

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

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

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

Pursuant to Section 161 German Stock Corporation Act (AktG), the Management and Supervisory boards of Biofrontera AG are obligated to state each year that the recommendations of the "Government Commission on the German Corporate Governance Code" ("Code"), as published by the Federal Ministry of Justice in the official section of the electronic Federal Gazette, have been and are being complied with, or which recommendations were not or are not being adhered to and why such is the case ("compliance statement"). The compliance statement must be made permanently accessible to the shareholders. The Management and Supervisory boards hereby issue the following compliance statement:

Since the submission of its last compliance statement in December 2016, Biofrontera AG has complied with the recommendations of the Code in the version specified therein, taking into account the exceptions therein stated, and will comply with the version dated 5 May 2015, with the following exceptions:

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

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

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

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

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

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

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

The company does not take committee membership into consideration when remunerating the Supervisory Board members. Given the close coordination in the six-member Supervisory Board, a differentiation of the Supervisory Board remuneration according to committee membership is not currently required, especially as the members generally have around the same workloads resulting from membership of the various committees.

Leverkusen, Germany, in April 2017

II. Corporate governance report

(including disclosures pursuant to Section 289 a (2) subsections 2, 3, 4 and 5 HGB - together with the statement pursuant to Section 161 AktG in part I. above - these constitute the corporate governance declaration)

Biofrontera Aktiengesellschaft (hereinafter also referred to as "the company") is a public limited company under German law. The Management and Supervisory boards manage the company, and these boards cooperate for the company's benefit. The Management and Supervisory boards of Biofrontera Aktiengesellschaft are aware of their responsibilities to the company's shareholders, employees and business partners, as well as the general public. Corporate governance refers to the responsible management and supervision of companies, with a focus on long-term value creation. The Supervisory and Management boards continuously review and develop corporate governance within the company to ensure good and responsible corporate management and provide transparency for shareholders. For this reason, Biofrontera Aktiengesellschaft generally considers compliance with the recommendations of the German Corporate Governance Code (hereinafter also referred to in brief as "the Code") as constituting an important element of responsible corporate governance.

Pursuant to No. 3.10 of the Code, the Management and Supervisory boards are to report annually on the company's corporate governance (corporate governance report), and publish this report together with the corporate governance declaration. This report must also include explanations of any areas of non-compliance with the Code's recommendations. The other contents of the corporate governance report are as follows: No. 5.4.1: Diversity, the Supervisory Board's aims in terms of its composition, and its progress in achieving these aims, must be published in the corporate governance report. No. 6.2: If the total quantity of shares owned by all Management Board and Supervisory Board members exceeds 1 % of the shares issued by the company, the respective total quantities of shares owned by Management and Supervisory board members must be stated separately in the corporate governance report. No. 7.1.3: The corporate governance report should include specific statements concerning share option programmes and similar securities-based incentive schemes provided by the company, if these statements have not already been made in the separate annual financial statements, the consolidated financial statements or the remuneration report.

About the company's management structure

Biofrontera Aktiengesellschaft is subject to the provisions of German law on public stock corporations and the capital market, as well as the provisions of the company's bylaws and rules of business procedure for the Management and Supervisory boards. With these two bodies, the Management and Supervisory boards, the company has a dual executive and supervisory structure. The Management and Supervisory boards are obliged to act in the interests of the shareholders and for the benefit of the company. The company's third organ is the Shareholders' General Meeting.

About the company's corporate governance practices

The values enshrined in the statutory regulations and in internal guidelines and organisational instructions lie at the heart of the management culture for the company and its subsidiaries. Sector-specific certifications and quality requirements - where compliance entails considerable effort - are of particular importance in this respect.

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

To achieve this goal, all employees should be aware of their contribution to corporate performance and to value creation, and should be willing and able to assume responsibility for achieving the related results.

To act autonomously and on their own initiative, employees must first know about and understand the company's strategic orientation. For this reason, the company management provides its employees with regular updates about corporate objectives, current business progress, the market environment and the competitive environment. Moreover, clearly defined company

structures, areas of responsibility and processes form an important foundation to ensure efficient corporate governance and processes. When combined with well-defined and continuously optimised underlying processes, such a structure makes it possible to align management processes with the company's objectives and regularly monitor the company's progress in achieving its objectives.

In this respect, the motivation and appreciation of the company's employees is particularly important as employees will show exceptional dedication and achieve high productivity and efficiency only if they have a positive attitude towards their working environment and they identify strongly with the company and its objectives. For this reason, the company promotes a good balance between the high performance expected of highly qualified, focused employees in a dynamic market, and the necessities and demands of a private life.

Compliance

The Biofrontera Group's entrepreneurial activities must comply with the legislation of the various countries where it operates. This is increasingly relevant because of the company's growing sales activities in foreign markets.

The Biofrontera Group performs its business activities responsibly and in compliance with the statutory provisions and regulations of the countries where it is active. It expects its employees to perform their daily work in a legally and ethically impeccable manner, as developers and manufacturers of pharmacological products must act with the utmost integrity to justify the trust of their partners and especially that of the patients treated with their products.

In training courses involving the compliance officer, employees are familiarised with relevant codes of conduct and legal and regulatory requirements. Key elements of compliance applied at the Biofrontera Group include compliance with antitrust rules, integrity in business transactions, a commitment to product stewardship and sustainability, adherence to the company's quality management system, and the avoidance and/or proper handling of conflicts of interest.

Further details are set out in the code of conduct entitled "Behaviour in Business: Integrity, Innovation, Respect and Responsibility", which all employees and the company's boards must comply with.

Management and Supervisory boards' working methodology

Management Board

The Management Board represents the company externally and manages it in accordance with the law, the company's bylaws and the rules of business procedure for the Management Board.

The Management Board ensures that appropriate risk management is implemented within the company and that risk monitoring is performed, thereby aiming to identify going concern risks to the company at an early stage. The Management Board defines the company's strategic orientation, adjusts the latter in consultation with the Supervisory Board and ensures that it is implemented. The Management Board must ensure compliance with statutory regulations and the company's internal guidelines, and endeavours to ensure the Group companies comply with them.

The Management Board of Biofrontera Aktiengesellschaft currently comprises three members: the Management Board Chairman (Chief Executive Officer/CEO), the Chief Financial Officer (CFO) and the Chief Commercial Officer (CCO). The Management Board members bear joint responsibility for the entire management of the company. Notwithstanding the overall responsibility borne jointly by all of the Management Board members, the individual members are individually responsible for the areas allocated to them as part of Management Board resolutions.

The Supervisory Board has issued rules of business procedure for the Management Board. Accordingly, the Management Board in its entirety makes decisions concerning matters of fundamental importance as well as in other cases that are either stipulated in the rules of business procedure or are determined by law. The Management Board passes resolution with a simple majority of

votes submitted, unless the law, the company's bylaws or the rules of business procedure require unanimity. The Management Board Chair has the deciding vote given an equal outcome of votes. Pursuant to the rules of business procedure for the Management Board, measures implemented and transactions performed by the Management Board that are of fundamental significance require Supervisory Board approval.

Supervisory Board

The Supervisory Board appoints the members of the Management Board, consults with the Management Board in the management of the company, and supervises its general management activities. The Supervisory Board of Biofrontera Aktiengesellschaft currently comprises six members, none of whom was previously a member of the company's Management Board. The Supervisory Board is required to elect one Chairperson and at least one Deputy Chairperson. The Supervisory Board Chair organises the board's work and convenes meetings and chairs them. The Supervisory Board Chair is also the point of contact for the Management Board, especially also in reporting concerning important matters. The Supervisory Board has established its own rules of business procedure.

Supervisory Board committees

The Supervisory Board currently has a Personnel Committee, an Audit Committee, an R&D & Market Access Committee and a Nomination Committee as its permanent committees.

The Personnel Committee prepares decisions for the Supervisory Board concerning the appointment and dismissal of Management Board members. In contrast to 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), as a consequence of which the Personnel Committee now conducts only preparatory work. The Supervisory Board has amended its rules of business procedure accordingly. In addition, it advises on long-term succession planning for the Management Board.

The Audit Committee focuses in particular on issues relating to accounting and risk management, the auditor's mandatory independence and the issuing of the audit mandate to the auditor, as well as the overseeing of the audit of the company's separate annual financial statements. In the case of companies as defined in Section 264d of the German Commercial Code (HGB), in other words including 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 independent member of the Supervisory Board must possess expertise in the fields of accounting or auditing, with this person being a member of the Audit Committee.

The R&D & Market Access Committee deals with key issues related to product development. After discussions within the Research and Development Committee, it makes appropriate recommendations to the Management and Supervisory boards. It also assesses the opportunities for licensing deals and related contractual terms, advises the Management Board in specific negotiations and prepares decisions for the Supervisory Board on matters requiring approval.

The Nomination Committee proposes suitable candidates to the Supervisory Board for its nominations to the Shareholders' General Meeting. Here, the Nomination Committee considers the balance and variety of knowledge, skills and experience of all the Supervisory Board members, and prepares candidate profiles. The Nomination Committee is also to make proposals to the Supervisory Board concerning, and communicate results from, a regular assessment of the knowledge, capabilities and experience of both the members individually as well as the Supervisory Board in its entirety. In the course of performing its duties, the Nomination Committee can draw on company resources deemed appropriate and also on external consultants within the necessary framework.

Targets for the Supervisory Board's composition

Pursuant to No. 5.4.1 of the Code, the Supervisory Board must be composed in such a way that, overall, its members have the necessary knowledge, skills and professional experience to carry out their tasks properly. The Supervisory Board should define specific objectives regarding its composition, taking into account the company's particular situation, the company's

international activities, potential conflicts of interest, the number of independent members of the Supervisory Board in terms of No. 5.4.2 of the Code, an age limit specified for the Supervisory Board members, and diversity. In particular, these specific objectives are intended to ensure that an appropriate proportion of female Supervisory Board members exists.

Pursuant to No. 5.4.2 of the Code, the Supervisory Board should include what it considers to be an appropriate proportion of independent members. In the context of this recommendation, Supervisory Board members cannot be regarded as independent if they have a personal or commercial relationship with the company, its boards, a controlling shareholder or a company affiliated to the latter, which may be deemed to represent a significant and not merely temporary conflict of interest. The Supervisory Board should not include more than two former Management Board members. Supervisory Board members should not have any roles within the organs of, or as consultants for, any of the company's major competitors.

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

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

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

For companies as defined in Section 264d of the German Commercial Code, which includes Biofrontera Aktiengesellschaft, at least one independent member of the Supervisory Board must also possess expertise in the fields of accounting or auditing, in accordance with the provisions of the German Stock Corporation Act (a so-called "financial expert" in the meaning of Section 100 (5) of the German Stock Corporation Act [AktG]). Hence, this is a mandatory diversity criterion.

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

The Supervisory Board defined the following aims regarding its composition ("diversity goals") in December 2016:

- ◆ Consideration of the expected future increase in the international activities of the company and its subsidiaries, especially in the US market
- ◆ Availability and willingness/acceptable maximum number of Supervisory Board members
- ◆ Consideration of professional/technical expertise and industry knowledge, especially with regard to the areas of research and development, manufacturing of medical cosmetics and new drugs for the care and treatment of skin and inflammatory diseases
- ◆ Consideration of the specialist / technical expertise and sector knowledge, including in relation to the selling and marketing of medical cosmetics and new medications to care for and treat skin and inflammatory diseases, especially in the US and EU markets
- ◆ Consideration of special expertise and experience in the financing of companies in the pharmaceuticals sector.
- ◆ Consideration of specialist knowledge and experience in the use of accounting principles and internal control procedures (a so-called "financial expert" in the meaning of Section 100 (5) of the German Stock Corporation Act [AktG])
- ◆ Independence of at least half of the members of the Supervisory Board in the meaning of the German Corporate Governance Code / avoidance of conflicts of interest

- ◆ Consideration of the age limit defined in the rules of business procedure for the Supervisory Board
- ◆ Inclusion of two women on the Supervisory Board by 31 August 2021

In the Supervisory Board's opinion, the current level of progress in achieving these aims is to be appraised favourably overall, apart from the appropriate participation by women. All the relevant areas of expertise are represented in the Supervisory Board, particularly with regard to sector-specific requirements and other specialist areas (financial expert). Extensive experience in international business life are also present, as well as members from other countries. All Supervisory Board members have sufficient time to fulfil their responsibilities.

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

The target for the proportion of women on the Supervisory Board pursuant to Section 111 of the German Stock Corporation Act (AktG) was set in 2015 at one third. The deadline for achieving this target was set at 31 August 2016. With Mrs. Ulrike Kluge, the Supervisory Board included one woman until 31 May 2016. As far as possible, a second woman was to be included in the regular new election of the shareholder representatives on 31 May 2016.

Regrettably, despite a corresponding search, no candidate who corresponded to the formulated requirements profile and was consequently considered as a proposed candidate was nominated or identified as part of the nomination process. As Mrs. Kluge was also unavailable for re-election, the Supervisory Board currently fails to include two women among its members as a consequence.

Equal participation by men and women

Proportion of women at the two management levels below Management Board level

It should also be noted in this context that, pursuant to Section 76 (4) of the German Stock Corporation Act (AktG), the management boards of companies that are listed or subject to co-determination legislation are required to set targets for the proportion of women at the two levels of management below management board level. Biofrontera AG does not currently have two management levels below Management Board level in the meaning of the provisions of Section 76 (4) AktG. In September 2015, four people undertook the management tasks below Management Board level. The proportion of women in this first and only management level was 50 % in September 2015. Due to the lack of two management levels below the Management Board, targets for participation by women pursuant to Section 76 (4) AktG were set in September 2015 only in relation to the one management level existing below the Management Board level. The target for the proportion of women in the existing management level below Management Board level was set at 30 %. A decision was taken to refrain from setting a 50 % target, as the appointment of just one additional man at the existing first management level below the Management Board would already lead to a significant shortfall in relation to the target. The deadline for achieving the target was set as 30 June 2017. The target was met at the date of this report.

Proportion of women on the Management Board

Pursuant to Section 111 (5) of the German Stock Corporation Act (AktG), supervisory boards of companies that are listed or subject to co-determination legislation are responsible for setting targets for the proportion of women on the management board. The target for the proportion of women on the Management Board was set at 0 %. The deadline for achieving the target was set as 30 June 2017.

The reason for this was that the Management Board currently has three appointed members. The Management Board does not include any women in this context. All of the contracts of the Management Board members are valid beyond 30 June 2017. To achieve any target of more than 0.00 % by the legally specified deadline of 30 June 2017 would therefore require board members

to leave prematurely and at least one woman to be appointed to replace them, or that the Board would be expanded and the additional position(s) would be occupied by women. No plans currently exist to pursue either of these courses of action.

A target of 0.00 % should be permitted on an exceptional basis if a management board or the management team consists only of men whose employment contracts extend beyond the deadline for achieving the target - as in this case. The Supervisory Board of Biofrontera AG exercises this recognised exception as a consequence.

Proportion of women on the Supervisory Board

In December 2016, the Supervisory Board set a target for the proportion of women on the Supervisory Board at one third, in other words, two of a current total of six seats. The deadline for achieving the target was set as 31 August 2021. In addition, please refer to the comments above under the section on "Objectives regarding the Supervisory Board's composition".

Shareholders' General Meeting

The shareholders exercise their rights, including their voting rights, at the Shareholders' General Meeting. Each share grants its holder one vote. The Ordinary Annual General Meeting of shareholders is held within the first eight months of each financial year. The agenda for the Annual General Meeting (AGM), including the reports and documents required for the AGM, are published on the company's website. To make it easier for its shareholders to exercise their rights personally, the company provides access to a proxy bound by their voting instructions for AGMs. In the convening document for the AGM and in communications to the shareholders, it is explained how voting instructions can be issued prior to the AGM. In addition, shareholders remain entitled to appoint agents to vote on their behalf. The AGM approves the discharge of the Management and Supervisory boards. Among other matters, it also decides on the application of the unappropriated profit, capital measures, approval of company agreements as well as amendments to the company's bylaws.

Financial reporting

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

Shareholdings of the Management and Supervisory boards

On 31 December 2016, the members of the Management and Supervisory boards directly or indirectly held the following shares or share options for financial instruments related to shares or from employee share option programmes.

Management Board

Name	Shares	Options for €5 per share from warrant bond 2009/2017	Employee options from 2011 and 2015 share option programmes
Professor Hermann Lübbert	724,678	22,830	231,850
Christoph Dünwald	95,000	0	50,000
Thomas Schaffer	39,665	0	85,000

Supervisory Board

Name	Shares
Jürgen Baumann (deputy chairman)	30.000

Transparency

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