

Report of the Supervisory Board of Biofrontera AG for the 2018 financial year



Dear Shareholders

the 2018 financial year proved to be another very successful year for Biofrontera AG and its subsidiaries. After 2017 was dominated by the expansion of our sales activities in the USA, we exceeded the sales revenue level of EUR 20 million in the Group for the first time in 2018. And we did this very dynamically: our sales revenue in the USA increased by around 136% and in Europe by around 41%. In particular, business in the USA, our most important sales market, recorded a very positive trend. In the Supervisory Board's opinion, the employees of the Biofrontera Group and the management deserve special recognition for this. As a small German company, they have succeeded in establishing the company's own powerful and successful sales organization in the USA within a relatively short time.

We also made further good progress in expanding indications for Ameluz®. In March 2018, the European Commission granted approval for Ameluz® in combination with photodynamic daylight therapy (Daylight PDT), so that in the future Ameluz® can be utilized without special lamps. The approval for Daylight PDT has significantly

increased the market potential for Ameluz® in Europe and improved the drug's reimbursement status in Germany.

In February 2018, Biofrontera AG reached a very special milestone: the listing on the US NASDAQ Stock Market with a simultaneous successful capital increase. This has laid the financial foundation for the company's further successful development and growth.

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 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. 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 six meetings during the reporting year. It also passed resolutions outside the scope of meetings.

In the telephone conference on 1 March 2018, the Management Board reported to the Supervisory Board on current sales trends in individual markets. The Supervisory Board discussed and approved the corporate targets for 2018 and coordinated the further planning process with the Management Board.

The meeting on 25 April 2018 concerned the financial statements. The auditor reported on the timing, structure and results of the audit for the 2017 financial year. After discussing the separate financial statements for 2017, the consolidated financial statements and the combined management report for the company and the Group, the Supervisory Board approved the auditor's reports, 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. The financial statements of Biofrontera Aktiengesellschaft for the 2017 financial year were adopted as a consequence. The Management Board reported on the successful capital increase implemented in February 2018 and on the updated financial preview for 2018. The Management Board also reported on current sales and market trends as well as on progress in the research and development area. The Supervisory Board's Nomination Committee and Personnel Committee reported on the results of their meetings. A decision was taken to change the composition of the Supervisory Board committees. In addition, a decision was taken to dissolve the R&D & Market Access Committee, as the Supervisory Board was of the opinion that this committee was no longer required. Furthermore, the Supervisory and Management boards discussed the announcements of a voluntary purchase offer with regard to shares of Biofrontera AG, initially by Deutsche Balaton AG and subsequently by Deutsche Balaton Biotech AG (Deutsche Balaton AG, Deutsche Balaton Biotech AG as well as parties acting jointly with them are hereinafter referred to as "**Deutsche Balaton-Group**").

During the telephone conference on 4 July 2018, the Supervisory Board received reports on current developments in reimbursement matters in the USA and on production issues.

At the meeting on 10 July 2018, the Management Board reported on the preliminary half-year results, current sales trends and current developments in the areas of research, development and approvals. The legal dispute in the USA with competitor DUSA Pharmaceuticals was also discussed. Furthermore, the Management Board reported on the legal disputes with the Deutsche Balaton Group and the public tender offer of Deutsche Balaton Biotech AG for shares of Biofrontera AG.

In the telephone conference held on 25 September 2018, the Management Board initially reported on current business trends. A focus here again was on sales development and sales activities as well as on the further development of the application scope of Ameluz®. The legal disputes with DUSA Pharmaceuticals and the Deutsche Balaton Group were discussed.

At the meeting on 14 December 2018, the Management Board reported in detail on business trends during the first nine months of 2018 and provided an outlook on the annual result for 2018. The Management Board also reported on current developments in the areas of sales, research & development and regulatory affairs. The Supervisory Board also concerned itself with the budget planning for 2019, which it approved. The corporate targets for 2019 were set. The legal disputes with DUSA Pharmaceuticals and the Deutsche Balaton Group were discussed again. The declaration of compliance in accordance with Section 161 of the German Stock Corporation Act (AktG) was adopted.

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.

All the committee members participated in all the committee meetings in 2018.

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 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. In March 2019, Mr. Plaggemars was dismissed by the court as a member of the Supervisory Board and thus also left

from the Audit Committee (see below the section "*Dismissal of a Supervisory Board member by the court*"). Mr. Reinhold Eyring was appointed as the third member of the Audit Committee on 28 March 2019. 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 25 April 2018.

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 25 April 2018. The topics discussed included the achievement of targets by members of the Management Board in 2017 and the issuance of options to 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 (since 25 April 2018). Dr. Granzer occupies the chair. Until 25 April 2018, Mr. Hansjörg Plaggemars was a member of the Nomination Committee in place of Mr. Eyring. The committee met on 25 April 2018. A decision was taken to propose to the 2018 Annual General Meeting that Mr. Eyring be elected to the Supervisory Board, having initially been court-appointed to the Supervisory Board.

Individualized disclosure of the participation of Supervisory Board members in Supervisory Board and committee meetings in the 2018 financial year

Supervisory Board members	Supervisory Board and committee meetings	Participation	Attendance
Jürgen Baumann	8	8	100%
John Borer	9	9	100%
Reinhard Eyring	7	5	71%
Dr. Ulrich Granzer	8	8	100%
Hansjörg Plaggemars	7	7	100%
Kevin Weber	6	5	83%

Mr. Weber was unable to attend the telephone conference on 1 March 2018. Due to a professional stay abroad, Mr. Eyring was unable to attend the telephone conference scheduled for 4 July 2018 and the meeting on 10 July 2018.

Separate and consolidated financial statements for 2018

The audit firm Warth & Klein Grant Thornton AG, Düsseldorf, was appointed Group auditor for the 2018 financial year by the Annual General Meeting on 11 July 2018 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 2018 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 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 25 April 2018 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 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 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 accounting 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 financial statements meeting on 25 April 2018, as well as the corporate governance declaration.

Auditor responsible

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.

Conflicts of interest in the Supervisory Board

In accordance with the recommendation of the German Corporate Governance Code, any conflicts of interest that have arisen and their treatment should be reported in the report of the Supervisory Board. Biofrontera AG has not declared any deviation in this respect.

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 in early 2018. Mr. Borer was not involved in coordination regarding the question of mandating The Benchmark Company, LLC, all of which occurred in 2017. No events occurred in 2018 relating to The Benchmark Company, LLC, that could have created a conflict of interest.

Mr. Hansjörg Plaggemars was a member of the Management Board of DELPHI Unternehmensberatung (hereinafter "DELPHI") until 13 April 2018. DELPHI is a company of the Deutsche Balaton Group and holds a majority interest in Deutsche Balaton AG. According to his own statements, Mr. Plaggemars achieved in 2018 and continues to generate a major part of his income from activities for companies of the Deutsche Balaton Group. As described above, the Supervisory Board dealt with legal disputes between Biofrontera AG on the one hand and the Deutsche Balaton Group on the other hand in the year under review. In addition, the Supervisory Board discussed the announcements of Deutsche Balaton AG and Deutsche Balaton Biotech AG to make a voluntary purchase offer for shares of Biofrontera AG. In the following the Supervisory Board dealt with the voluntary purchase offer of Deutsche Balaton Biotech AG for shares of Biofrontera AG.

Mr. Plaggemars did not participate in sections of meetings of the Supervisory Board or telephone conferences in which legal disputes with the Deutsche Balaton Group, as well as the acquisition offer and its announcements were discussed. Information was exchanged and opinions formed in the Supervisory Board without his presence. The Supervisory Board did not pass any resolutions with regard to the legal disputes with the Deutsche Balaton Group. Insofar as the Supervisory Board was required to

submit comments on the acquisition offer of Deutsche Balaton Biotech AG and its amendment pursuant to § 27 WpÜG, Mr. Plaggemars participated in the votes on the adoption of the comments in the following circulation procedure. However, it was disclosed in the statements that Mr. Plaggemars was working for companies of the Deutsche Balaton Group at the time of the adoption of the statements. In addition, the voting results of the resolutions adopted by the Supervisory Board were communicated in the statements. As a result, every reader of the statements was in a position to appreciate the result of the resolution in view of the contents communicated.

In the future, the Supervisory Board intends to proceed in such a way that members subject to a conflict of interest do not participate in the exchange of information and consultations within the Supervisory Board. This applies in principle in the same way to the participation in voting of the Supervisory Board.

Dismissal of a Supervisory Board member by the court

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 22 March 2019 and came to the knowledge of the company on 26 March 2019. The ruling for dismissal is effective immediately. However, an appeal can be filed within one month, which has been done. In the case of a successful appeal, Mr. Plaggemars would be reinstated as a member of the Supervisory Board.

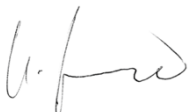
Further personnel changes on the Supervisory Board

Mr. Mark Reeth relinquished his mandate as a member of the Supervisory Board with effect as at 31 October 2017. In early 2018, 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 Annual General Meeting on 11 July 2018 subsequently elected Mr. Reinhard Eyring to the Supervisory Board as Mr. Reeth's successor, subject to the proviso that his term of office end at the conclusion of the Annual General Meeting that resolves on the formal approval of the actions of the Supervisory Board for the financial year ending on 31 December 2020.

Once again, we would like to thank you, our shareholders, for your commitment and trust. Ultimately, the financial resources you have made available have formed the basis for your company to develop so well, and to successfully position itself as a specialist in the photodynamic therapy area.

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 2019



Dr. Ulrich Granzer
Chairman of the Supervisory Board