

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.

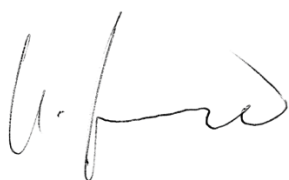
By way of precaution, it should be noted that Deutsche Balaton Aktiengesellschaft, Heidelberg, whose Management Board included Mr. Hansjörg Plaggemars until 31 May 2017, held a total of 8.28 % of the shares and voting rights in Biofrontera Aktiengesellschaft in the reporting year on the basis of published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

A handwritten signature in black ink, appearing to read 'U. Granzer', written in a cursive style.

Dr. Ulrich Granzer
Chairman of the Supervisory Board