, Supervisory Board Chairman Nordic SSW 1000 Verwaltungs AG, Supervisory Board Chairman Balaton Agro Invest AG, Management Board member Carus AG, Supervisory Board member Deutsche Balaton Immobilien I AG, Supervisory Board member Alpha Cleantec AG, Management Board member Delphi Unternehmensberatung AG, Management Board member Strawtec Group AG, Management Board member S&O Agrar AG, Management Board member
Reinhard Eyring	DESTAG Deutsche Steinindustrie AG, Bensheim, Supervisory Board Chairman Vanguard AG, Berlin, Supervisory Board Chairman

In the 2017 financial year, compensation paid to Supervisory Board members amounted to EUR 110 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. 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 2017 financial year, advisory services amounting to EUR 34 thousand (previous year EUR 10 thousand) were provided by Granzer Regulatory Consulting & Services. Accounts payable to Granzer Regulatory Consulting & Services amounted to EUR 0 thousand on 31 December 2017 (31 December 2016: EUR 7 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.

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 2017 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. These ensure that risks of relevance the company are identified and evaluated at an early stage. They also serve to rapidly seize 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.

The Risk Manager 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.

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 approval processes. Problems at, or with, such suppliers can place a burden on, 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 endeavours to counterbalance such 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 exert 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 further expansion of business, the company's survival will continue to 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 and growth 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.

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.

Staff

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 is always succeeded in recruiting the qualified staff the company requires. For this reason, the company regards this risk as low.

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.

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 held 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 potentially depend on additional financing measures in the future. To date, Biofrontera has always succeeded in providing the necessary financing for its business operations through equity or debt funding. The company currently has sufficient liquidity available thanks to the issuing of the subordinated convertible bonds in January 2017, the drawing down of an initial tranche of EUR 10 million from the European Investment Bank loan, although especially thanks to the proceeds from the capital increase implemented in February 2018.

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

Law and compliance

The Group may be subject 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 exert a negative effect on the company's success and performance.

Litigation

In June 2017, the company was served a lawsuit by shareholder Deutsche Balaton Aktiengesellschaft, in which this shareholder asserts the invalidity of certain resolutions of the Ordinary AGM of 24 May 2017. The Cologne Regional Court rejected the lawsuit in December 2017, as the plaintiff lacked right of action. Deutsche Balaton appealed this ruling January 2018,

submitting its statement on its grounds for appeal in March 2018. The company has applied for this appeal to be rejected. The plaintiff has failed to render a statement of its case. As a consequence, the reasons for the rejection of the lawsuit by the Cologne Regional Court are unchanged.

Furthermore, the same shareholder has applied to the Cologne Regional Court for a special audit in order to investigate the contractual situation with Maruho Co. Ltd., Japan, and some further business transactions. This application for special audit was already declined without a hearing of the company in November 2017. Deutsche Balaton has lodged a related complaint. Deutsche Balaton and its affiliated company Delphi Unternehmensberatung AG respectively had also already submitted an identical application for a special audit at the company's Ordinary AGM, where it was also declined by a large majority of the votes present. The company regards the allegations made in the application as being without substance. From the company's perspective, they serve solely to discredit the Management and Supervisory boards of Biofrontera AG.

In March 2018, DUSA Pharmaceuticals Inc. brought a lawsuit against Biofrontera AG and all subsidiaries before the District Court of Massachusetts due to alleged infringement of its patents No. 9,723,991 and No. 8,216,289. The sales of our BF-RhodoLED® in the USA would be affected. The company is currently examining these claims. It anticipates only a low commercial risk to derive from them, however.

Forecast report (outlook)

Biofrontera has rapidly established its subsidiary in the USA and hired many qualified staff. We will further strengthen our marketing and sales activities in the EU and in the USA in 2018, and hire further staff, although the number of new hires will reduce considerably compared with the previous year. 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. To prepare for the new BCC indication in the USA, the study protocol for the planned Phase III trial is currently being discussed with the American regulator, the FDA. We will begin the trial as soon as the related agreement with the FDA has been reached, prospectively in the second half of 2018. In connection with this trial and the current Phase III trial for actinic keratosis on the trunk and extremities, Biofrontera will also invest funds this year in new indications for Ameluz®. In March 2018, the European Commission issued a new indication for daylight PDT in the EU. We expect this new indication to positively affect sales revenue growth in Europe. In the USA, we anticipate marked sales revenue growth in 2018. In particular, the issuing of an individual billing code for Ameluz (J-Code) as well as an increase in the billing possibilities for physicians when performing PDT (CPT-Codes) should exert a positive effect on the course of our business.

Forecast of key financial figures

For the 2018 financial year, Biofrontera expects revenue from product sales to lie in an approximate range between EUR 16 million and EUR 20 million. The termination of the license agreement with Bipharma B.V. for Belgium and the Netherlands in 2017 will exert only minor effects on sales revenue, as we also achieved only a low level of revenue with this license partner in the past. Despite the aforementioned positive developments, it remains very difficult to plan sales revenue growth, thereby leading to a considerable fluctuation range in achievable sales revenues. The sales revenues referred to in this forecast do not include any income from the research partnership with Maruho. The original cooperation agreement has meanwhile expired. It will be possible to forecast potential future sales revenues only once a new agreement has been concluded with Maruho.

Biofrontera anticipates approval and development costs of around EUR 6 million to EUR 7 million excluding potential R&D costs from the collaboration with Maruho. In a similar manner to sales revenue, it will only be possible to forecast such costs after a new cooperation agreement has been concluded with Maruho. Sales and marketing costs represent the by far largest operative cost block. We expect a further slight increase in such costs in 2018, principally because of the staff hired during the course of last year. Their related costs will be expensed on a full-year basis in 2018. Besides this, we will occasionally hire further staff and invest to a greater extent in conferences and marketing activities. We expect that sales and marketing costs will amount to an approximate total between EUR 18 million and EUR 20 million. Administrative costs will rise slightly compared with 2017 and stand at between EUR 7 million and EUR 8 million approximately. This is chiefly attributable to the establishment of support functions in the USA, such as finance, compliance and customer services, as well as higher auditing costs reflecting the considerably greater scope of our US business. The planned administrative costs in USA of approximately EUR 2 million will be reported under administrative costs from the 2018 financial year, rather than under sales and marketing costs. We continue to expect rising costs for legal advice due to the many lawsuits brought by an activist shareholder.

No significant investments in property, plant and equipment are planned for 2018.

The financial result reflects interest payments and the reversal of discounts applied under the effective interest method to the still-outstanding convertible bond as well as interest payments for the European Investment Bank loan. This will amount to a total of approximately EUR -1 million.

With the aforementioned conditions and forecasts, the company will achieve a consolidated result of EUR -15 million to EUR - 16 million in 2018. Attaining this result depends significantly on sales revenue trends.

Remuneration report

The total remuneration paid to members of the Management Board in the 2017 financial year and the total accumulated number of stock options issued to the Management Board were as follows as of 31 December 2017:

	Prof. Dr. Hermann Lübbert	Thomas Schaffer	Christoph Dünwald
Non-performance-based salary component 2017	EUR 366 thousand	EUR 241 thousand	EUR 242 thousand
Non-performance-based salary component 2016	EUR 363 thousand	EUR 213 thousand	EUR 236 thousand
Performance-based salary component 2017	EUR 76 thousand	EUR 67 thousand	EUR 48 thousand
Performance-based salary component 2016	EUR 72 thousand	EUR 63 thousand	EUR 6 thousand
Stock options (31 December 2017)	236,850	125,000	90,000
Fair value when granted (2017)	EUR 299 thousand	EUR 145 thousand	EUR 112 thousand
Stock options (31.12.2016)	196,850	85,000	50,000
Fair value when granted (2016)	EUR 227 thousand	EUR 83 thousand	EUR 50 thousand
thereof granted in 2017	70,000	40,000	40,000
thereof granted in 2016	80,000	50,000	50,000

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) all members of the Management Board 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 program 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 were granted to the Chief Executive Officer, and the other Management Board members were each granted 50,000 options. In the 2017 financial year 70,000 options were granted to the Chief Executive Officer, and the other Management Board members were each granted 40,000 options.

Options granted in the 2010 financial year forfeited in November 2016 and options granted in the 2100 financial year forfeited in September 2017.

Members of the Management Board held the following other supervisory board positions and positions on comparable domestic and foreign boards during the reporting period:

Thomas Schaffer Industrial Tracking Systems AG, Fürstenfeldbruck, Chairman of the Supervisory Board

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 the stand-alone as well as the consolidated group 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 stand-alone as well as the consolidated group 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 stand-alone as well as the consolidated group financial statements. Any risks identified must be assessed with regard to their influence on the stand-alone as well as the consolidated group 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 stand-alone and consolidated group financial statements and all the processes relevant to the preparation of those same 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 the U.S., shares of Biofrontera AG are traded as American Depositary Shares (ADS) under the ticker symbol BFRA. One ADR securitises the right to two ordinary shares of Biofrontera AG.

Shareholders

The numbers of shares held by the shareholders on 31 December 2017, based on the most recent compulsory disclosures of the shareholders, are as follows:

	31.12.2017 EUR	31.12.2016 EUR
Maruho 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	7,631,586
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	3,400,907
Semper Constantia Invest GmbH, Vienna, Austria	1,165,212	N/A
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	25,419,660	25,890,477
Total	**38,416,828**	**37,722,433**

Share capital

On 31 December 2017, the fully paid-in share capital of the parent company, Biofrontera AG, amounted to EUR 38,416,828.00. It was divided into 38,416,828 registered shares, each with a nominal value of EUR 1.00. On 31 December 2016, the share capital amounted to EUR 37,722,433.00 and was increased during the course of the 2017 financial year through the exercising of conversion rights from the 2016/2021 Convertible Bond as well as from the 2017/2022 Convertible Bond by an amount of EUR 694,395.00, divided into 694,395 registered shares.

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 included in the Prime Standard of the Frankfurt Stock Exchange.
The introduction on the NASDAQ Stock Market in the U.S. occurred on 13 February 2018.

Existing capital

The company's share capital is conditionally increased by up to EUR 4,137,201.00 by the issuing of up to 4,137,201 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 further 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 Management Board is authorised until 23 May 2022, with Supervisory Board approval, to increase the company's share capital by up to EUR 6,000,000 through the issuing, either once or on several occasions, of up to 6,000,000 ordinary registered shares against cash capital contributions (Approved Capital I). The Management Board is authorised, with Supervisor approval, to determine the further content of the share rights and the terms of the share issue. The new shares are to be offered to the shareholders for subscription. Subscription rights can also be indirectly granted to the shareholders pursuant to Section 186 (5) of the German Stock Corporation Act (AktG). The Management Board is authorised, with Supervisory Board approval, to exclude shareholders' subscription rights for fractional amounts. The Supervisory Board is authorised to adapt the wording of Section 7 of the bylaws after the complete or partial implementation of the share capital increase in accordance with the respective utilisation of Approved Capital I and, if Approved Capital I has not been utilised, or has not been fully utilised, by 23 May 2022, after the expiry of the authorisation period.

The share capital is conditionally increased by up to EUR 500,000 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 EUR 1,814,984 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 February 2018 generated changes relating to Approved Capital as well as the corresponding authorisations of the Management Board. Further information on this can be found in the supplementary report.

Corporate governance statement pursuant to Section 289f HGB and Section 315d HGB including the statement on the German Corporate Governance Code required by Section 161 AktG

Pursuant to Sections 289f and 315d 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/Group management report or 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, 25 April 2018
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 Sections 297 (2) Clause 4 and 315 (1) Clause 5 HGB

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, 25 April 2018
Biofrontera AG

Prof. Dr. Hermann Lübbert

Thomas Schaffer

Christoph Dünwald

Consolidated balance sheet as of 31 December 2017

Assets

In EUR thousands		31 December 2017	31 December 2016
Non-current assets			
Tangible assets	(1)	746	645
Intangible assets	(1)	648	1,252
Total Non-current assets		**1,394**	**1,897**
Current assets			
Current financial assets			
Trade receivables	(3)	1,561	1,624
Other financial assets	(4)	571	670
Cash and cash equivalents	(7)	11,083	15,126
Total Current financial assets		**13,215**	**17,420**
Other current assets			
Inventories	(2)		
Raw materials and supplies		1,516	1,350
Unfinished products		485	477
Finished products and goods		1,732	1,819
Income tax reimbursement claims	(6)	52	33
Other assets	(5)	1,454	883
Total Other current assets		5,239	4,562
Total Current assets		**18,454**	**21,982**
Total assets		**19,848**	**23,879**

The accompanying notes are an integral part of these consolidated financial statements.

Liabilities

In EUR thousands		31 December 2017	31 December 2016
Equity	(9)		
Subscribed capital		38,417	37,722
Capital reserve		100,769	98,677
Capital reserve from foreign currency conversion adjustments		700	(154)
Loss carried forward		(120,403)	(109,824)
Net loss of the year		(16,102)	(10,579)
Total equity		**3,381**	**15,842**
Long-term liabilities			
Long-term financial liabilities	(10)	12,355	3,597
Current liabilities			
Current financial liabilities			
Trade payables	(11)	1,084	2,093
Current financial debt	(9)	170	274
Other financial liabilities	(13)	20	59
Total current financial liabilities		**1,274**	**2,426**
Other current liabilities			
Income tax provision	(8)	-	-
Other provisions	(12)	2,535	1,824
Other current liabilities	(13)	303	190
Total other current liabilities		2,838	2,014
Total Current liabilities		**4,112**	**4,440**
Total equity and liabilities		**19,848**	**23,879**

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income for the 2017 financial year

In EUR thousands		01.01.-31.12.2017	01.01.-31.12.2016
Sales revenue	(15)	12,025	6,130
Cost of sales	(16)	(1,715)	(1,652)
Gross profit from sales		10,310	4,478
Operating expenses			
Research and development costs	(17)	(4,225)	(4,640)
General administrative costs	(19)	(3,097)	(2,853)
thereof financing costs		(583)	(826)
Sales costs	(18)	(16,922)	(8,764)
Total Operating expenses		**(24,244)**	**(16,257)**
Loss from operations		**(13,934)**	**(11,779)**
Interest expenses	(20)	(1,133)	(1,207)
Interest income	(20)	38	3
Other expenses	(21)	(1,333)	(47)
Other income	(21)	260	2,451
Total interest and other (expenses)/income		**(2,168)**	**1,200**
Loss before income tax	(23)	**(16,102)**	**(10,579)**
Income tax		-	-
Loss for the period	(23)	**(16,102)**	**(10,579)**
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		854	(153)
Other income total	(23)	854	(153)
Total loss for the period		**(15,248)**	**(10,732)**
Basic/diluted earnings per share	(22)	(0.42)	(0.36)

Both the profit/loss for the year and the total profit/loss for the period (comprehensive income) are fully attributable to the shareholders of Biofrontera AG.

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity for the 2017 financial year

	Ordinary shares number	Subscribed capital EUR thousands	Capital reserve EUR thousands	Capital from foreign currency conversion adjustments EUR thousands	Accumulated loss EUR thousands	Total EUR thousands
Balance as of 1 January 2016	**25,490,430**	**25,490**	**79,526**	**(1)**	**(109,824)**	**(4,809)**
Capital increase	9,870,333	9,870	14,648	-	-	24,518
Conversion from convertible bond 2016/2021	1,603,050	1,603	3,231	-	-	4,834
Exercise of detachable warrant rights from warrant bond 2011/2016	758,620	759	1,487	-	-	2,246
Foreign currency conversion adjustment	-	-	-	(153)	-	(153)
Costs of equity procurement	-	-	(321)	-	-	(321)
Changes in capital reserves pursuant to the issuance of the convertible bond 2016/2021	-	-	(4)	-	-	(4)
Increase in capital reserve from the stock option programme	-	-	110	-	-	110
Net loss of the year	-	-	-	-	(10,579)	(10,579)
Balance as of 31 December 2016	**37,722,433**	**37,722**	**98,677**	**(154)**	**(120,403)**	**15,842**
Conversion from convertible bond 2016/2021	26,700	27	74	-	-	101
Conversion from convertible bond 2017/2022	667,695	668	1,837	-	-	2,505
Foreign currency conversion adjustment	-	-	-	854	-	854
Increase in capital reserve from the stock option programme	-	-	181	-	-	181
Net loss of the year	-	-	-	-	(16,102)	(16,102)
Balance as of 31 December 2017	**38,416,828**	**38,417**	**100,769**	**700**	**(136,505)**	**3,381**

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated cash flow statement for the 2017 financial year

In EUR thousands		01.01.-31.12.17	01.01.-31.12.16
Cash flows from operations			
Loss for the period		(16,102)	(10,579)
Adjustments to reconcile loss for the period to cash flow into operations			
Financial result		1,094	1,204
Depreciation		884	831
Losses from disposal of assets		-	5
Non-cash expenses and (income)		1,080	(51)
Changes in operating assets and liabilities			
Trade receivables		63	(729)
Other assets and income tax assets		173	(750)
Inventories		(86)	(2,112)
Trade payables		(1,010)	1,050
Provisions		711	782
Other liabilities		74	90
Net cash flow used in operational activities		**(13,119)**	**(10,259)**
Cash flows from investment activities			
Purchase of intangible and tangible assets		(397)	(484)
Interest received		6	3
Proceeds from sale of intangible and tangible assets		16	26
Net cash flow used in investment activities		**(375)**	**(455)**
Cash flows from financing activities			
Proceeds from the issue of shares		-	24,518
Costs of equity procurement		(664)	(321)
Proceeds from issuance of convertible bonds 2016/2021		-	4,995
Proceeds from the exercise of detachable warrants from warrant bond 2011/2016		-	2,246
Proceeds from issuing convertible bonds 2017/2022		4,999	-
Proceeds from repayment of option bonds 2009/2017		1,590	-
Interest paid		(598)	(842)
Proceeds from drawing down EIB loans		10,000	-
Cash outflow for EIB loan procurement costs		(650)	-
Repayment of warrant bond 2011/2016		-	(8,715)
Repayment of warrant bond 2009/2017		(5,226)	-
Net cash flows provided by financing activities		**9,451**	**21,881**
Net (decrease)/increase in cash and cash equivalents		(4,043)	11,167
Cash and cash equivalents at the beginning of the period		15,126	3,959
Cash and cash equivalents at the end of the period		**11,083**	**15,126**
Composition of financial resources at the end of the period			
Cash and cash equivalents	(26)	11,083	15,126

The accompanying notes are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements as of 31 December 2017

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 Wakefield, Massachusetts, research, develop and market dermatological products. Biofrontera AG is the ultimate company which prepares consolidated financial statements for the group companies. The company's strategic objective is to position itself globally as a pharmaceuticals company specialising in photodynamic therapy (PDT). Focus areas of activity include further expanding our products' sales, as well as extending the approvals of Ameluz® to include further indications to enhance its brand potential. 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 German pharmaceutical start-up company to receive centralised European and U.S. 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 March 2018, European approval was expanded again to include treatment with daylight PDT. In May 2016, the U.S. Food and Drug Administration (or "FDA") issued approval in the U.S. 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 marketed. 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-ageing properties especially for light-damaged skin, followed in July 2015. Belixos® Körpercreme (body cream) has been created to meet the widespread demand for a larger packaging of Belixos® Creme, and is ideal for application to larger skin areas. 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 U.S., 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 U.S. was issued on 10 May 2016, with the U.S. market launch occurring in October 2016. A further Phase III trial on the treatment of basal cell carcinoma formed the basis for the expansion of the existing European approval for this indication, which was issued in January 2017. Ameluz® was also tested in a Phase III trial relating to application in daylight PDT in a direct comparison with its competitor product. This study formed the basis for the European Commission to issue a further expanded approval in March 2018. In August 2017, the FDA confirmed in writing the regulatory path agreed with Biofrontera at a formal meeting for the treatment of basal cell carcinoma with Ameluz®. The study protocol for a Phase III approval test that has yet to be conducted is currently being discussed with the FDA.

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

In July 2016, the company entered into a research collaboration and partnership with Maruho Co., Ltd, ("Maruho"), a Japanese company specialising in dermatology, in which possibilities to jointly develop pharmaceutical products for the European market 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 collaboration and partnership with Maruho. According to the agreement, Maruho will bear all costs connected with the exploratory research of new product candidates. The plan is that the parties should be joint owners of the intellectual property

they develop. In terms of marketing, Biofrontera is to receive the license in Europe. As the agreement is limited to Europe, further regional rights have not yet been discussed or determined. The agreement was initially limited to 31 December 2017 and was extended until 31 March 2018. The parties are currently discussing a potential further extension or expansion.

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 2017 to 31 December 2017 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 2017.

Standards, amendments to standards and interpretations applied for the first time in the consolidated financial statements for 31 December 2017 are:

Standard / Interpretation	First-time mandatory application in the EU
Amendments to IAS 7 "Statements of Cash Flows": Disclosure Initiative	1 January 2017
Amendments to IAS 12 "Income Taxes": Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017
Amendments IFRS 12 "Disclosures of Interests in Other Companies": Annual Improvements Project Cycle 2014-2016	1 January 2017

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 that can be applied early voluntarily, but have not yet been applied early voluntarily:

Standard / Interpretation	First-time mandatory application in the EU
IFRS 15 "Revenue from Contracts with Customers"	1 January 2018
IFRS 9 "Financial Instruments"	1 January 2018
IFRS 16 "Leases"	1 January 2019
Amendments to IFRS 2 "Share-based Payment": Classification and Measurement of Share-based Payment Transactions	1 January 2018
Amendments to IFRS 4 "Insurance Contracts": Applying IFRS 9 Financial Instruments together with IFRS 4 Insurance Contracts	1 January 2018
Amendments to IFRS 9 “Financial instruments”: Early repayment regulations with negative compensation	1 January 2018
Amendments to IFRS 15 "Revenue from Contracts with Customers" Clarifications	1 January 2018
Amendments to IFRS 1 "First-Time Application of IFRS": Annual Improvements Project Cycle 2014-2016	1 January 2018
Amendments to IAS 28 "Interests in Associates and Joint Ventures": Annual Improvements Project Cycle 2014-2016	1 January 2018
IFRIC 22 “Transactions in foreign currency and advance consideration”	1 January 2018
Amendments to IAS 40 "Investment Property": Transfers of Investment Property	1 January 2018

Standards and interpretations not (yet) applicable in the EU:

Standard / Interpretation	First-time mandatory application in the EU
Amendments to IAS 19 "Employee Benefits": Employee	Not yet known
Amendments to IAS 28 "Interests in Associates and Joint Ventures": Long-Term Interests in Associates and Joint Ventures	Not yet known
IFRS 14 "Regulatory Deferral Accounts"	No EU recognition
IFRS 17 "Insurance Contracts"	Not yet known
IFRIC 23 "Uncertainty about Income Tax Treatment"	Not yet known
Annual Improvements Project Cycle 2015-2017	Not yet known
Changes to references to the framework concept in IFRS standards	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.

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.

In the U.S., some lamps (RhodoLED® (PDT lamp)) are made available to physicians in return for a fee for an up to six-month evaluation period. A final decision to purchase does not need to be made until the end of this period. In 2017, the company generated revenues from the monthly fees during the evaluation period, although not yet already from the sale of lamps. To this extent, this relates to a matter to be assessed for the first time in 2018, from which no transition effects arise. Otherwise, in relation to the product sales and revenues from the collaboration and partnership agreement with Maruho, no changes arise in revenue recognition due to the first-time application of IFRS 15 in 2018. IFRS 15 will lead to a greater scope of mandatory disclosures.

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 is not less than 12 months or it is not a minor asset (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. Based on the existing agreements, Biofrontera acts as both a lessor and as a lessee in operating leases. Given the significant expansion of the U.S. business in relation to lamps (BF-RhodoLED® (PDT lamp)), it is expected that the first-time application of IFRS 16 in 2019 will increase assets proportionally to the increase in liabilities for a net effect of zero on the balance sheet. The gross effect, however, cannot yet be estimated as the likelihood of a customer exercising a contractual option currently cannot be estimated. Management does not have historical data on which an estimate can be developed.

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. According to the amended impairment model, too, no effects are expected given the continued lack of receivables defaults.

The accounting policies applied are consistent with those applied on 31 December 2016, with the exception of the new and revised standards and interpretations described above that were applied from the 2017 financial year for the first time.

The consolidated financial statements as at 31 December 2017 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 to some extent subdivided according to their respective terms in the notes to the consolidated financial statement for 31 December 2017. 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 2017 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 25 April 2018, the Management Board approved the consolidated financial statements for the financial year ending 31 December 2017 for publication and forwarding to the Supervisory Board.

Basis of consolidation

The consolidated financial statements for the financial year ending 31 December 2017 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. 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., Wakefield, Massachusetts, U.S., with a direct interest of 100%

The basis for the consolidation of the companies included in the consolidated financial statements are the financial information of these companies prepared for 31 December 2017 pursuant to uniform principles. The consolidated financial statements for 31 December 2017 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.

Immaterial Error Correction to previously issued consolidated financial statements

The company has made an immaterial error correction to the consolidated financial statements as of and for the years ended 31 December 2016 and 2015.

Management determined that it had incorrectly disclosed operating and financing cash flows related to non-cash components of its convertible warrant bonds. This resulted in a gross-up of operating and financing activities in the net amount of EUR 0.5 million and EUR 62 thousand as of 31 December 2016 and 2015, respectively. The error had no impact on revenues or the results of operations for any periods presented.

No correction was necessary as of and for the period ending 31 December 2017.

Translation of amounts in foreign currencies

The consolidated financial statements for 31 December 2017 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 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 (2017: 1.2022 USD/EUR, previous year 1.052 USD/EUR). Income and expense items are translated applying the average exchange rates (2017: 1.1301 USD/EUR, previous year 1.107 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 2017 in accordance with IFRS required the use of estimates and assumptions by the management that affect the value of 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 also made as part of fair value measurement pursuant to IFRS 13.

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".

Tangible assets

Pursuant to IAS 16, tangible assets are recognised on the balance sheet at historical acquisition and production cost less scheduled depreciation.

Depreciation of tangible assets 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, trade payables and receivables as well as financial debt. Biofrontera does not deploy any financial derivatives, apart from the derivative embedded within the EIB loan (so-called performance component). Due to the short terms of the trade payables and trade receivables, the carrying amounts of such items correspond to their fair values. The remaining related receivables and liabilities are classified to "Other Assets" or "Other Provisions", respectively. The financial liabilities are measured applying the effective interest method.

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 31 December 2016, Biofrontera had in its portfolio holdings of its own Warrant Bond I 2009/2017 with a nominal value of EUR 1.5 million. In 2016, the company identified an error related to the financial instruments held to maturity made in 2014 and 2015. The warrant bonds were incorrectly impaired based on then existing market conditions in the amount of EUR 0.1 million and EUR 0.2 million, respectively. Management concluded that an adjustment would be immaterial to the current and prior years both individually and in the aggregate. In order to correct the error, an out of period adjustment to reverse the cumulative impairment of EUR 0.3 million was recorded in the period ended December 31, 2016. In accordance with IAS 32, the bonds are reported on a net basis with the corresponding bond debt.

As of 31 December 2017, through the repayment of the 2009/2017 as discussed in the notes below, the company no longer holds any amount of their own financial instruments.

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 using a Monte Carlo valuation model.

Warrant bonds

In accordance with IAS 32, warrant and convertible bonds are classified as compound 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 inception, the fair value of the liability component is the present value of the contractually agreed future cash flows discounted at the market interest rate prevailing at that date for financial instruments that have a similar credit status and that generate substantially the same cash flows under the same conditions, but for which no exchange or subscription option exists. Subsequent measurement is based on the effective interest method.

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.

Convertible bonds

Convertible bonds comprise compound financial instruments, which are to be allocated to a debt component (bond) and an equity component (conversion right) on initial recognition. The debt component (bond) is to be recognised at fair value when the contract is concluded. The fair value in this context is calculated by discounting the contractually determined future payments applying a standard market interest rate for a comparable bond without a conversion right. The issuer's default risk is also to be taken into consideration. The equity component (conversion right) is calculated as the difference between the issue proceeds and the present value of the liability (equity derivative, residual value method).

The following differentiation is made as part of the subsequent recognition of the convertible bond: The debt component is carried forward at amortised purchase cost applying the effective interest method. The equity component is not subject to any subsequent measurement.

EIB loan with an embedded derivative requiring separation

In May 2017, the company arranged a loan agreement for up to EUR 20 million with the European Investment Bank (EIB).

The loan is unsecured and guaranteed by our major subsidiaries. It is available in tranches within a two-year period. In July 2017, the company drew down the first tranche of EUR 10 million, with two further tranches of EUR 5 million each being accessible after certain milestones have been achieved. Each tranche must be paid back within five years after it has been made available. The loan contains three different interest components: 1) a variable interest component, entailing quarterly interest payments on the outstanding amounts based on 3-month EURIBOR plus a risk premium; 2) a fixed component at 6% per annum which is due at term-end; and 3) a performance component which is due at the term-end, and whose level is derived from the market capitalisation of Biofrontera AG but limited to a 4% per annum interest rate. The loan carries standard market interest.

The loan is carried forward at amortised purchase cost applying the effective interest method.

The performance component represents a separable financial instrument in the form of an embedded derivative, which is measured at fair value on each reporting date, and is to be classified to a fair value hierarchy of level 3.

The market capitalisation at maturity is the same as that of the measurement cut-off date, which is based on the 90 trade days preceding the measurement cut-off date. The performance-based interest payment for the first tranche is calculated based on a notional 0.64% participation rate in the market capitalisation. This is discounted to the measurement cut-off date applying a market interest rate.

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

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

Leasing

The leases that have been entered into are classified as either finance leases or operating leases. If the lessor has transferred all significant risks and opportunities onto the Group as a lessee, the Group is assigned beneficial ownership. The companies included in the consolidated financial statements have contracts that are classified as operating leases. As such, ongoing lease payments are expensed as they are incurred. Leases, if any, 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. Finance lease assets are 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 uncertain.

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 are enforceable. The receipt of revenue is 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 opportunities have been passed to the acquirer.

Most of the revenues are generated by product sales. In accordance with respective local legislation concerning the marketing of pharmaceuticals and medical products, Ameluz® is sold exclusively through pharmaceutical wholesalers or directly to hospitals in Germany, as well as directly to pharmacies and hospitals in other European countries. In the U.S., Ameluz® is reimbursed as a so-called "buy-and-bill drug" and consequently marketed directly to physicians. Additionally in 2017, revenue was generated through passing costs on to Maruho Co. Ltd as part of the agreed development collaboration and partnership.

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 service 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 U.S., some lamps are made available to physicians in return for a fee for an up to six-month evaluation period. A final decision to purchase does not need to be made until the end of this period. The company generated revenues from the monthly fees during the evaluation period, and from the sale of lamps.

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.

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

Cost of sales

The cost of sales includes material costs for sold products, payments to third parties for services directly attributable to revenue generation, as well as directly attributable personnel expenses and depreciation, as well as proportional overhead expenditures.

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 U.S. 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 the U.S., 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 and tangible assets

Changes in non-current assets in the 2017 financial year, as well as accumulated depreciation, amortisation and impairment losses, are presented in the statement of changes in non-current assets. Tangible assets consist mainly of office and business equipment and laboratory and production facilities.

The additions to intangible assets and to tangible assets in the reporting period arise mainly from the purchase of software (EUR 15 thousand; previous year: EUR 25), right-of-use assets connected with the prototype of the PDT lamp (EUR 99 thousand; previous year: EUR 36 thousand), as well as further laboratory devices (EUR 194 thousand; previous year: EUR 290 thousand) and other fixtures and equipment (EUR 83 thousand; previous year: EUR 117 thousand). The asset disposals with costs totalling EUR 16 thousand (previous year EUR 66 thousand) resulted primarily from sales of the rental lamps in an amount of EUR 16 thousand (previous year EUR 52 thousand).

The right-of-use assets reported with a net carrying amount totalling EUR 0.6 million relate mainly to rights totalling EUR 0.5 million 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 1 year (previous year: 2 years). No indications of impairment exist.

Consolidated statement of changes in non-current assets in 2017

	Cost					Accumulated depreciation, amortisation and impairment losses					Carrying amounts	
	1 Jan. 17 kEUR	Currency translation	Additions kEUR	Disposals kEUR	31 Dec. 17 kEUR	1 Jan. 17 kEUR	Currency translation	Additions kEUR	Disposals kEUR	31 Dec. 17 kEUR	31 Dec. 17 kEUR	31 Dec. 16 kEUR
I. Tangible assets												
Operating and business equipment	3,834	(7)	278	16	4,089	3,189	(2)	167	11	3,343	746	645
II Intangible assets												
1. Software and licences	444	(1)	15	-	458	304	-	124	-	428	30	140
2. Right-of-use assets	6,089	-	99	-	6,188	4,977	-	593	-	5,570	618	1,112
Total Intangible assets	6,533	(1)	114	-	6,646	5,281	-	717	-	5,998	648	1,252
Total non-current assets	**10,367**	**(8)**	**392**	**16**	**10,735**	**8,470**	**(2)**	**884**	**11**	**9,341**	**1,394**	**1,897**

Consolidated statement of changes in non-current assets in 2016

	Cost					Accumulated depreciation, amortisation and impairment losses					Carrying amounts	
	1 Jan. 16 kEUR	Currency translation	Additions kEUR	Disposals kEUR	31 Dec. 16 kEUR	1 Jan. 16 kEUR	Currency translation	Additions kEUR	Disposals kEUR	31 Dec. 16 kEUR	31 Dec. 16 kEUR	31 Dec. 15 kEUR
I. Tangible assets												
Operating and business equipment	3,477	2	420	65	3,834	3,104	-	120	35	3,189	645	373
II Intangible assets												
1. Software and licences	419	-	25	-	444	295	-	9	-	304	140	124
2. Right-of-use assets	6,053	-	36	-	6,089	4,275	-	702	-	4,977	1,112	1,778
Total Intangible assets	6,472	-	61	-	6,533	4,570	-	711	-	5,281	1,252	1,902
Total non-current assets	**9,949**	**2**	**481**	**65**	**10,367**	**7,674**	**-**	**831**	**35**	**8,470**	**1,897**	**2,275**

2. Inventories

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

No impairment losses were recorded for inventories in 2017 (previous year: EUR 0).

Inventories amount to EUR 3.7 million (previous year EUR 3.6 million). 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 receivable 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 since no receivables existed that were overdue as of 31 December 2017. For 31 December 2016, no value adjustments were recognized.

4. Other financial assets

The other financial assets comprise mainly prepayments rendered for studies (EUR 0.4 million; previous year: EUR 0.6 million) and the depositing of collateral, mainly for credit cards and leased vehicles (EUR 0.1 million; previous year: EUR 0.1 million). No individual value adjustments were applied during the reporting year (previous year: EUR 0).

5. Other assets

The other assets consist mainly of prepaid assets (EUR 0.5 million; previous year: EUR 0.7 million) and deferred costs for equity procurement measures (EUR 0.9 million, previous year: EUR 0) in connection with the admission to listing on the NASDAQ Stock Exchange on 13 February 2018, which were offset with the capital reserve on the listing date.

No individual value adjustments were applied during the reporting year (previous year: EUR 0).

Prepaid assets of 0.7 million, which were reported as other financial assets in the previous year, were reclassified to other assets in order to conform to the current year presentation of the balance sheet.

6. Income tax reimbursement claims

These consist of claims for tax refunds relating to withheld capital gains tax, plus the Solidarity Surcharge (EUR 52 thousand; previous year EUR 33 thousand).

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 a total of EUR 11.1 million (previous year EUR 15.1 million). 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

The following table shows changes in the Group's existing deferred tax assets deriving, as a matter of principle, from tax loss carryforwards:

	31 December 2017		31 December 2016	
	Loss carried forward	Deferred tax assets	Loss carried forward	Deferred tax assets
	EUR thousands	EUR thousands	EUR thousands	EUR thousands
Corporation tax including Solidarity Surcharge	119,725	18,947	111,742	17,683
Business tax	107,962	17,949	100,716	16,744
U.S. corporation tax	8,026	2,007	1,673	418
Total		**38,903**		**34,845**

These loss carryforwards have an unlimited carryforward period under current German law. In the USA, tax loss carryforwards can be carried forward for 20 years in each case.

Due to the lack of predictability regarding future taxable profits, the existing deferred tax assets deriving, as a matter of principle, from loss carryforwards (EUR 38.9 million; previous year EUR 34.8 million) and deferred tax assets of EUR 321 thousand (previous year EUR 244 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:

	31.12.2017	31.12.2016
	EUR thousands	EUR thousands
Consolidated earnings before tax	(16,102)	(10,579)
Expected income tax reimbursement at the tax rate of the parent company	**5,226**	**3,433**
Differences arising from different tax rates	586	215
Adjustments of deferred taxes due to tax rates	(121)	(145)
- From temporary differences	(1,014)	(251)
- From loss carry forwards		
Tax increases due to non-deductible expenses	(646)	(238)
Changes in unrecognised deferred tax assets		
- from active temporary differences	(194)	(241)
- from loss carryforwards	(4,161)	(2,529)
Other effects	(323)	(248)
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 38,416,828 on 31 December 2017. It was divided into 38,416,828 registered shares with a nominal value of EUR 1.00 each. On 31 December 2016, the share capital amounted to EUR 37,722,433 and was increased during the course of the 2017 financial year through the exercising of conversion rights from the 2016/2021 Convertible Bond as well as from the 2017/2022 Convertible Bond by an amount of EUR 694,395, divided into 694,395 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 2.4 million 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 4.5 million. 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 2.5 million 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 5.0 million 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.

In November 2016, 49,990 subordinated convertible 2016/2021 bonds were issued in a total nominal amount of EUR 5.0 million ("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. In the 2017 financial year, bonds in a nominal amount of EUR 106,800 were converted into the company's shares. Pursuant to section 12 of the bonds' terms and conditions, the conversion price was reduced in March 2018 by EUR 0.25 to EUR 4.75.

The exercising of 751,460 warrant rights from the 2011/2016 warrant bond generated issue proceeds of EUR 2.2 million in the 2016 financial year.

On 23 December 2016, the company's Management Board approved the issue of a further convertible bond, which was placed in full in an amount of EUR 5.0 million in January 2017. The bond's initial conversion price amounts to EUR 3.50, to EUR 4.00 from 1 April 2017 and to EUR 5.00 from 1 January 2018. The bonds carry 6% per annum interest on the par value from 1 February 2017. Unless previously converted, the bond is to be repaid in cash on 1 January 2022. As of 31 December 2017, bonds in a nominal amount of EUR 2,337,200 were converted into the company's shares. Pursuant to section 11 of the bonds' terms and conditions, the conversion price was reduced in March 2018 by EUR 0.25 to EUR 4.75.

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 included in the Prime Standard of the Frankfurt Stock Exchange.

The introduction on the NASDAQ Stock Market in the U.S. occurred on 13 February 2018. Shares in Biofrontera AG are traded there as American Depositary Shares (ADS) under the ticker symbol BFRA. One ADS securitises the right to two ordinary shares of Biofrontera AG.

The numbers of shares held by the shareholders on 31 December 2017, based on the most recent disclosure of the shareholders, are as follows:

	31.12.2017 EUR	31.12.2016 EUR
Maruho 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	7,631,586
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	3,400,907
Semper Constantia Invest GmbH, Vienna, Austria	1,165,212	N/A
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	25,419,660	25,890,477
Total	**38,416,828**	**37,722,433**

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.

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

The following positions were reported in connection with the convertible bonds and bonds with warrants as of 31 December 2017 and 31 December 2016:

	31.12.2017 EUR thousands	31.12.2016 EUR thousands
Non-current financial liabilities (measured at amortised cost)	2,693	3,597
Current financial debt (accrued interest from nominal interest rate)	85	273
Capital reserve (equity component: 2016/2021 convertible bond)	348	348
Capital reserve (equity component: 2011/2016 warrant bond)	1,227	1,227
Capital reserve (equity component: 2009/2017 warrant bond)	1,485	1,485
Capital reserve (equity component: 2017/2022 convertible bond)	296	-

The interest effects from the convertible bonds on non-current liabilities were calculated at 7.9% per annum for the 2016/2021 convertible bond on initial measurement, and at 7.6% per annum for the 2017/2022 convertible bond.

In accordance with IAS 32.37, equity procurement costs in connection with capital increases are deducted from the capital reserve. The deduction in the year under review amounted to EUR 0 (previous year: EUR 0.3 million). In 2018, the EUR 0.9 million of equity procurement costs incurred as part of the capital increase through the IPO in the U.S., which were

deferred as other assets as of 31 December 2017, plus further equity procurement costs incurred in 2018, will be deducted from the capital reserve.

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' share of profits 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 839,500was 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 payment being provided in return. On 24 November 2010, 106,400 options (first tranche) were issued with an exercise price per share of EUR 1.91. On 30 September and 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 3.37 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 vesting period. The vesting 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 the vesting 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. The pro rata amounts are recognised in instalments over the vesting period until the end of the vesting 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 vesting period for the first tranche ran until 24 November 2014, and the vesting period for the second tranche ran until 30 September 2015 Or 07 October 2015 respectively. The option rights from the first tranche expired on 24 November 2016 and from the second tranche the option rights expired on 30 September 2017 or 07 October 2017 respectively, as the exercise terms were not met.

The vesting period for the third tranche ran until 23 March 2016 or 11 May 2016 respectively, and the vesting period for the fourth tranche ended on 02 September 2017. No options had been exercised from these tranches up to the reporting date.

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

A total of 141,750 options associated with the 2010 stock option programme 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.

In March 2018, the exercise prices were adjusted pursuant to section 11 of the options' terms and conditions. The exercise price for the third tranche now amounts to EUR 3.02 and EUR 3.81 respectively, for the fourth tranche to EUR 3.093 and for the fifth tranche to EUR 3.15.

The cost expensed in the reporting period amounted to EUR 42 thousand for 2017 (previous year EUR 62 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 18/09/2015 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 of 1 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 2016 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), a dividend 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 the Capital Asset Pricing Model) 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 an unchanged 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, a further 130,500 options (second tranche) were issued with an exercise price of EUR 3.28 each.

On 28 April 2017, a further 329,000 options (third tranche) were issued at an exercise price of EUR 4.02 each and on 28 November 2017 a further 300,500 options (fourth tranche) were issued at an exercise price of EUR 3.33 each. Due to the vesting period, none of these options have yet been exercised or forfeited.

The cost expensed in the reporting period amounted to EUR 0.1 million (prior-year period: EUR 49 thousand).

A total of 41,500 options associated with the 2015 stock option programme were forfeited by employees leaving the company.

In March 2018, the exercise prices were adjusted pursuant to section 13 of the options' terms and conditions. The exercise price for the first tranche now amounts to EUR 2.25, EUR 3.04 for the second tranche, EUR 3.78 for the third tranche and EUR 3.09 for the fourth tranche.

2010 share option programme	31.12.2017	31.12.2016
Outstanding at the beginning of the period	439,500	534,400
Granted during the period	-	-
Forfeited during the period	4,500	13,500
Exercised during the period	-	-
Expired during the period	70,650	81,400
Outstanding at the end of the period	364,350	439,500
Exercisable at the end of the period	-	-
Range of exercise prices for outstanding options	EUR 3.26 – 4.05	EUR 2.44 – 4.05
Weighted average of remaining contractual life	18 months	27 months

2015 share option programme	31.12.2017	31.12.2016
Outstanding at the beginning of the period	548,000	-
Granted during the period	629,500	555,500
Forfeited during the period	34,000	7,500
Exercised during the period	-	-
Expired during the period	-	-
Outstanding at the end of the period	1,143,500	548,000
Exercisable at the end of the period	-	-
Range of exercise prices for outstanding options	EUR 2.49 – 4.02	EUR 2.49 – 3.28
Weighted average of remaining contractual life	60 months	59 months

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 million, 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 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 4.9 million.

With the early call of this warrant bond, the principal repayment of EUR 4.9 million plus the premium of EUR 0.3 million and resultant interest owing for the 1 January 2017 to 2 August 2017 period of EUR 0.2 million was disbursed on 3 August 2017 (previous year EUR 0.4 million). Offsetting this, the warrant bonds the company holds itself with a par value of EUR 1.5 million plus the premium of EUR 90 thousand and the resultant interest receivables of EUR 71 thousand (previous year: EUR 0.1 million) were credited.

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.

As of 31 December 2017, bonds in a nominal amount of EUR 4.9 million were converted into the company's shares.

In March 2018, the conversion price was reduced to EUR 4.75 pursuant to section 12 of the bonds' terms and conditions.

The term of the **2017/2022 convertible bond** begins on the date of its initial issue ("issue date") and ends on 31 December 2021.

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

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 March 2017, the initial conversion price amounts to EUR 3.50 per share. From 1 April 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.

As of 31 December 2017, bonds in a nominal amount of EUR 2.3 million were converted into the company's shares.

In March 2018, the conversion price was reduced to EUR 4.75 pursuant to section 11 of the bonds' terms and conditions.

Loan from the European Investment Bank

The note is carried forward at amortised purchase cost applying the effective interest method. As of 31 December 2017, the carrying amount of the note was EUR 9.1 million.

As a variable interest component and also as a separable financial instrument in the form of an embedded derivative, the performance component is subsequently measured at fair value. The discounted interest payment and the fair value of the performance component respectively amounted to EUR 0.6 million as of 31 December 2017.

The contractual interest and repayment obligations relating to warrant bonds, the convertible bonds and the EIB loan are composed as follows on the balance sheet date:

EUR thousands	31.12.2017					
	2018	2019	2020	2021	2022	Total
Convertible bond 2016/2021:						
Principal repayment				83		83
Interest payment	5	5	5	5		20
Convertible bond 2017/2022:						
Principal repayment					2,662	2,662
Interest payment	160	160	160	160	80	720
EIB loan						
Principal repayment					10,000	10,000
Interest payment	380	405	433	461	3,926	5,605

The position was as follows in the previous year:

EUR thousands	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 2016/2021:						
Principal repayment					190	190
Interest payment	11	11	11	11	11	55

11. Trade payables

The trade payables (EUR 1.1 million; previous EUR 2.1 million) decreased by EUR 1.0 million from the previous year.

12. Other provisions

Other provisions report the following changes:

Biofrontera Group	EUR thousands 01.01.2017	Utilisation	Released	Added	Translation difference current year	EUR thousands 31.12.2017
Bonuses for employees	506	484	0	1,162	(21)	1,162
Outstanding vacation	198	187	0	263	(11)	263
Outstanding invoices	936	710	45	775	(27)	929
Costs for financial statements and auditing	154	140	14	143	0	143
Other provisions	30	5	0	12	0	38
Total provisions	**1,824**	**1,526**	**59**	**2,356**	**(59)**	**2,535**

Other provisions concern various individually identifiable risks and contingent liabilities. Provisions classified as current are expected to lead to an outflow of economic benefits prospectively within the subsequent financial year.

13. Other financial and other current liabilities

	31 December 2017 EUR thousands	31 December 2016 EUR thousands
Payroll tax	184	114
Social security	29	14
Credit card payments	4	28
Wages and salaries	89	57
Other	16	35
	323	**249**

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- to medium-term. The performance component represents one exception, although this is mitigated by a limit to 4% of the market price risk. 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. The Biofrontera Group was exposed to foreign currency risks on the balance sheet date, especially through the intragroup loan to the subsidiary Biofrontera Inc.

Foreign currency risk: The Biofrontera Group was exposed to foreign currency risks on the balance sheet date, especially through the intragroup loan to the subsidiary Biofrontera Inc. Trade payables denominated in foreign currency are of minor importance. The trade receivables are generated from business expansion in the U.S. in a greater scope than in the past and are regularly checked for potential default risk. The company does not conclude any special hedging transactions. Currency exchange rate fluctuations are recognised in profit or loss.

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.

As of 31 December 2017, Biofrontera held no financial positions that were exposed to interest rate risks.

We measured the USD 15 million intercompany loan existing as of 31 December 2017 at the reporting date rate of 1.20 USD/EUR. If these loans remain at the same level over the entire 2018 financial year, a 5% change in the exchange rate would lead to a EUR 0.6 million change in the result in the "other expenses and income" item in the income statement.

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 2017 financial year, no individual value adjustments were made for other financial assets (prior-year period: EUR 0); in addition, no individual value adjustments were applied to trade receivables in the 2017 financial year (prior-year period: 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 has financial instruments at levels 1, 2 and 3. No reclassifications between the individual fair value hierarchy levels were implemented in the 2017 financial year. In the case of the financial liabilities, the non-current and current financial liabilities belong to Level 1 (EUR 11.9 million; 31 December 2016: EUR 3.7 million) and Level 2 (EUR 80 thousand; 31 December 2016: EUR 0.2 million) and Level 3 (performance component of the EIB loan) (EUR 0.6 million; 31 December 2016: EUR 0).

Biofrontera reports under other operating expenses value adjustments to trade receivables and miscellaneous financial obligations allocable to the "loans and receivables" category. The losses from the currency translation derived mainly from the USD/EUR translation of the intercompany USD loan extended by Biofrontera AG to Group company Biofrontera Inc. This loan is eliminated as part of consolidation and is consequently not presented in the following tables. 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 31.12.2017 (EUR thousands)	Fair value	Carrying amounts					Net gains (+) or losses (-)
			Loans and receivables	Financial instruments measured at fair value through profit or loss	Financial assets available-for-sale	TOTAL CARRYING AMOUNTS	
Financial assets							-
Liquid assets	11,083		11,083			11,083	-
Trade accounts receivable	1,561		1,561			1,561	(1)
Miscellaneous current financial receivables and assets	571		571			571	(13)
TOTAL	**13,215**		**13,215**	**-**	**-**	**13,215**	**(14)**

Financial liabilities on 31.12.2017 (EUR thousands)	Fair value	Carrying amounts					Net gains (+) or losses (-)
		Other liabilities	Financial instruments measured at fair value through profit or loss			TOTAL CARRYING AMOUNTS	
Financial liabilities Current	171	171				171	-
trade accounts payable	1,084	1,084				1,084	(48)
Other financial Liabilities, current	20	20				20	-
Other Financial liabilities, non-current	12,355	11,803	552			12,355	32
TOTAL	**13,629**	**13,077**	552	**-**	**-**	**13,629**	**(16)**

Financial assets on 31.12.2016 (EUR thousands)	Fair value	Carrying amounts					Net gains (+) or losses (-)
			Loans and receivables	Financial instruments measured at fair value through profit or loss	Financial assets available-for-sale	TOTAL CARRYING AMOUNTS	
Financial assets							-
Liquid assets	15,126		15,126			15,126	79
Trade accounts receivable	1,624		1,624			1,624	-
Miscellaneous current financial receivables and assets	670		670			670	-
TOTAL	**17,420**		**17,420**	**-**	**-**	**17,420**	**79**

Financial liabilities on 31.12.2016 (EUR thousands)	Fair value	Carrying amounts					Net gains (+) or losses (-)
		Other liabilities	Financial instruments measured at fair value through profit or loss			TOTAL CARRYING AMOUNTS	
Financial liabilities, current	274	274				274	-
Trade accounts payable	2,093	2,093				2,093	(73)
Other financial Liabilities, current	58	58				58	-
Other Financial liabilities, non-current	3,597	3,597				3,597	-
TOTAL	**6,023**	**6,023**	**-**	**-**	**-**	**6,023**	**(73)**

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 2017, cash and cash equivalents totalling EUR 11.1 million (31 December 2016:

EUR 15.1 million) 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 for the 2017 financial year

15. Sales revenue

The Biofrontera Group generated EUR 12.0 million of sales revenue in the 2017 financial year (previous year: EUR 6.1 million), corresponding to 96% year-on-year growth. Revenues from the sale of products in Germany increased by 6% to EUR 2.7 million (previous year EUR 2.5 million), while revenues generated in European countries outside Germany grew by 30% to EUR 1.6 million (previous year EUR 1.3 million). In the U.S., revenues from the sale of products registered significant growth of 447% to EUR 6.3 million (previous year: EUR 1.2 million). After receiving all individual state license required for business operations in the U.S., Biofrontera took over management their product sales at the start of the second half of 2017. Sales had previously been processed as part of a distribution agreement in form of a title model through a wholesaler. The development collaboration and partnership agreement with Maruho generated revenue of EUR 1.4 million in 2017 (previous year: EUR 1.2 million).

16. Cost of sales, gross profit

The gross profit on sales improved from EUR 4.5 million to EUR 10.3 million. The gross margin increased to 86%, compared to 73% in the same period in the previous year. The year-on-year gross margin improvement mainly reflects the higher revenue portion from sales markets in Europe and the U.S. served directly by Biofrontera, where the margin generated remains 100% with Biofrontera, by contrast with sales through licence partners. Moreover, manufacturing expenses to fulfil FDA requirements in connection with the approval issued in 2016 were incurred in 2016, which were no longer incurred in 2017.

Accordingly, the cost of sales rose only slightly to EUR 1.7 million, thereby reaching 14% of sales revenue (previous year: EUR 1.7 million, or 27%).

17. Development costs

Research and development costs amounted to EUR 4.2 million in 2017, as compared with EUR 4.6 million in the prior year. This reduction in costs is primarily the result of a decrease in FDA fees to maintain the U.S. approval in 2017 as compared to prior year.

18. Sales costs

Sales and marketing costs of EUR 16.9 million reflect a 93% increase compared with the previous year's period (EUR 8.8 million). The sales and marketing costs include the costs of our own field sales team in Germany, Spain and in the U.S., as well as marketing expenses. This increase is mainly attributable to expenses for the further establishment and expansion of sales structures, and the marked rise in the number of sales staff in the U.S.

19. Administrative costs

Administrative costs increased by EUR 0.2 million to EUR 3.1 million in 2017 (previous year EUR 2.9 million). Financing costs shown under administrative costs include consultancy and placement fees in connection with support for the search of investors, to the extent that they were not allocable to IPO costs. The rise in administrative costs is attributable not least to a greater requirement for legal advice due to lawsuits brought by an individual shareholder.

20. Financial result

The financial result primarily relates to the interest expenses on the 2009/2017 warrant bond calculated applying the effective interest method (EUR 0.3 million; previous year: EUR 0.5 million), the 2016/2021 and 2017/2022 convertible bonds placed in 2016 and 2017 (EUR 0.2 million; previous year: EUR 13 thousand) as well as the EIB loan made available in July 2017 (EUR 0.5 million; previous year: EUR 0). The aforementioned interest expenses on the warrant bond 2009/2017 of EUR 0.3 million (previous year EUR 0.5 million) include the opposite effect of EUR 0.2 million (previous year EUR 0.2 million) from the repurchase of part of the warrant bond on 28 February 2014. In August 2017, the warrant bond was repaid early at par plus accrued interest.

21. Other expenses (income), net

After having generated other income of EUR 2.5 million in 2016, primarily due to the repayment of the FDA submission fee of EUR 2.1 million, other income in 2017 amounted to EUR 0.3 million. Other expenses rose by EUR 1.3 million to EUR 1.3 million in 2017. This change mainly reflects currency exchange rate losses on the intragroup USD loan.

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.

	31.12.2017	31.12.2016
Number of weighted ordinary shares in circulation (on average)	38,076,087	29,742,634
Net loss for the year in EUR (in thousands)	(16,102)	(10,579)
Basic/diluted earnings per share in EUR	**(0.42)**	**(0.36)**

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 1.5 million for 2017 (previous year EUR 1.2 million).

Depreciation, amortisation and impairment losses

Depreciation and amortisation on tangible and intangible assets of EUR 0.9 million in 2017 and of EUR 0.8 million in the previous year is included in the following items in the statement of comprehensive income:

	31.12.2017 EUR thousands	31.12.2016 EUR thousands
Research and development costs	707	689
General administrative costs	142	127
Cost of sales	17	9
Sales and marketing	18	6
Depreciation, amortisation and impairment losses	**884**	**831**

Personnel costs

	31.12.2017 EUR thousands	31.12.2016 EUR thousands
Wages and salaries	11,349	5,753
Social security charges	1,627	908
Costs for pension schemes	66	33
Total	**13,042**	**6,694**

24. Staff

During 2017, we had on average 119 (previous year: 74) employees worldwide, of whom 106 (previous year: 60) were full-time. 21 (previous year: 16) of whom hold Ph.D. or M.D. degrees, 15 (previous year: 13) of whom were engaged directly or indirectly in production, 12 (previous year: 7) of whom were engaged in research, clinical development and regulatory activities, 51 (previous year: 28) of whom were engaged in marketing and sales activities, and 41 (previous year: 26) of whom were engaged in management, business development or marketing, finance, human resources or administrative support. Of our 119 (previous year: 74) total employees, 69 (previous year: 56) worked in Germany, 44 (previous year: 12) worked in the U.S., and 6 (previous year: 5) worked in Spain.

25. Other information

Operating 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:

	2017 kEUR	2016 kEUR	2017 kEUR	2016 kEUR	2017 kEUR	2016 kEUR
	≤ 1 year		1 year to 5 years		> 5 years	
Operating lease committments						
Leases for business premises	516	520	1,780	1,870	1,188	1,620
Leases for cars	395	274	390	375	-	-
Operating and business equipment	21	23	16	37	-	-

Lease-related expenses for the reporting period amounted to EUR 516 thousand (previous year EUR 237 thousand).

In the USA, BF RhodoLED® lamps are also offered under leasing agreements. In the first six months, these contracts are accounted for as operating leases. After six months, the customer has the option to either return or purchase the lamp. The agreed purchase price can then be paid immediately in full or over a period of another 24 months. If payment is made for a further 24 months, the contracts are accounted for as financing leases. In fiscal year 2017, we generated income of EUR 27 thousand from operating leases. Future lease payments in the next 12 months from existing operating leases at 31 December 2017 amount to approximately EUR 27 thousand. As of December 31, 2017 we generated no financing lease revenue.

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.

The interest paid amounted to EUR 0.6 million (previous year: EUR 0.8 million) and results from the two interest payments for the Warrant Bond I rendered in 2017. First, on 1 January 2017 for the 2016 financial year and, second, on 3 August 2017 as part of the accrued interest for 2017 on the Warrant Bond I, which was called early. Moreover, in July 2017, the interest payment for the first five months of the 2017/2022 convertible bond as well as the quarterly payment for the first interest component of the EIB loan for the third quarter of 2017 was paid in October 2017.

Interest received amounted to EUR 6 thousand (previous year EUR 3 thousand), consisting of interest received for deposits

Reconciliation of liabilities from financing activities

(in EUR thousands)	31.12.2016	Non-cash changes			31.12.2017
		Cash flow	Addition/ retirement	Fair value change	
Non-current financial liabilities	**3,597**	**10,713**	**(1,922)**	**(32)**	**12,355**
Repayment of warrant bond 2009/17	3,419	(3,636)	217	-	-
Convertible bond 2016/21	178	-	(99)	-	79
Convertible bond 2017/22	-	4,999	(2,469)	-	2,530
EIB loan	-	9,350	429	(32)	9,747
Current financial liabilities	**274**	**(598)**	**494**	**-**	**170**
Interest on warrant bond 2009/17	274	(436)	162	-	-
Interest on convertible bond 2016/21	-	-	5	-	5
Interest on convertible bond 2017/22	-	(66)	146	-	80
Interest on EIB loan	-	(96)	182	-	86
Total financial liabilities	**3,871**	**10,115**	**(1,428)**	**(32)**	**12,526**

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. With a Supervisory Board resolution of 19 July 2017, the service contract with Christoph Dünwald and his appointment as a member of the Management Board was extended until 30 November 2020.

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 2017 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 1.3 million (previous year EUR 1.1 million). This was allocated as follows:

	Prof. Dr. Hermann Lübbert	Thomas Schaffer	Christoph Dünwald
Non-performance-based salary component 2017	EUR 366 thousand	EUR 241 thousand	EUR 242 thousand
Non-performance-based salary component 2016	EUR 363 thousand	EUR 213 thousand	EUR 236 thousand
Performance-based salary component 2017	EUR 76 thousand	EUR 67 thousand	EUR 48 thousand
Performance-based salary component 2016	EUR 72 thousand	EUR 63 thousand	EUR 6 thousand
Stock options (31 December	236,850	125,000	90,000
Fair value when granted (2017)	EUR 299 thousand	EUR 145 thousand	EUR 112 thousand
Stock options (31.12.2016)	196,850	85,000	50,000
Fair value when granted (2016)	EUR 227 thousand	EUR 83 thousand	EUR 50 thousand
thereof granted in 2017	70,000	40,000	40,000
thereof granted in 2016	80,000	50,000	50,000

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

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

Thomas Schaffer	Industrial Tracking Systems AG, Fürstenfeldbruck, Supervisory Board Chairman

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	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 consultant, Value Consult, resident in Stuttgart
Kevin Weber	Principal of Skysis, LLC., Scottsdale, AZ, USA, resident in Scottsdale, AZ, USA

Mark Reeth relinquished his Supervisory Board mandate as of 31 October 2017.

Mark Reeth	Attorney, resident in Frederick, MD, USA

Based on a resolution of the Cologne District Court of 1 February 2018, the Supervisory Board includes the following member as a representative of the shareholders:

Reinhard Eyring	Partner of Ashurst LLP law firm, Frankfurt/Main, resident in Kronberg/Taunus.

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 Director Eurohaus Frankfurt AG, Management Board member Youbisheng Green Paper AG, Supervisory Board Chairman Ming Le Sports AG, Supervisory Board Chairman Nordic SSW 1000 Verwaltungs AG, Supervisory Board Chairman Balaton Agro Invest AG, Management Board member Carus AG, Supervisory Board member Deutsche Balaton Immobilien I AG, Supervisory Board member Alpha Cleantec AG, Management Board member Delphi Unternehmensberatung AG, Management Board member Strawtec Group AG, Management Board member S&O Agrar AG, Management Board member
Reinhard Eyring	DESTAG Deutsche Steinindustrie AG, Bensheim, Supervisory Board Chairman Vanguard AG, Berlin, Supervisory Board Chairman

In the 2017 financial year, compensation paid to Supervisory Board members amounted to EUR 0.1 million (previous year EUR 0.1 million). 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. 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 U.S. During the course of the 2017 financial year, advisory services amounting to EUR 34 thousand (previous year EUR 10 thousand) were provided by Granzer Regulatory Consulting & Services. Accounts payable to Granzer Regulatory Consulting & Services amounted to EUR 0 on 31 December 2017 (31 December 2016: EUR 7 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.

This development partnership generated revenue of EUR 1.4 million in 2017 (previous year: EUR 1.2 million). Receivables due from Maruho amounted to EUR 0.1 million as of 31 December 2017 (31 December 2016: EUR 0.5 million).

In 2017, 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 Group companies, internal offsetting is applied, which is reviewed and adjusted to requirements on an annual basis.

30. Auditor's fees and services

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

	2017 in EUR thousands	2016 in EUR thousands
Auditing services	360	239
[of which for the previous year]	[22]	[50]
	360	**239**

Besides the statutory auditing of the separate annual and consolidated financial statements of Biofrontera AG, the auditing services also include the auditors review of the condensed half-year financial statements and interim management report as well as the audit of the 2015 and 2016 consolidated financial statements for the purposes of the NASDAQ listing in 2018.

31. Events after the reporting date

By order of the Cologne District Court 1 February 2018, Mr. Reinhold Eyring, partner of the Ashurst LLP legal practice in Frankfurt, was appointed to be a member of the Supervisory Board. He is appointed until the next Ordinary Annual Gen Meeting of Biofrontera AG.

Shares of Biofrontera have been listed on the NASDAQ Stock Exchange in the U.S. since 14 February 2018. The American Depositary Shares (ADS) that are traded on NASDAQ each securitise the right to two no par value ordinary shares of Biofrontera AG.

The company implemented the capital increase in connection with the NASDAQ listing. The company's share capital was increased by EUR 6.0 million by way of a capital increase against cash capital contributions through issuing 6.0 million new ordinary registered shares each with a proportional amount in the share capital of EUR 1.00 ("New Shares"). Statutory subscription rights were granted to shareholders subject to a fractional amount. The New Shares also served as the basis to create ADS that are publicly offered in the U.S. Each ADS securitises two of the company's ordinary shares. In the U.S., ADS were offered to investors for purchase subject to the shareholders' subscription right to the New Shares. A total of 1.2 million ADS were placed. The subscription price for the New Shares was set on 9 February 2018 at EUR 4.00 per New Share. The net proceeds from the capital measures amounted to EUR 21.6 million.

In March 2018, the company announced the early repayment of the Convertible Bond 2016-21 as of 30 April 2018.

In March 2018, the exercise prices for the two convertible bonds were reduced by EUR 0.25 each to EUR 4.75, pursuant to the bonds' terms and conditions.

On 5 March 2018, the European Commission issued approval for daylight therapy with Ameluz® to treat actinic keratosis and field cancerisation.

In March 2018, DUSA Pharmaceuticals Inc filed a lawsuit against Biofrontera AG and all subsidiaries in the District Court of Massachusetts alleging infringement of its patents No. 9,723,991 and No. 8,216,289 relating to the sale of our BF-RhodoLED® in the United States. The Company is currently reviewing these claims, but expects only a minor economic risk from them.

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

Leverkusen, 25 April 2018

Prof. Dr. Hermann Lübbert
Chief Executive Officer

Thomas Schaffer
Chief Financial Officer

Christoph Dünwald
Chief Sales and Marketing Officer

Independent Auditor's Report

To Biofrontera AG

Report on the Audit of the Consolidated Financial Statements and of the Group Management Report

Audit Opinions

We have audited the consolidated financial statements of Biofrontera AG, Leverkusen, and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 December 2017, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated cash flow statement and the notes to the consolidated financial statements for the financial year from 1 January 2017 to 31 December 2017 including a summary of significant accounting policies. In addition, we have audited the group management report of Biofrontera AG which has been combined with the management report (hereinafter: group management report) for the financial year from 1 January 2017 to 31 December 2017. In accordance with the German legal requirements, we have not audited the content of the Corporate Governance Declaration pursuant to Section 289f HGB [Handelsgesetzbuch: German Commercial Code] and Section 315d HGB.

In our opinion, on the basis of the knowledge obtained in the audit,

the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315e para. 1 HGB and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at 31 December 2017 and of its financial performance for the financial year from 1 January 2017 to 31 December 2017, and

the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the group management report does not cover the content of the above listed Corporate Governance Declaration pursuant to Section 289f HGB and Section 315d HGB.

Pursuant to Section 322 para. 3 sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the Audit Opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with Section 317 HGB and the EU Audit Regulation (No. 537/2014; referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is

sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the group management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from 1 January 2017 to 31 December 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, we do not provide a separate audit opinion on these matters.

From our point of view the following matters were most significant during our audit:

❶ Accounting for a Loan from the European Investment Bank
❷ Revenue recognition from the sale of Ameluz® in the U.S.
❸ Non-recognition of deferred tax assets on loss carryforwards in Germany

Our presentation of the key audit matters has been structured as follows:

① Financial statement risk
② Audit approach
③ Reference to related disclosures

❶ Accounting for a Loan from the European Investment Bank

① Financial Statement Risk

In the consolidated financial statements of Biofrontera AG liabilities arising from a loan agreement with the European Investment Bank (EIB) over EUR 20.0 million concluded in May 2017 are accounted for under non-current financial liabilities as of 31 December 2017. The loan is guaranteed by the major group companies, but otherwise unsecured, and is available in tranches within a two-year period. In July 2017, the company drew down the first tranche of EUR 10.0 million. Two further tranches of EUR 5.0 million each being accessible after contractually agreed milestones have been achieved. Each tranche must be paid back within five years after it has been made available. The loan contains three different interest components. A variable interest component, entailing quarterly interest payments on the outstanding amounts based on 3-month EURIBOR plus a risk premium; a fixed component at 6% per annum which is due at term-end; and a performance component which is due at the term-end, and whose level is derived from the market capitalisation of Biofrontera AG but limited to a 4% per annum interest rate. Due to the last-mentioned interest component, the EIB loan is a compound financial instrument. For measurement purposes, the tranche drawn down was divided as of date initial recognition into a performance component and a loan payable. Both elements are considered liabilities. Within the subsequent measurement, the loan payable was measured at amortised cost, while the performance component was measured at fair value as of the balance sheet date, which is derived from the estimation as of the balance sheet date concerning the future market capitalisation of Biofrontera AG as of date of repayment of the relevant tranche.

Due to the novelty of the nature of the financial instrument for Biofrontera AG, its volume and the complexity of its recognition and measurement as well as its importance for the financial position and financial performance of the Biofrontera group, this matter was of particular importance in our audit.

② Audit Approach

As part of our audit of the accounting for the EIB loan, we identified material contract terms of the loan agreement with EIB and conducted a critical analysis of the expert's report obtained by the Management of Biofrontera AG concerning matters related to accounting and valuation issues under IFRS. In this respect, at first we analysed the assessment of the accounting for the financial

instrument as of date of initial recognition and the resulting valuation issues. We assessed the mathematical correctness of the valuation model developed by the expert. We evaluated the derivation of the material valuation parameters included in the valuation model – especially the expected future market capitalisation as well as the effective interest rates – and developed own estimates of sensitive valuation parameters, and compared them with the valuation parameters used by the expert.

③ Reference to related Disclosures

The disclosures of Biofrontera AG concerning the accounting policies used for the EIB loan are included in section “Summary of significant accounting policies – EIB loan with an embedded derivative requiring separation” of the notes to the consolidated financial statements, the disclosures concerning the valuation and presentation as of the balance sheet date are included in sections “Notes to the consolidated balance sheet – 10. Financial liabilities” and “14. Reporting on financial instruments” in the notes to the consolidated financial statements.

❷ Revenue recognition from the sale of Ameluz® in the U.S.

① Financial Statement Risk

In the consolidated financial statements of Biofrontera AG, revenues amounting to EUR 12.0 million are recognised, including revenues from product sales in the U.S. in the amount of KEUR 6.3 million. Revenues are recognised in accordance with IAS 18 if the risks and opportunities connected with ownership are transferred to the customer. In the U.S., Ameluz®, a drug independently developed by Biofrontera, is reimbursed by health insurers as a so-called “buy-and-bill drug” and consequently marketed directly to physicians. In the U.S., revenues from the sale of products registered significant growth by EUR 5.1 million to EUR 6.3 million (previous year EUR 1.2 million) in the reporting year. Therefore, the increase of revenues from EUR 6.1 million (prior year) by EUR 5.9 million or approximately 96.2 % to EUR 12.0 million is mainly due to the sales revenue trend in the U.S. After having received all individual state licenses required for pharmaceutical distribution in the U.S., Biofrontera took over management of their product sales at the start of the second half of 2017, which contributed to this development. Sales had previously been processed through a US wholesaler.

Due to the significant change in the sales channel used by Biofrontera Group in the U.S. in the beginning of the second half of 2017, increasing the number of different contracts concerning the transfer of risks and opportunities connected with ownership and the resulting complexity of revenue recognition, there is a higher risk of incorrect accounting in revenue recognition from the sales of products in the USA. Against this background and considering the importance of the financial statement line item for the Biofrontera Group's financial performance, this matter was of particular importance in our audit.

② Audit Approach

As part of our audit of the revenue recognition from sales of products in the U.S. we assessed the accounting principles used in the consolidated financial statements of Biofrontera AG for the revenue recognition from product sales according to the criteria set up in IAS 18. We analysed the process for revenue recognition from the sales of products in the U.S. implemented by the management of Biofrontera Inc. by walking through individual transactions from the purchase order to the presentation in the consolidated financial statements. We analysed the processing differences resulting from the two different distribution channels in the financial year 2017, and assessed their impact on the process of revenue recognition and on the resulting different risks of incorrect accounting. Based on the revenues from the sale of products in the U.S. accounted for in the financial year 2017, we applied audit sampling regarding the existence of a transaction as well as the appropriateness of the revenue recognition. We also obtained confirmations of balances from customers. Furthermore, based on the

last transaction recorded in the financial year 2017 and the first transaction of the subsequent period we evaluated the appropriateness of cut off of revenues from sales of products in the U.S.

③ Reference to related Disclosures

The disclosures of Biofrontera AG concerning revenue recognition are included in section “Summary of significant accounting policies – Revenue recognition” of the notes to the consolidated financial statements, the disclosures concerning the sales revenue recorded in the consolidated statement of comprehensive income are included in section ”Additional information about the consolidated statement of comprehensive income – 15. Sales revenue” of the notes to the consolidated financial statements.

❸ Non-recognition of deferred tax assets on loss carryforwards in Germany

① Financial Statement Risk

As of balance sheet date, the Management of Biofrontera AG assumes that Biofrontera AG has corporation tax loss carryforwards amounting to EUR 119.7 million and the business tax loss carryforwards amounting to EUR 108.0 million having an unlimited carryforward period under current German law, resulting in deferred tax claims amounting to EUR 18.9 million from corporation tax (including solidarity surcharge) and EUR 17.9 million from business tax based on the expected future tax rate. Due to the existing uncertainties of the predictability regarding future taxable profits, referring to IAS 12.34 Management of Biofrontera AG has not recognized these deferred tax claims in the consolidated financial statements of Biofrontera AG.

The assessment of whether deferred tax assets from loss carryforwards in Germany can be recognized, is mainly based on estimates and assumptions of the Management of Biofrontera AG and therefore subject to a high estimation uncertainty. Against this background and considering the importance of the recognition of deferred tax assets in the consolidated financial statements for the presentation of Biofrontera Group's financial position and financial performance, this matter was of particular importance in our audit.

② Audit Approach

As part of our audit of the non-recognition of deferred tax assets on loss carryforwards in Germany, we critically assessed the Managements estimates of the predictability of future taxable profits. In this regard, we analysed the tax results achieved in the past and the planning for the financial year 2018 provided by the Management of Biofrontera AG, taking into account if the loss carryforwards are resulting from events in the past that are unlikely to recur. Based on the insights obtained hereby, we evaluated the Management’s assessment of the existing uncertainties of the predictability regarding future taxable profits of Biofrontera AG.

③ Reference to related Disclosures

The disclosures of Biofrontera AG concerning the accounting policies with regard to deferred tax assets and deferred tax liabilities are included in section ”Summary of significant accounting policies – Income tax” of the notes to the consolidated financial statements, the disclosures concerning the existing tax loss carryforwards are included in section “Notes to the consolidated balance sheet – 8. Deferred income tax” of the notes to the consolidated financial statements.

Other Information

The Management is responsible for the other information. The other information includes:

- the Corporate Governance Report including the Corporate Governance Declaration pursuant to Section 289f and Section 315d HGB
- the Responsibility Statement pursuant to Section 297 para. 2 sentence 4 HGB regarding the consolidated financial statements and the Responsibility Statement pursuant to Section 315 para. 1 sentence 5 HGB regarding the group management report
- the remaining parts of the annual report, with the exception of the audited consolidated financial statements and group management report and our auditor's report.

Our audit opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Management and the Supervisory Board for the Consolidated Financial Statements and the Group Management Report

The Management is responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e para. 1 HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position and financial performance of the Group. In addition, the Management is responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Management is responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the Management is responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the Management is responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The Supervisory Board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of systems relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.

Evaluate the appropriateness of accounting policies used by the Management and the reasonableness of estimates made by the Management and related disclosures.

Conclude on the appropriateness of the Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e para. 1 HGB.

Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the group management report. We are responsible for the direction,

supervision and performance of the group audit. We remain solely responsible for our audit opinions.

Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.

Perform audit procedures on the prospective information presented by the Management in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the Management as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other Legal and Regulatory Requirements

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor by the annual general meeting on 24 May 2017. We were engaged by the Supervisory Board on 4 January 2018. We have been the group auditor of Biofrontera AG without interruption since the financial year 2007.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

German Public Auditor Responsible for the Engagement

The German Public Auditor responsible for the engagement is Prof. Dr. Thomas Senger.

Düsseldorf, 25 April 2018

Warth & Klein Grant Thornton AG
Wirtschaftsprüfungsgesellschaft

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