

# **Corporate governance declaration by Biofrontera AG pursuant to Sections 289f, 315b HGB and the corporate governance report for the 2019 financial year**

Dear shareholders,

Corporate governance is understood to comprise the legal and factual regulatory framework for the management and supervision of a company. The German Corporate Governance Code in the version adopted by the Government Commission on 16 December 2019 (the "**Code as amended**") contains principles, recommendations and suggestions for management and supervisory boards which are intended to ensure that a company is managed in accordance with its corporate interests.

The Code as amended clarifies management and supervisory boards' obligation to ensure the continued existence of the company and its sustainable value creation in accordance with the principles of the social market economy, taking into account the interests of shareholders, employees and other groups associated with the company (stakeholders) (corporate interests). These principles require not only legality, but also ethically sound, self-responsible behavior (the model of the reputable business executive).

The new version of the Code was published in the German Federal Gazette (Bundesanzeiger) on 20 March 2020, since when it has become binding. The following statements therefore refer to the version of the German Corporate Governance Code dated 7 February 2017 (hereinafter referred to as the "**Code**") still valid at that time, unless explicit reference is made to the Code as amended.

As a publicly listed company, Biofrontera AG (hereinafter also referred to as the "**Company**") is obligated to issue a corporate governance declaration in the meaning of Sections 289f, 315d of the German Commercial Code (HGB), including the Group. The Code (including the Code as amended) recommends that management and supervisory boards report annually on corporate governance. This report is included in the corporate governance declaration. The corporate governance declaration is to be included in the combined management report and forms a separate section there. It may also be made publicly available on the company's website. In this case, the combined management report is to include a reference to the website. The company has made use of this option.

## **I. Disclosure pursuant to Sections 289 f ( 2 ) subsection 1, 315 d HGB (corporate governance declaration)**

The Management and Supervisory boards issued the following compliance declaration in December 2019:

### **Declaration by the Management and Supervisory boards of Biofrontera AG (the company) concerning the German Corporate Governance Code, pursuant to Section 161 AktG**

Pursuant to Section 161 of the 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 (Bundesanzeiger), 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 declaration**"). The compliance declaration must be made permanently accessible to the shareholders. The last declaration of compliance was issued in December 2018.

The Management and Supervisory boards hereby issue the following compliance declaration:

Since the submission of its annual compliance declaration in December 2018, 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 7 February 2017, 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 in order 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).

#### **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. In the company's case, however, specifying a general limit for the term of office is not considered to be appropriate from the current perspective. This is because, in the Supervisory Board's opinion, 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 existing length of membership on the Supervisory Board might conflict with proper and impartial fulfilment of the mandate.

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

The amount of the remuneration of the members of the Supervisory Board is regulated in the bylaws. The Chairman receives twice and the Deputy Chairman one and a half times the remuneration to be paid to an ordinary member. 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 required at present, especially as the members generally have around the same workloads resulting from membership of the various committees.

#### **Reporting (No. 7.1.2)**

Financial reports, half-yearly reports and interim reports are published within the statutory periods.

## **II. Additional disclosures pursuant to Sections 289 f (2), 315d HGB (corporate governance report)**

Biofrontera AG is a public limited company under German law. The Management and Supervisory boards manage the company, and these boards work together for the company's benefit. The Management and Supervisory boards of Biofrontera AG are aware of their responsibilities to the company's shareholders, employees and business partners, as well as the 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 in order to ensure good and responsible corporate management and to provide transparency for shareholders. For this reason, Biofrontera AG therefore considers its almost complete application of the recommendations and suggestions of the "German Corporate Governance Code" in the respective relevant version as an important component of responsible corporate management.

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. 7.1.3: The corporate governance report must include specific statements concerning share option programs 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.

The new version of the Code specifies further contents of corporate governance reporting, namely:

- Recommendation B.2  
The Supervisory Board shall, together with the Management Board, ensure long-term succession planning; the procedure shall be described in the corporate governance declaration.
- Recommendation B.5  
An age limit shall be set for members of the Management Board and stated in the corporate governance declaration.
- Recommendation C.1  
The Supervisory Board is required to issue specific targets for its composition and to develop a competency profile for the plenary board. The Supervisory Board shall pay attention to diversity. Proposals by the Supervisory Board to the General Meeting shall take these objectives into account, while simultaneously aiming at fulfilling the overall profile of required skills and expertise of the Supervisory Board. The status of implementation is to be published in the corporate governance declaration. This statement shall also provide information about what the shareholder representatives on the Supervisory Board regard as the appropriate number of independent Supervisory Board members representing shareholders, and the names of these members.
- Recommendation C.2  
An age limit shall be set for members of the Supervisory Board and stated in the corporate governance declaration.

- Recommendation C.8

If one or more of the indicators listed in recommendation C.7 (Indicators for the assessment of the independence of Supervisory Board members) are met and the Supervisory Board member in question is nevertheless considered to be independent, this should be justified in the corporate governance declaration.

- Recommendation D.2

Depending on the specific circumstances of the enterprise and the number of its members, the Supervisory Board shall form committees with sufficient expertise. The respective committee members and the committee chair should be mentioned by name in the corporate governance declaration.

- Recommendation D.13

The Supervisory Board shall regularly assess how effectively the Supervisory Board as a whole and its committees perform their duties. In the corporate governance declaration, the Supervisory Board shall report whether and how a self-assessment was carried out.

- Principle 22

The Supervisory Board and Management Board shall report annually on the company's corporate governance in the corporate governance declaration.

- Recommendation F.4

The supervisory and management boards of listed companies subject to special legal regulations shall specify, in the corporate governance declaration, what Code recommendations were not applied due to over-riding legal stipulations.

The above aspects will also be addressed in this corporate governance report.

The corporate governance declaration for the 2019 financial year is to include (i) the compliance declaration, (ii) relevant disclosures about the corporate governance practices, and (iii) a description of the working methodology of the Management and Supervisory boards as well as the composition and working methodology of their committees, as well as (iv) the targets set pursuant to Section 76 (4) and Section 111 (5) AktG (targets for the proportion of representation of women) and stating whether the targets that were set were reached during the reference period, and if not, the related reasons. Furthermore, pursuant to (v), the corporate governance declaration is to include a description of the diversity concept pursued in relation to the composition of the body entitled to representation, which is the Management Board, and of the Supervisory Board concerning aspects such as age, gender, educational background and professional background, as well as the targets of this diversity concept, the type and manner of its implementation, and the results achieved in the financial year under review. Information on corporate governance practices is not published outside the corporate governance declaration.

### About the company's management structure

Biofrontera AG is subject to the provisions of German law relating to 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 obligated to act in the interests of the shareholders and for the company's benefit. The company's third body is the general meeting of shareholders.

### About the company's corporate governance practices

The values enshrined in the statutory regulations and in the internal guidelines and organizational instructions lie at the heart of the management culture for the company and its subsidiaries. Sector-specific certification and quality requirements are of

particular importance in the manufacture and sale of pharmacological products, and compliance with them requires considerable effort.

In addition, a common understanding exists among management and employees concerning 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.

In order to act autonomously and on their own initiative, employees must first know about and understand the company's direction and strategic orientation. For this reason, the company management provides its employees with regular updates about corporate objectives, the 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 optimized 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 only show exceptional dedication and achieve high productivity and efficiency 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 private life. Due to its international orientation, it is essential to take appropriate account of the special aspects of the individual markets, i.e. the respective framework conditions, cultural influences and expectations, while at the same time maintaining the necessary homogeneity within the Biofrontera Group as a whole.

#### Compliance

The Biofrontera Group's business activities must comply with the legislation of the various countries where it operates. The Biofrontera Group performs its business activities responsibly and in compliance with the statutory provisions and regulations of the countries where it is active. This is particularly the case given the growing sales and marketing activities in foreign markets, including the USA, especially as pharmaceutical sales make special demands in terms of the related participants' integrity. Particularly in this environment, offences can entail serious disadvantages.

For this reason, the Biofrontera Group 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 familiarized with relevant codes of conduct and legal and regulatory requirements. Key elements of the 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. Our employees have the possibility, and are required - including on a protected basis if requested - to provide information about any legal offences within the Biofrontera AG Group companies.

Details are set out in a Code of Conduct under the title "Behavior in Business: Integrity, Innovation, Respect and Responsibility", which all staff and directors are required to comply with.

In February 2018, so-called American Depository Share (ADSs) were listed on the US stock exchange Nasdaq. Each ADS represents two Biofrontera AG shares. As a result of the US stock exchange listing, we are obligated to comply with the requirements of the Sarbanes-Oxley Act of 2002 to the extent required. The Sarbanes-Oxley Act regulates various aspects of corporate governance and compliance of publicly traded companies. In our annual report according to American regulations, 20-F, the Management Board must make a statement on the implementation and effectiveness of internal controls over financial reporting. We conducted our own review of the effectiveness of these controls and issued a statement to that effect.

Given the stock exchange listings of Biofrontera AG shares and ADSs, securing market integrity is an essential part of our

compliance structure. This includes processes for the Group-wide recognition of insider information and for its legally compliant handling, as well as the education of our employees about their duties and obligations in this context.

### **Sustainability**

We strive for sustainable corporate development. We therefore regularly review our environmental and social governance (ESG) positioning. Our main product, Ameluz®, is manufactured to order in Switzerland. The main components, in particular the active ingredient used, originate from production in the EU. As a supplier of pharmacological products, we, like our manufacturing partners, are subject to a large number of strict regulations and requirements, which also include environmental regulations. We therefore engage with manufacturers and suppliers who are themselves committed to high ESG standards. Offices of the Biofrontera Group are all located in countries of the EU or in the USA. In this respect, the corresponding environmental protection and employment standards apply at all sites. The equal treatment of our employees regardless of their origin, gender, religion or worldview, disability, age or sexual orientation corresponds to our corporate culture.

### **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 it is implemented. The Management Board must ensure compliance with statutory regulations and the company's internal guidelines, and endeavors to ensure the Group companies comply with them.

The Management Board of Biofrontera AG currently consists of two members, the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO). 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 resolutions 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.

The members of the Management Board are appointed by the Supervisory Board for a maximum of five years. A repeated appointment or extension of the term of office, in each case for a maximum of five years, is permissible. This requires a new resolution by the Supervisory Board, which can be passed at the earliest one year before the end of the previous term of office.

In its rules of business procedure for the Management Board, the Supervisory Board has specified an age limit in such a way that the Personnel Committee should only propose to the full Board for appointment as a member of the Management Board individuals who have not yet reached the statutory retirement age (currently 67 years of age).

The Supervisory Board concludes the employment contracts with the members of the Management Board. When determining the total remuneration of each individual member of the Management Board (salary, profit sharing, expense allowances, insurance premiums, commissions, incentive-based remuneration commitments such as share subscription rights and fringe

benefits of any kind), the Supervisory Board must ensure that such remuneration stands in reasonable proportion to the tasks and performance of the Management Board member as well as the company's situation, and does not exceed the usual remuneration without special reasons. In the case of listed companies, the remuneration structure must be geared towards the sustainable and long-term development of the company. Variable remuneration components should therefore have a multi-year assessment basis; the Supervisory Board should agree a cap for extraordinary developments.

In accordance with the Act Implementing the Second Shareholders' Rights Directive (ARUG II), a new Section 87a of the German Stock Corporation Act (AktG) was enacted. Accordingly, the Supervisory Board of the listed company decides on a clear and comprehensible system for the remuneration of the members of the Management Board. According to the also newly inserted Section 120a AktG, the listed company's General Meeting decides on the approval of the remuneration system for the members of the Management Board presented by the Supervisory Board for each significant change to the remuneration system, albeit at least every four years.

In accordance with statutory provisions, the remuneration scheme for the members of the Management Board, which was approved in accordance with Section 87a AktG, will be submitted to the Annual General Meeting in 2021.

#### 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. In accordance with Sections 95, 96 (1), 101 (1) AktG in conjunction with the bylaws, the company's Supervisory Board is composed of six members, all of whom are elected by the General Meeting. The members of the Supervisory Board are elected for the period up to the end of the General Meeting that approves their discharge for the fourth financial year after the start of their term of office, unless the General Meeting specifies a shorter term of office at the time of election. The financial year in which their term of office begins is not included in this calculation. The Supervisory Board currently has six members, none of whom were previously members of the company's Management Board.

The Supervisory Board is required to elect one Chair and at least one Deputy Chair. The Supervisory Board Chair organizes 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. The principles of the Supervisory Board's cooperation are set out in the Supervisory Board's rules of business procedure. The Supervisory Board regularly discusses the efficiency of its work and the committees formed. To date, no external adviser has been consulted for the efficiency review.

The Supervisory Board is involved in all decisions that are of fundamental importance to the company. The Supervisory Board may make certain transactions subject to its approval. The Supervisory Board's main tasks also include making election proposals to the General Meeting for the elections to the Supervisory Board and for the appointment of the auditor. The Management Board has no right of proposal in this respect. According to the rules of business procedure for the Supervisory Board, only individuals who have not yet reached the statutory retirement age (currently 67 years of age) are to be proposed for election as members of the Supervisory Board.

The members of the Supervisory Board may be granted remuneration for their activities. The remuneration may be set in the bylaws or approved by the General Meeting. Such remuneration should stand in reasonable proportion to the duties of the Supervisory Board members and the company's situation. At present, the Supervisory Board members' remuneration is regulated in the bylaws. In the case of listed companies, a resolution on the remuneration of the members of the Supervisory Board must be passed at least every four years in accordance with Section 113 AktG, which has also been amended by ARUG II. In accordance with the statutory provisions, a corresponding proposal for a resolution will be submitted to the Annual General Meeting in 2021.

#### Annual General Meeting

Shareholders exercise their rights at the General Meeting of shareholders. In particular, at this meeting they exercise their voting rights. The Annual General Meeting (AGM) is held annually within the first eight months of each financial year, although

special arrangements apply for 2020 due to the COVID-19 pandemic.

In the cases expressly stipulated by law and in the bylaws, the Annual General Meeting decides on

- the appointment of the members of the Supervisory Board, insofar as they are not to be delegated to the Supervisory Board or elected as members of the Supervisory Board representing the employees in accordance with the German Co-Determination Act, the German Supplementary Co-Determination Act, the One-Third Participation Act or the Act on the Co-Determination of Employees in the case of a cross-border merger;
- the application of the unappropriated net profit;
- the remuneration system and the remuneration report for members of the listed company's management and supervisory boards;
- the discharge of the members of the management and supervisory boards;
- the appointment of the auditor;
- amendments to the bylaws;
- measures for capital procurement and capital reduction;
- the appointment of auditors to audit operations in relation to the formation of a company or in relation to a company's management;
- the dissolution of the company.

The General Meeting can only decide on management issues if the Management Board so requests.

The agenda for the 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 accordance with the statutory provisions, a corresponding proposal for a resolution relating to the compensation schemes for the Management and Supervisory boards will be submitted to the Annual General Meeting in 2021.

#### Supervisory Board committees

The Supervisory Board currently has a Personnel Committee, an Audit Committee and a Nomination Committee. The **composition** of the committees in terms of their **personnel** is explained in more detail in the Report of the Supervisory Board, and reference is made to the statements made there to avoid duplication.

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 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 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 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.

## Objectives for the composition of the Supervisory and Management boards (diversity)

### Targets for the Supervisory Board's composition / competency profile

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 is required to issue specific targets for its composition and to develop a competency profile for the plenary board. For its composition, and in the context of its company-specific situation, it should take into appropriate consideration the company's international activities, potential conflicts of interest, the number of independent supervisory board members in the meaning of section 5.4.2 of the Code, an age limit to be determined for the supervisory board members and a normal limit to be determined for the duration of membership of the supervisory board, as well as diversity. Diversity in this context comprises various aspects such as age, gender, origin as well as educational and professional background.

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.

According to the new version of the Code (recommendation C.6 et seq.), the supervisory board should include an appropriate number of independent members on the shareholder side, according to their assessment, and taking into account the ownership structure. For the purposes of this recommendation, supervisory board members are considered independent if they are independent of the company and its management board, and independent of a controlling shareholder.

More than half of the shareholder representatives should be independent of the company and its management board. Accordingly, supervisory board members are considered independent of a company and its management board if they have no personal or business relationship with the company or its management board that could constitute a material and not merely temporary conflict of interest. In assessing whether supervisory board members are independent of a company and its management board, particular consideration shall be given to whether the supervisory board members themselves or close relatives of supervisory board members

- were members of the company's management board in the two years preceding the appointment,
- currently or in the year preceding his appointment, directly or as a shareholder or in a responsible function of a non-group company, have or have had a significant business relationship with the company or a company dependent on the company (e.g. as a customer, supplier, lender or consultant),
- are close relatives of a member of the management board, or
- have been members of the supervisory board for more than 12 years.

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 consideration: 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. 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.

This means that the composition of the Supervisory Board should take proper account of the diversity that is to be found within an open, innovative and by now exceedingly strongly international company like Biofrontera AG. In this regard, women are to be given preference to a reasonable extent in the event of candidates having the same qualifications and suitability. This has particular relevance for Biofrontera AG in terms of it being a biopharmaceutical company as well as, of course, with regard to the areas of research, development, manufacture and sales of medical cosmetics and new drugs for the care and

treatment of skin and inflammatory diseases.

For companies as defined in Section 264d HGB, which includes Biofrontera AG, at least one independent member of the Supervisory Board must also possess expertise in the areas 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) AktG). Hence, this is a mandatory diversity criterion.

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

- Consideration of the expected future growth 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) 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

The competency profile thereby comprises knowledge of the sector and markets, an understanding of the business model and fundamental knowledge of the (legal) framework conditions, fundamental knowledge in the area of compliance, finance and financial accounting, as well as, naturally, the capability to understand and critically query Management Board reports and submissions, and to draw their own conclusions, including the capability to assess the proper nature, economic efficiency, expediency and legality of the business decisions to be evaluated, and to check them for plausibility. Each Supervisory Board member must also satisfy certain personal minimum requirements indispensable for efficient Supervisory Board work, such as having the requisite available time, integrity, confidentiality, aptitude for discussion and debate, and a capacity for interaction and teamwork.

In the Supervisory Board's opinion, the current level of progress in achieving these aims is to be appraised favorably overall with regard to the five members currently on the Supervisory Board, apart from participation by one further woman:

- Dr. Ulrich Granzer, Supervisory Board Chairman, is a founder and owner of Granzer Regulatory Consulting & Services, and has been a Supervisory Board member since 2003. He was previously head of regulatory affairs at GlaxoSmithKline, BASF Pharma and Bayer Pharma and is a proven expert in the pharmaceuticals approvals area. He studied pharmaceuticals at Phillips University Marburg before receiving his doctorate from Tübingen University.
- Mr. Jürgen Baumann, Deputy Supervisory Board Chairman, is an independent management consultant. He has been a member of the Supervisory Board since 2007 and was Supervisory Board Chairman from 2007 to 2016. He has held various management positions, including on the Management Board of Schwarz Pharma AG, where he was responsible for sales and marketing in Europe. Mr. Baumann studied economic sciences at Wuppertal University. He has expertise in the

areas of accounting and auditing.

- Dr. John Borer is Senior Managing Director and Head of Investment Banking at The Benchmark Company, LLC. He was previously CEO and Head of Investment Banking at Rodman & Renshaw and held management positions at Pacific Business Credit as well as Barclays American Business Credit. His law doctorate was awarded by the Loyola Law School in Los Angeles. John Borer also has expertise in accounting and auditing. He has been a member of the Supervisory Board since 2016.
- Mr. Reinhard Eyring has been a partner in the corporate area of the Ashurst international legal practice in Frankfurt and Head of Ashurst Germany since 2000. He has extensive experience in all areas of corporate and banking law, especially stock corporation and capital market law. Reinhard Eyring also advises listed and unlisted companies in all regulatory matters relating to stock corporation law. He has extensive expertise in IPOs and public takeovers and is a member of various supervisory boards. He has been a member of the Supervisory Board since 2018.
- Prof. Dr. Franca Ruhwedel is Professor of Finance and Accounting at the Rhine-Waal University of Applied Sciences, Kamp-Lintfort. She was previously Professor of Accounting and Controlling at FOM University, Essen, Germany. Prior to her university career she worked as M&A project manager at thyssenkrupp AG and as Corporate Development/M&A project manager at thyssenkrupp Steel AG. She studied business administration and completed training as a bank executive. She has been a member of the Supervisory Board since 2019.
- Mr. Kevin Weber is Principal at Skysis, LLC. He was previously CEO at Paraffin International Inc., and has extensive experience in marketing as well as worldwide marketing strategies. He previously held senior roles at Depomed, Hyperion Therapeutics and Medicis Pharmaceuticals. Kevin Weber is also a member of the boards of directors of the American Academy of Pain Medicine Foundation and of the American Chronic Pain Association. He holds a degree in management and marketing from Western Michigan University. He has been a member of the Supervisory Board since 2016.

As a consequence, all the relevant areas of expertise are represented on the Supervisory Board, particularly with regard to sector-specific requirements and other specialist areas (financial expert). Extensive experience in international business life is also present, as well as members from other countries. The targeted strengthening in the areas of business management, accounting and finance announced in the last Corporate Governance Report was achieved at the 2019 Annual General Meeting with the election of Prof. Dr. Franca Ruhwedel.

All members of the Supervisory Board have sufficient time to perform their duties.

In its appraisal, the Supervisory Board comprises an appropriate number of independent members. At present, the Supervisory Board considers all its members to be independent. Insofar as the Code as amended stipulates that this assessment should include, by way of an indicator, whether a member has been a member of the board for more than 12 years, the Code as amended does not permit the related conclusion to be drawn that this constitutes a lack of independence. The Supervisory Board, too, is of the opinion that even a longer term of office does not imply a lack of independence. This also applies as Dr. Granzer and Mr. Baumann have been members of the Supervisory Board for more than twelve years. Dr. Granzer and Mr. Baumann have always selflessly put their professional competence at the service of the company and thus contributed significantly to the successful development of Biofrontera AG. Furthermore, to date there has been no indication that they have not exercised their office with the necessary objectivity, professionalism and vigilance.

#### Targets for the composition of the Management Board

Pursuant to section 5.1.2 of the Code, the supervisory board is also required to pay attention to diversity in the composition of the management board. Pursuant to Section 76 AktG, the management board is required to manage the company at its own responsibility. For this reason, the objective in the composition of the management board must be - while preserving the efficiency of its membership - to entrust individuals with the management of the company who meet the related requisite specialist and personal preconditions in the context of their collaboration with their colleagues. It should also be taken into

account in this context that Biofrontera AG, as a holding company, is tasked with managing its subsidiaries, and does not pursue any operating activities itself. At the level of the Management Board, too, the best business and sector knowledge, as well as scientific technical understanding, including knowledge of regulatory framework conditions for the development, approval and marketing of medications are indispensable in this context. To this is added a high degree of international experience given the Biofrontera Group's business orientation.

The Supervisory Board is convinced that the current composition of the Management Board reflects the specialist and personal requirements as follows:

- Prof. Dr. rer. nat. Hermann Lübbert is Chairman of the Management Board of Biofrontera. He studied biology in his native city of Cologne, where he also received his doctorate in 1984. After eight years pursuing academic research at Cologne University and the California Institute of Technology (USA), he acquired management ten years' management experience within a globally operating research organization at Sandoz and Novartis Pharma AG. Professor Lübbert founded Biofrontera AG in 1997, and has managed the company since then. He gained his postdoctoral qualification at the Swiss Federal Institute of Technology in Zürich (ETH), before holding the Chair for Animal Physiology at Ruhr University Bochum.
- Mr. Thomas Schaffer started his career with various positions in the finance and controlling area at Siemens Semiconductor. He was Vice President and CFO in the Security & Chipcard ICs area at Siemens. He was then Managing Director and CFO at Infineon Ventures GmbH for a four-year period and continued his career as Vice President and CFO of the Specialty DRAM Division of Qimonda AG, where he also assumed the Managing Director role at Qimonda Solar GmbH. He added to his significant international experience with appointments as CFO at Heptagon Oy, Finland/Switzerland, and Ubidyne Inc., Delaware, USA. Mr. Schaffer's broad expertise comprises all areas of finance and financial accounting. He has played a key role in the strategic further development of the companies for which he has been active. Mr. Schaffer has been CFO of Biofrontera AG since June 2013.

#### Succession planning

Given the professional and personal requirements made of the members of the company's Management Board, the Personnel Committee regularly discusses - including with the current Management Board - which individuals (including the current members of the Management Board) might be eligible for appointment for future periods of office. The personal and professional development of managers within the Group is also taken into consideration. If necessary, the Supervisory Board also consults external consultants in the search for suitable candidates.

#### Equal participation by men and women

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

Pursuant to Section 76 (4) AktG, the management boards of companies that are listed or subject to co-determination legislation are required to set targets for the proportion of representation 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, but only one level. Due to the lack of two management levels below the Management Board, targets for representation of women pursuant to Section 76 (4) AktG were set in December 2016 only in relation to the one management level existing below the Management Board level. In December 2016, four people undertook the management tasks below Management Board level. The proportion of representation of women at this first and only management level was 50 % in December 2016. target for the proportion of representation of women at 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 this target was set at 30 June 2022. The target was met as of the date when this report was made.

#### *Proportion of representation of women on the Management Board*

Pursuant to Section 111 (5) AktG, supervisory boards of companies that are listed or subject to co-determination legislation are responsible for setting targets for the proportion of representation of women on the management board. The target for the proportion of representation of women on the Management Board was set at 0 %. The deadline for achieving this target was set at 31 October 2020.

The reason for this was that the Management Board at that time had three appointed members. The Management Board does not include any women in this context. The contracts of the Management Board members are valid until at least 31 October 2020. To reach a higher target by 31 October 2020 would have required board members to leave prematurely and at least one woman to be appointed to replace them, or that the Board be expanded and the additional position(s) be occupied by women. However, neither of these objectives was aimed for.

A target of 0 % 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. As a consequence, the Supervisory Board of Biofrontera AG exercises this recognized exception.

#### *Proportion of representation of women on the Supervisory Board*

In December 2016, the Supervisory Board set a target for the proportion of representation of women on the Supervisory Board at one third, in other words, two of a current total of six seats. The deadline for achieving this target was set at 31 August 2021. The current term of office ends on 31 August 2021 at the latest. If by-elections should occur for prematurely retired members before the regular new election, which would take place in 2021, the Supervisory Board will take this aspect into account in an appropriate manner. In addition, please refer to the comments above under the section on "Targets for the composition of the Supervisory Board".

#### *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.

#### *The company's share option programs and similar securities-based incentive schemes*

For more information please refer to the remarks in the separate annual financial statements, consolidated financial statements and in the combined management report.

#### *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.