

Report of the Supervisory Board of Biofrontera AG for the 2019 financial year



Dear Shareholders,

With the 2019 financial year completed, another successful year lies behind us. Revenue of the Biofrontera Group amounted to 31.3 million euros. This corresponds to a sales growth of around 48% compared to the previous year, with pure product sales increasing by approximately 46%. In Q4 2019, the Biofrontera Group achieved the highest quarterly sales in its corporate history. The growth was once again driven by the significant growth of the US-business, as well as the sales growth in Germany and Spain due to the expanding acceptance of PDT with daylight. Even though the Biofrontera Group had set itself the goal of even greater growth in the 2019 fiscal year, what has been achieved is nevertheless a great success.

All employees of the Biofrontera Group together with the management should be given thanks and recognition for this.

Further progress was also made with regard to the targeted indication extensions for Ameluz®. In August 2019, an application was submitted to the European Medicines Agency (EMA) for the label extension of Ameluz® for the treatment of mild and moderate actinic keratoses on the extremities and trunk/neck with photodynamic therapy. In March 2020, the label extension was approved by the European Commission. In the USA, Biofrontera is also working on the approval for the treatment of actinic keratoses on the extremities and trunk/neck. Additionally, Biofrontera is working toward US-approval of Ameluz® for the treatment of superficial basal cell carcinoma (BCC). Patient recruitment for the required study has been underway since September 2018, with results expected in 2021. Following a successful FDA approval, Ameluz® would be the only drug in the USA for the treatment of superficial BCC with photodynamic therapy.

In March 2019, all shares in Cutanea Life Sciences, Inc., USA, were acquired from Maruho Co, Ltd., Japan, in order to further strengthen the position of the Biofrontera Group in the US market by adding Xepi™, an additional innovative product in the field of dermatology.

Supervision and consultation

The Supervisory Board discharged the responsibilities incumbent upon it according to the law, the company's articles of association, the German Corporate Governance Code (Code), and its rules of business procedure. The Supervisory Board's activities included supervising and consulting with the Management Board 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 Management Board provided the Supervisory Board with regular, timely and comprehensive reports. The Supervisory Board was continuously informed about the company's current performance by the Management Board, both during and outside of meetings. 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. 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. 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 after discussion at meetings of the Supervisory Board or by means of decisions taken by circulation or in telephone conferences.

Consultations and areas of focus

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

At the meeting on April 25, 2019, the auditor reported on the timing, structure and results of the audit for the 2018 financial year. Following the discussion of the 2018 annual financial statements, the consolidated financial statements and the combined management report, the Supervisory Board approved the auditor's reports, raised no objections following the final results of its own examination and approved the annual and consolidated financial statements. It thus followed the recommendation of its Audit Committee, which had previously held a meeting in the presence of the auditor and had discussed the 2018 annual financial statements, the consolidated financial statements and the combined management report as well as the audit reports. The annual financial statements of Biofrontera Aktiengesellschaft for the 2018 financial year were thereby ratified. The Management Board also reported on the current sales and market development and on the progress in research and development. In addition, the Management Board reported on the ongoing reorganization of Cutanea Life Sciences Inc. The Supervisory Board discussed the statement to be made in accordance with Section 27 of the German Securities Acquisition and Takeover Act (WpÜG) regarding the voluntary public tender offer in the form of a partial offer by Maruho Deutschland GmbH. The Extraordinary General Meeting to be convened at the request of a shareholder for May 15, 2019, and the agenda for the Annual General Meeting on July 10, 2019, were also discussed. The Personnel Committee of the Supervisory Board reported on the results of its meeting.

At the meeting on July 11, 2019, the Management Board reported on the current sales performance and the latest developments in the area of research, development and approval. The financial situation was discussed. The ongoing reorganization at Cutanea Life Sciences Inc. and the status of the products there were also discussed. The competing voluntary public takeover offers by Maruho Deutschland GmbH on the one hand and Deutsche Balaton Biotech AG together with DELPHI Unternehmensberatung AG on the other hand were also discussed, as well as the supplementary statement still to be submitted in accordance with Section 27 WpÜG.

In the telephone conference meeting held on September 19, 2019, the Management Board reported on the current business development. The reasons assumed for the weaker than planned business development in the USA were also discussed. The market development of Xepi™, one of the drugs acquired together with Cutanea Life Sciences, Inc. was also discussed. The Management Board reported on changes in the area of research and development, particularly with regard to the planned expansion of indications. In addition, the Management Board reported on the ongoing legal disputes, in particular those with DUSA Pharmaceuticals Inc. In addition, the organizational structure in the USA and possible changes were discussed.

The Management Board reported on the current business development in the telephone conference meeting held on November 26, 2019. In particular, the reasons for lowering the forecast as well as the financial situation were discussed. The Management Board reported that, in order to strengthen the competitive position in the USA, it is striving to improve the reimbursement modalities for Ameluz® and to extend the label to the treatment of actinic keratoses on the extremities as well as the trunk and neck. The budget for 2020 and corporate goals for 2020 were discussed in detail and approved.

Activities conducted outside of meetings

In March 2019, the Supervisory Board intensively discussed the acquisition of Cutanea Life Sciences, Inc. and approved it. In addition, the Supervisory Board approved the statements to be submitted in accordance with section 27 of the WpÜG on the acquisition offers of Maruho Deutschland GmbH on the one hand and Deutsche Balaton Biotech AG together with DELPHI Unternehmensberatung AG on the other.

Supervisory Board committees

At present, the Supervisory Board has formed an Audit Committee, a Nomination Committee and a Personnel 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.

Audit Committee

The Audit Committee deals in particular with the monitoring of the accounting process, the effectiveness of the internal control system, the risk management system and the internal audit system as well as the audit of the financial statements, in particular the selection and independence of the auditor and the additional services provided by the auditor. The Audit Committee may make recommendations or proposals to ensure the integrity of the financial reporting process. In the case of companies as defined in Section 264d HGB, in other words including Biofrontera AG, 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 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 following persons were members of the Audit Committee in the reporting period: Jürgen Baumann, John Borer and Hansjörg Plaggemars (until March 22, 2019). Reinhard Eyring (from March 28, 2019 to July 11, 2019) and Prof. Dr. Franca Ruhwedel (since July 11, 2019).

Prof. Dr. Ruhwedel is the current chair, until July 11, 2019, Jürgen Baumann chaired the committee.

The committee met twice during the reporting year: with the auditor in order to prepare for the Supervisory Board's financial statements meeting on April 25, 2019 and on November 26, 2019. In addition, the committee chairwoman, who was newly elected in July, met with the responsible auditor twice in the second half of the year to coordinate the audit of the half-year and annual financial statements together with the CFO.

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 on the Appropriateness of Management Board Remuneration (VorstAG), so the Personnel Committee now performs only preparatory work. The following persons are currently members of the Personnel Committee: Jürgen Baumann, John Borer and Dr. Ulrich Granzer. Mr. Baumann is the current chair. The committee met on April 25, 2019. The topics discussed included the achievement of targets by members of the Management Board in 2018 and the issuance of options to the Management Board members.

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 is currently composed of the following members: John Borer, Dr. Ulrich Granzer and Reinhard Eyring. Dr. Granzer is the current chair.

In the reporting period, the Supervisory Board prepared the resolution proposal to the Annual General Meeting to elect Prof. Dr. Franca Ruhwedel, residing in Duisburg, Professor of Finance and Accounting at Rhine-Waal University of Applied Sciences, Kamp-Lintfort, to the Supervisory Board, with the condition that her term of office expires at the end of the Annual General Meeting that resolves on the discharge for the fiscal year ending December 31, 2020.

Individualized disclosure of the participation of Supervisory Board members in Supervisory Board and committee meetings in the 2019 financial year

Supervisory Board members	Supervisory Board and committee meetings	Participation	Attendance
Jürgen Baumann	7	7	100%
John Borer	7	6	86%
Reinhard Eyring	5	5	100%
Dr. Ulrich Granzer	5	5	100%
Prof. Dr. Franca Ruhwedel	4	4	100%
Kevin Weber	4	4	100%

Mr. Borer was unable to attend one committee meeting.

Separate and consolidated financial statements for 2019

The audit firm Warth & Klein Grant Thornton AG, Düsseldorf, was appointed Group auditor for the 2019 financial year by the Annual General Meeting held on July 10, 2019 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 2019 financial year, and issued unconditional audit certificates. 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 jeopardize the company as a going concern.

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

The financial statement documents were discussed in the Audit Committee on April 20, 2020 in the presence of the auditor. The Audit Committee dealt in particular with the key audit matters described in the respective auditor's report (key audit matters), including the audit procedures performed. At the subsequent meeting of the Supervisory Board to approve the financial statements on the same day, the financial statement documents were discussed in detail in the presence of, and after a report by, the auditor. All Supervisory Board members received the financial statements documents as well as the audit reports drawn up by the auditor in a timely manner ahead of 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 reported on the scope, focus and key findings of its audit, in particular key audit matters and the audit procedures performed. The auditor was available to the Supervisory Board to answer questions and provide further information. All questions posed by the Supervisory Board were answered in full by the Management Board and the auditor. The auditor also provided information about its findings on internal controlling and risk management with regard to the financial reporting process.

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 audit committee meeting on April 20, 2020.

Auditor in charge

Since the 2018 financial year, Mr. Michael Gottschalk 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.

Changes to the Supervisory Board

Pursuant to Section 103 (3) AktG, the competent local court must dismiss a member of the Supervisory Board at the request of the Supervisory Board if there is an important reason in his person. In January 2019, the Supervisory Board filed an application with the Cologne Local Court to dismiss Mr. Plaggemars as a member of the Supervisory Board of Biofrontera AG. The background to this is that Mr. Plaggemars has submitted a written statement in proceedings pending before the Regional Court of Cologne in which DELPHI applied for the appointment of a special auditor for Biofrontera AG pursuant to Section 142 (2) AktG. This legal proceeding was initiated by DELPHI in January 2018, when Mr. Plaggemars was still a member of the Management Board of DELPHI. The Supervisory Board would have been responsible for submitting a statement in the proceedings as a body pursuant to Section 142 (5) AktG, but not an individual member, with the result that the submission of the statement violates the statutory competence regulations. In the statement, Mr. Plaggemars also disclosed information which, in the opinion of the remaining members of the Supervisory Board, is subject to the consulting secrecy of the Supervisory Board pursuant to Section 116 AktG and of which DELPHI thus also gained knowledge. Following an application by the Supervisory Board, the Cologne Local Court (Amtsgericht) dismissed Mr. Plaggemars as a member of the Supervisory Board of Biofrontera AG in accordance with § 103 (3) AktG for cause. The resolution was issued on March 22, 2019 and came to the knowledge of the company on March 26, 2019. The ruling for dismissal is effective immediately. An appeal brought by Mr. Plaggemars before the Cologne Higher Regional Court was rejected.

The Annual General Meeting held on July 10, 2019 elected Prof. Dr. Franca Ruhwedel, residing in Duisburg, Professor of Finance and Accounting at Rhine-Waal University of Applied Sciences, Kamp-Lintfort, to the Supervisory Board, with the condition that her term of office ends at the end of the Annual General Meeting that resolves on the formal discharge for the fiscal year ending December, 31, 2020. Since then, the Supervisory Board has again had the six members provided for in the Articles of Association.

Changes to the Management Board

Mr. Christoph Dünwald resigned from the Management Board at the end of January 2020. Mr. Dünwald and Biofrontera AG have agreed that Mr. Dünwald's management contract, which runs until November 30, 2020, should not be extended. Mr. Dünwald resigned from his position as member of the Executive Board by mutual agreement at the end of January 2020 in the course of an organizational restructuring. Biofrontera AG would like to thank Mr. Dünwald for his many years of commitment and in particular for the excellent work in building up the sales force in the USA.

Finally, we would like to thank you, dear shareholders, once again for your commitment and trust!

The Supervisory Board would also like to thank the Management Board and the employees of Biofrontera Aktiengesellschaft and the Biofrontera Group for their high degree of commitment and for their outstanding performance in the past fiscal year.

Leverkusen, April 20, 2019



Dr. Ulrich Granzer
Chairman of the Supervisory Board