

Report of the Supervisory Board of Biofrontera AG for the 2020 financial year

Dear shareholders,

The 2020 financial year was dominated by the COVID-19 pandemic, which had a significant impact on Biofrontera Group's business. Following a healthy sales performance as well as positive regulatory and clinical developments at the beginning of the first quarter of 2020, we were confronted with a sharp decline in sales across all markets from March 2020 onwards as a result of the pandemic. As a result, Biofrontera Group was forced to implement company-wide cost reduction measures.

Although the situation improved in the further course of the year, we had to cope with a decline in revenue from product sales of around 29%, particularly in the USA, our main market. However, there were also some bright spots, with product sales in Germany increasing by 11% despite the challenging environment in general.

Overall, taking into account a one-time payment of EUR 6 million from Maruho Co., Ltd. under the license agreement concluded in April 2020, it was possible to keep Biofrontera Group's sales nearly stable. Although this falls short of the original expectations for the 2020 financial year, it nevertheless also shows that we were able to successfully steer Biofrontera Group through this unique global crisis.

For this, we would like to express our gratitude and appreciation to the employees and management of Biofrontera Group, especially insofar as they were directly affected by cost-cutting measures or voluntarily waived their salaries.

Monitoring 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 (Deutscher Corporate Governance Kodex) and its rules of business procedure. The Supervisory Board's activities included monitoring and consulting with the Management Board concerning the management of the company and the Group. In the year under review, the Supervisory Board monitored the activities of the Management Board and engaged in discussions with it on forward-looking business decisions and planning.

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 formal meetings. Based on the Management Board's written and verbal reports, the Supervisory Board was able to comprehensively discuss business developments and the state of the Company. Furthermore, there was a regular exchange of information and ideas between the Chief Executive Officer and the Chairman of the Supervisory Board. Particularly with regard to decisions of fundamental importance to the Company, the Supervisory Board was involved. The Supervisory Board also reviewed the legality, propriety and expediency of measures proposed by the Company's Management Board, as well as the economic feasibility of such measures. Deviations in business performance from the plans were explained and discussed with the Supervisory Board by the Management Board. 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.

Where Management Board decisions required the approval of the Supervisory Board, or where the Management Board requested approval for measures, the Supervisory Board was informed in advance with the relevant information and documents for the decision. Approval was then granted following discussion at Supervisory Board meetings or by means of decisions taken by written correspondence or in telephone or video conferences held regularly by both the full Supervisory Board as well as the committees. In fulfilling its duties, the Supervisory Board and its committees may draw on resources of the Company it deems appropriate and may also engage external consultants as appropriate. The latter was done in the context of the license agreement concluded with Maruho for the distribution of Ameluz in East Asia and Oceania, for which the Supervisory Board selected an external subject matter expert and commissioned him to provide an independent opinion on the adequacy of the compensation.

At its meetings, the Supervisory Board also held regular discussions without the Management Board being present.

Consultation and areas of focus

In performing its duties, the Supervisory Board held seven meetings in the year under review. Due to the COVID-19 pandemic, these were held by phone or video conference to safeguard health, but also due to travel restrictions. The Supervisory Board also passed resolutions outside formal meetings.

At the meeting held on March 27, 2020, the Management Board reported on the measures it had initiated with regard to the spreading COVID 19 pandemic and the response taken by governments. These corporate decisions included the introduction of short-time work in Germany and other countries and, unfortunately, also layoffs.

At the meeting held on April 8, 2020, the Management Board once again reported on the measures it had initiated with regard to the expanding COVID 19 pandemic and the governments' responses, as well as on the impact of the COVID 19 pandemic on business activities and clinical trials. In addition, the impact on the financial position was presented and possibilities for additional financing were discussed.

At the meeting on April 20, 2020, the auditor reported on the timing, structure and results of the audit for fiscal 2019. After discussing the 2019 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 review, 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 to discuss the 2019 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 2020 financial year were thus adopted. The Management Board also reported on the current sales and development of the market against the backdrop of the COVID 19 pandemic. This concerned in particular the challenging sales environment in the USA, the measures taken to reduce costs, as well as the financial situation and the proposal to the upcoming Annual General Meeting to resolve a capital increase. The agenda for the Annual General Meeting on May 28, 2020 was approved by the Supervisory Board. The Management Board's plan to hold a virtual Annual General Meeting was approved.

At the May 26, 2020 meeting, the measures initiated by the Management Board with regard to the COVID-19 pandemic and the countermeasures taken by governments were again discussed. Business continued to be significantly impacted, particularly in the USA. Against this background, the financial and liquidity situation was discussed.

At the meeting on September 01, 2020, the Management Board reported on the ongoing clinical trials and on the status of the newly developed BF-RhodoLED® XL lamp. In addition, the business development and the financial and liquidity situation were presented as well as the new marketing strategy for the US market. In addition, an overview of the ongoing legal proceedings was given.

At the November 02, 2020 meeting, the Management Board and Supervisory Board discussed the status of the mediation process agreed with Mr. Wilhelm K. T. Zours and with Deutsche Balaton AG and potential options for settling the disputes with the aforementioned.

At the meeting on December 09, 2020, the Management Board and Supervisory Board discussed current business developments and the Management Board provided an overview of the revenue, earnings and financial situation. The budget for 2021 and corporate targets for 2021 were discussed and approved. The Management Board reported on the status of the planned implementation of the ordinary capital increase resolved by the Annual General Meeting on May 28, 2020, and on the status of ongoing legal proceedings.

Activities other than regular meetings

In addition to meetings, the Supervisory Board adopted resolutions by written circulation on, among other things, the conclusion of the license agreement with Maruho Co., Ltd. and the issuance of a qualified subordinated mandatory convertible bond with the granting of statutory subscription rights.

Supervisory Board Committees

Currently, the Supervisory Board has established an Audit Committee, a Nominating Committee, as well as a Personnel Committee. The Supervisory Board appoints one Supervisory Board member to chair each committee.

The Chairman of the Supervisory Board or the Vice Chairman shall also chair the committees that deal with Management Board agreements and prepare the Supervisory Board meetings. The Chairman of the Supervisory Board should not chair the Audit Committee. These requirements were taken into account in the appointments. The committee chair(wo)men report to the Supervisory Board on the work of the committees.

Audit Committee

The Audit Committee is concerned in particular with monitoring the financial reporting process, the effectiveness of the internal control system, the risk management system and the internal auditing system, as well as the audit of the financial statements, here 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 within the meaning of Section 264d of the German Commercial Code, i.e. also in the case of Biofrontera Aktiengesellschaft, the proposal of the Supervisory Board for the election of the auditor shall be based on the recommendation of the Audit Committee. In the case of companies within the meaning of Section 264d of the German Commercial Code, at least one member of the Supervisory Board must also have expertise in the fields of accounting or auditing and be a member of the Audit Committee.

The Audit Committee comprised the following members in the reporting year: Mr. Jürgen Baumann, Mr. John Borer and Prof. Dr. Franca Ruhwedel. Prof. Dr. Ruhwedel is Chairwoman of the Audit Committee.

The committee met twice in the reporting year, namely with the auditor in preparation for the Supervisory Board's discussion of the financial statements on April 20, 2020 and November 19, 2020.

In addition to the regular meetings, the Chairwoman of the Audit Committee was in regular contact with the CFO of Biofrontera and with the auditors. She coordinated the audit planning and the focus of the audit with the auditor and was informed about the progress of the audit in regular virtual meetings.

Personnel Committee

The Personnel Committee prepares Supervisory Board decisions on the appointment and dismissal of Management Board members. Unlike in the past, the full Supervisory Board is now responsible for compensation decisions as a result of the changes introduced by the German Act on the Appropriateness of Management Board Compensation (VorstAG) which means the Personnel Committee is now only involved in preparatory work.

The Personnel Committee currently comprises the following members: Mr. Jürgen Baumann, Mr. John Borer and Dr. Ulrich Granzer. Mr. Baumann is currently Chairman.

The committee met on April 20, 2020, and dealt with the target achievement of the members of the Management Board in 2019 as well as the issuance of options to members of the Management Board. In addition, in several conference calls in June 2020 the Personnel Committee discussed the extension or restructuring of service contracts for members of the Management Board. In November and December 2020, the committee also addressed succession planning for the Management Board and in particular the search for a Chief Financial Officer to succeed Mr. Schaffer.

Nominating Committee

In addition to the Chairman, the Nominating Committee comprises two further members of the Supervisory Board who are to be elected. The task of the Nominating Committee is to propose suitable candidates to the Supervisory Board for recommendation to the Annual General Meeting. In doing so, the Nominating Committee takes into account the balance and diversity of expertise, skills and experience of all members of the Supervisory Board and prepares candidate profiles. In addition, the Nominating Committee shall make proposals to the Supervisory Board and communicate the results of a regular assessment of the expertise, skills and experience of both the individual members as well as the Supervisory Board as a whole. The Nominating Committee consulted by telephone during the reporting period.

The current members of the Nominating Committee are as follows: Mr. John Borer, Dr. Ulrich Granzer and Mr. Reinhard Eyring. Dr. Ulrich Granzer is currently Chairman of the Nominating Committee.

Disclosure of the participation of individual Supervisory Board members in Supervisory Board and committee meetings in the 2020 financial year

Supervisory Board member	Supervisory Board meetings/participation	Attendance	Committee meetings/participation	Attendance
Jürgen Baumann	7/7	100%	3/3	100%
John Borer	7/7	100%	3/3	100%
Reinhard Eyring	7/7	100%		
Dr. Ulrich Granzer	7/7	100%	1/1	100%
Prof. Dr. Franca Ruhwedel	7/7	100%	2/2	100%
Kevin Weber	7/6	85,7%		

Annual and consolidated financial statements 2020

Warth & Klein Grant Thornton AG Wirtschaftsprüfungsgesellschaft, Düsseldorf, (auditors) was appointed auditor and group auditor for the 2020 financial year by the Annual General Meeting on May 28, 2020 and was subsequently commissioned accordingly by the Supervisory Board. The auditors' declaration of independence was obtained. Warth & Klein Grant Thornton AG Wirtschaftsprüfungsgesellschaft audited the annual and consolidated financial statements of Biofrontera Aktiengesellschaft prepared by the Management Board and the combined management report for the 2020 financial year and issued the unconditional audit opinions. The auditor also found that the Management Board has set up an appropriate information and monitoring system, the design and operation of which are suitable for the early identification of developments that could jeopardize the going concern of the Company.

The consolidated financial statements were prepared on the basis of International Financial Reporting Standards (IFRS).

On April 12, 2021, the audit committee discussed the financial statement documents in the presence of the independent auditor. The Audit Committee dealt in particular with the key audit matters described in the respective audit opinion, including the audit procedures performed. At the subsequent Supervisory Board meeting on the same day at which the financial statements were approved, the documents relating to the financial statements were discussed in detail in the presence of and following a report by the independent auditors. All Supervisory Board members received the financial statement documents and the auditors' reports in good time before the financial statement meeting and dealt with these documents in detail. The annual financial statements and consolidated financial statements were discussed in detail with the Management Board at the financial statements meeting. The auditors reported on the scope, focus and main findings of their audit, addressing in particular the key audit matters and the audit procedures performed. The auditors were available to the Supervisory Board to answer questions and provide further information. All questions from the Supervisory Board were answered in full by the Management Board and the auditors. The auditors also provided information on their findings regarding internal controls and risk management in relation to the financial reporting process.

The Supervisory Board took note of and approved the audit reports, the annual financial statements, the consolidated financial statements and the combined management report. After discussing the annual financial statements, the consolidated financial statements and the combined management report, the Supervisory Board approved the auditors' reports and the results of the audit, raised no objections following the final results of its own review, and approved the annual and consolidated financial statements. The annual financial statements of Biofrontera Aktiengesellschaft are thus adopted.

The report of the Supervisory Board was adopted at the Audit Committee meeting on April 12, 2021.

Independent auditor and auditor in charge

Warth & Klein Grant Thornton AG Wirtschaftsprüfungsgesellschaft, Düsseldorf, has been the independent auditor for Biofrontera AG and the Group since 2007. Mr. Michael Gottschalk has been the auditor in charge of the mandate for Biofrontera AG since fiscal year 2018 for the audit of the financial statements.

Corporate Governance and compliance statement pursuant to Section 161 of the German Stock Corporation Act (AktG)

Further information on corporate governance is provided in the Annual Report and at www.biofrontera.com in the section "Investors" / "Corporate Governance" as well as in the Corporate Governance Statement. Details of the Supervisory Board's objectives regarding its composition and the status of implementation are also disclosed there.

Training and continuing education activities

The Company supports the members of the Supervisory Board to an appropriate extent in their induction into office and in training and continuing education programs. For ongoing training and continuing education, the Company provides Supervisory Board members with access to a portal of a third-party provider (Arbeitskreis deutscher Aufsichtsrat e.V. (AdAR)) and covers the costs. Opportunities to attend congresses and expert events are also offered via this portal.

Conflicts of interest

Each member of the Supervisory Board is obliged to act in the best interests of the Company. In making decisions, they may neither act in their own personal interests nor exploit business opportunities available to the company for their own benefit without a resolution of the Supervisory Board. The Rules of Procedure of the Supervisory Board stipulate that each member of the Supervisory Board must disclose conflicts of interest to the Supervisory Board. This applies in particular to conflicts of interest that may arise as a result of a consultation or position with customers, suppliers, lenders or other business partners. Material and permanent conflicts of interest on the part of a Supervisory Board member shall result in the termination of his or her mandate.

No such conflicts of interest arose in the year under review.

Changes to the Supervisory Board

There were no changes to the Supervisory Board during the year under review.

Changes to the Management Board

At the end of January 2020, Mr. Christoph Dünwald resigned from the Management Board. Mr. Dünwald and Biofrontera AG have agreed that Mr. Dünwald's Management Board contract, which was due to expire on November 30, 2020, should not be extended. Mr. Dünwald resigned from his position as a member of the Management Board by mutual agreement in the course of a reorganization at the end of January 2020.

Effective March 1, 2021, Mr. Ludwig Lutter was appointed as the new Chief Financial Officer (CFO) of Biofrontera AG. As the successor to Thomas Schaffer, he is responsible for Finance, Administration, Controlling and Human Resources within the Company. Thomas Schaffer has left the Company by best mutual agreement as of February 28, 2021, in order to devote himself to new personal commitments outside the Company. The change in the finance department is part of the succession planning already announced by the Supervisory Board and Management Board.

Biofrontera AG expresses its appreciation to Mr. Dünwald and Mr. Schaffer for their many years of successful commitment.

In closing, 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 employees of Biofrontera Aktiengesellschaft and Biofrontera Group for their high level of commitment and for their outstanding performance in the past year.

Leverkusen, April 12, 2021



Dr. Ulrich Granzer
Vorsitzender des Aufsichtsrats