Biofrontera

Deep in dermatology

Biofrontera AG

Annual report 2022

Skin health is essential and skin cancer has been on the rise for years.

At Biofrontera, we want to provide patients with the best possible therapy. With more than 15 years of experience in the field of photodynamic therapy (PDT), we offer a broad spectrum of treatment options for sun-induced skin damage. Our goal is to fully exploit the potential of PDT and to make this form of therapy a worldwide breakthrough. The Biofrontera team is fully committed to this goal because we care about your skin health.

Content

Biofrontera AG – Annual Report 2022

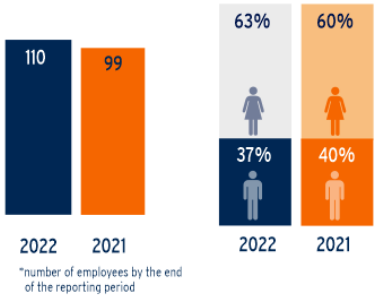
Key figures 2022

	Results and development in 2022
Sales revenues	EUR 25.7 million*
	compared to EUR 28.8 million in 2021
Result from operations	EUR 1.6 million
	compared to EUR -35.3 million in 2021
Results before income tax	EUR -43.6 million
	compared to EUR 35.7 million in 2021

*Following the deconsolidation of Biofrontera Inc. only recognized on a pro rata basis in accordance with the underlying license agreement.

Non-financial key performance indicators

Employees

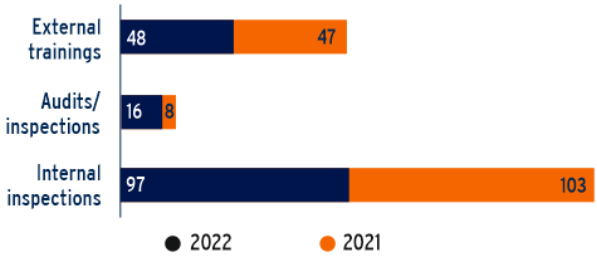


Percentage of women at management level

Quality management

Standard operating procedures

Trainings and audits/inspections



Dear shareholders,

In the reporting period, we made great progress towards our goal of growing the Biofrontera Group into a profitable company. After Biofrontera had been generating losses for the past decades, we were now able to achieve positive EBITDA and EBIT from our operating business, a significant step towards financial independence and profitability. The restructuring of the Biofrontera Group has resulted in significant cost reductions, but also other cost-cutting measures, such as the delisting of Biofrontera AG from the US capital market, have led to the significant savings. We will now consistently pursue this chosen path by focusing tightly on growth-promoting measures, a decision in which the Management and Supervisory Board are working together in a very trusting and, above all, results-oriented manner.

In addition, you, our shareholders, have given us the flexibility we need to respond quickly to market requirements through resolutions adopted at the Shareholders' Meetings in 2022/23. We would like to sincerely thank you for this trust.

In 2022, we achieved our sales targets and closed the reporting year with revenues of EUR 25.7 million. A direct comparison with the 2021 figures is not possible because US revenues now came in as transfer prices within the license agreement due to the deconsolidation of Biofrontera Inc. in December 2021. Nevertheless, our US license holder generated with approximately 67% the largest share of the revenues. However, sales in the US market fell short of the expectations of our US partner Biofrontera Inc., who had expected growth of 30% at the beginning of the year but only realized market growth of 20% by the end of the year. It is therefore even more important that the Biofrontera Group intensively analyzes the development opportunities in the US market, so that a solid planning for the coming months and in long-term becomes possible. Currently, we are supporting US market growth through a clinical development program with now four clinical studies running in parallel for the US label expansion of Ameluz®. We expect the first submission of revised approval dossier to the FDA by the end of 2023.

The European market was able to record a slight single-digit increase, while the German market was slightly down in terms of sales. This development was caused by shifts in sales resulting from reimported products from Spain. The decree on pricing for Ameluz® in the Spanish market was removed in April 2022, but the parallel trade market was still active until end of November. Now, this is over, and we expect solid market growth in 2023.

In the past few years, Biofrontera has been able to build up a business unit comprising research development, the regulatory substructure, and a marketing and sales unit, which must now be self-financing. With the restructuring of the Biofrontera Group that completed in the year under review, the path has now been set for organic growth. Ameluz® still has great development potential, both through territorial expansion, but also through a fairly low-risk clinical development profile. The task now is thus clearly focused on the growth markets that will enable us to grow organically without moving away from the path of profitability we have already established. This is the only way to ensure that we create the greatest possible value for all our shareholders.

The patent strategy that we have been consistently following for years to protect Ameluz® from competitors has produced pleasing results in 2022. Ameluz® is protected in many parts of the world via the nanoemulsion formulation. The patent has now also been granted in the USA, providing Ameluz® protection against generic products in this country. Follow-up patents are in preparation to further extend this protection. Furthermore, in addition to a novel PDT lamp, innovative PDT exposure protocols have also been patented. Here, too, various approvals were granted in 2022, providing additional protection to the drug-device combination in US until 2040. Altogether, Biofrontera is not only working intensively to protect its existing products but is also constantly modernizing the PDT market with innovative treatment approaches .

Biofrontera is thus not only an innovation driver but is also able to hold an excellent position in the highly regulated pharmaceutical market against the global players despite its relatively small company size.

This is feasible because of a flexible corporate structure that allows us to respond quickly to changing market conditions and other factors beyond our control. My special thanks go to our employees, who are not afraid to take on new challenges and grow from these tasks. And, of course, I can't forget to thank our loyal shareholders, without their support and trust we couldn't have gotten where we are.

I am now delighted to be part of such a team.

Pilar de la Huerta Martínez

Chief Financial Officer Biofrontera AG

Report of the Supervisory Board of Biofrontera AG for the financial year 2022 (unaudited)

Dear Shareholders,

the 2022 financial year shows a positive operating result for Biofrontera AG. We want to further support this development with significant cost-cutting measures and a clear focus on growth-enhancing measures. In doing so, the Supervisory Board is working together with each other and with the new company management in a spirit of trust.

We would also like to thank our employees for their efforts in supporting the development of Biofrontera AG in the past financial year.

Supervision and advice

The Supervisory Board performed the duties incumbent upon it by law, the Articles of Association, the German Corporate Governance Code (the Code) and the Rules of Procedure. The Supervisory Board's activities included monitoring and advising the Executive Board on the management of the Company and the Group. The Supervisory Board discussed forward-looking business decisions and plans with the Executive Board.

The Executive Board provided the Supervisory Board with reports on the situation of the Company. The Supervisory Board was informed by the Executive Board about the current development of the Company both in meetings and outside meetings. On the basis of written and oral reports by the Executive Board, the Supervisory Board discussed the development of business and the situation of the Company in its deliberations. In addition, there was an exchange of information and ideas between individual Executive Board members and the Chairman of the Supervisory Board.

In the case of management measures, the Supervisory Board also reviewed their legality, regularity and expediency, as well as their economic efficiency. The division of the operating activities of the Biofrontera Group into an independent US sales company on the one hand and the (former) parent company Biofrontera AG on the other hand, which took place at the end of 2021, continues to be of no sustainable value creation for the Biofrontera AG Group in the opinion of the Supervisory Board. However, in the view of the Supervisory Board, a restructuring with the aim of re-combining the operating businesses is not readily feasible at present. The circumstances and strategic consequences of the deconsolidation of the two companies therefore formed a focus of the Supervisory Board's monitoring and advisory activities.

Deviations in the course of business from the plans were explained to the Supervisory Board by the Executive Board and discussed with it. The extent to which the statutory requirements and the resolutions, suggestions and recommendations of the Supervisory Board were subsequently taken into account or implemented by the Board of Management was also reviewed. The results led to changes in the Executive Board.

The Supervisory Board adopted resolutions on certain measures after receiving relevant information and documents and after consultation.

Meetings and their main areas of discussion

In the performance of its duties, the Supervisory Board held eleven meetings in the reporting year. All meetings were held as telephone or video conferences.
At the meetings, the Executive Board reported on the current business situation. In particular, the Executive Board explained the liquidity situation of the Company in the context of sales forecasts and cost planning.

At the meeting on February 23, 2022, the Supervisory Board discussed the 2022 budget with the Executive Board. At this meeting, the Executive Board and Supervisory Board dealt in detail with the question of the financial situation and possible risk factors in this respect.

At the meeting on April 29, 2022, the auditors reported in full to the Audit Committee and the Supervisory Board on the timing, structure and results of the audit for fiscal 2021. After discussing the annual financial statements for 2021, the consolidated financial statements and the combined management report, the Supervisory Board approved the auditors' 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 auditors and discussed the annual financial statements 2021, the consolidated financial statements, the combined management report and the audit reports.

At the meeting on November 21, 2022, the new Executive Board reported in detail on the status of clinical trials and distribution agreements, sales development, and market development and opportunities, particularly in Europe. In addition, the Supervisory Board passed a resolution on the proposed resolutions for the Extraordinary General Meeting on January 9, 2023. Together with the Management Board, the strategic orientation and development potential of the Company in the current environment were discussed.

The Supervisory Board is also constantly concerned with the efficiency of its activities. Overall, the Supervisory Board has come to the conclusion that its cooperation adequately reflects the tasks of the Supervisory Board and the needs of the Company.

Prepared by the Personnel Committee, the possible future appointment of an additional Executive Board member was also discussed, along with a possible requirements profile and the further procedure in this matter.

Resolutions outside meetings

Outside of meetings, the Supervisory Board adopted resolutions in 37 parallel proceedings, including on Executive Board matters, legal issues, and in connection with the Annual General Meetings in fiscal 2022.

Committees of the Supervisory Board

In the financial year 2022, there was an Audit Committee, a Nomination and Personnel Committee, and a Litigation Committee concerning the proceedings of Deutsche Balaton AG against Biofrontera AG. The Supervisory Board appointed one member of the Supervisory Board to chair each committee.

According to the Rules of Procedure of the Supervisory Board, the Chairman of the Supervisory Board shall also chair the committees that deal with Executive Board contracts and prepare the Supervisory Board meetings. Although the Supervisory Board Chairman was not Chairman of the Nomination and Personnel Committee dealing with Executive Board contracts in fiscal year 2022, he was a member of this committee. The Supervisory Board considers the deviation from the target provision of the Rules of Procedure in this respect to be harmless in terms of content. The Chairman of the Supervisory Board was not supposed to chair the Audit Committee, and this was not the case. The chairmen of the committees report to the Supervisory Board at each meeting on the work of the committees, with the exception of the Legal Action Committee.

1. audit committee

The Audit Committee deals in particular with accounting and risk management issues, the necessary independence of the auditor and the issuing of the audit engagement to the auditor and monitors the audit of the Company's annual financial statements. The committee met 15 times in the reporting year, with all meetings held as video conferences.

The members of the Audit Committee in the reporting year were: Mr. Karlheinz Schmelig (Chairman since February 22, 2022), Dr. Helge Lubenow and, since February 22, 2022, Dr. Jörgen Tielmann. Prof. Dr. Franca Ruhwedel was also a member and Chair of the Committee until February 22, 2022, when she stepped down.

2. nomination and personnel committee

The Nomination and Personnel Committee prepares, among other things, decisions of the Supervisory Board on the appointment and dismissal of members of the Executive Board. As the Supervisory Board as a whole is also responsible for compensation

decisions, the Personnel Committee also performed preparatory work in this respect. In the reporting year, it dealt in particular with the requirements for qualifications and critical monitoring of the performance of Executive Board members. In this context, the departure of the Chief Financial Officer Mr. Lutter and the appointment of Mr. Böckmann as interim Executive Board member as well as the appointment of Mrs. de la Huerta Martinez to the Executive Board.

The Nomination and Personnel Committee met twice in the reporting period; both meetings were held as video conferences. In addition to these formal meetings of the Nomination and Personnel Committee, the members of the committee held informal exchanges at least once a month.

The members of the Personnel Committee in the reporting period were: Dr. Helge Lubenow (Chair), Mr. Wilhelm K.T. Zours and Dr. Heikki Lanckriet.

3. other committees

In this respect, reference is made to the following section "Conflicts of interest".

Individualized disclosure of Supervisory Board members' attendance at Supervisory Board and committee meetings in fiscal year 2022

Name	Supervisory Board meetings / Attendance	Attendance %	Committee meetings / Attendance	Attendance %
Prof. Dr. Franca Ruhwedel (Member until February 22, 2022)	1/1	100%	0/0	100%
Dr. Heikki Lanckriet	11/11	100%	2/2	100%
Dr. Helge Lubenow	11/11	100%	18/18	100%
Karlheinz Schmelig	11/11	100%	16/16	100%
Prof. Dr. Karin Lergenmüller (Member since August 23, 2022)	1/1	100%	0/0 *	100%
Dr. Jörgen Tielmann	11/11	100%	16/16	100%
Wilhelm K. T. Zours	11/11	100%	2/2	100%

* No membership of a committee in the year under review

Annual and consolidated financial statements 2022

Baker Tilly GmbH & Co. KG Wirtschaftsprüfungsgesellschaft, Düsseldorf, was appointed auditor of the annual financial statements and consolidated financial statements for fiscal 2022 by the Annual General Meeting on August 23, 2022, and subsequently commissioned accordingly by the Supervisory Board. The auditor's declaration of independence was obtained. Baker Tilly GmbH & Co. KG Wirtschaftsprüfungsgesellschaft, Düsseldorf, audited the annual and consolidated financial statements of Biofrontera AG and the combined management report for the 2022 financial year prepared by the Executive Board and issued an unqualified audit opinion. The auditor also found that the Executive 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 continued existence of the company.

The consolidated financial statements were prepared on the basis of International Financial Reporting Standards (IFRS). The financial statement documents were discussed by the Audit Committee on April 24, 2023 in the presence of the auditor and the other members of the Supervisory Board. At this meeting, the annual and consolidated financial statements were also discussed with the Executive Board. The Audit Committee dealt in particular with the key audit matters described in the respective audit opinion, including the audit procedures performed. The financial statement documents were discussed in the presence of the auditors. All members of the Supervisory Board received the financial statement documents and the auditors' reports in good time before this meeting and dealt

with these documents. The auditors reported on the audit, commented on the main points of the audit and were available to the Supervisory Board to answer questions and provide information. The auditors reported on the scope, focal points and main findings of their audit, focusing in particular on the key audit matters and the audit procedures performed. The auditors were available to the Supervisory Board to answer questions and provide further information. Questions from the Supervisory Board were answered by the Executive Board and the auditors. The auditors also provided information on their findings regarding internal control and risk management in relation to the financial reporting process.

At its balance sheet meeting on April 27, 2023, the Supervisory Board noted with approval the audit reports as well as the annual and 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 concurred with the auditor's 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 AG were thus adopted.

This report of the Supervisory Board was adopted at the financial statements meeting on April 27, 2023, as was the corporate governance declaration.

Auditor and responsible auditor

Baker Tilly GmbH & Co. KG Wirtschaftsprüfungsgesellschaft, Düsseldorf, is acting as auditor for Biofrontera AG and the Group for the first time for the 2022 financial year.

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

Information on corporate governance is presented in the Annual Report and on the internet at www.biofrontera.com in the section "Investors" / "Corporate Governance" and in the Corporate Governance Statement. There, in particular, details are also provided on the objectives of the Supervisory Board with regard to its composition and the status of implementation.

Trainings and development measures

The Company supports the members of the Supervisory Board to an appropriate extent in their induction into office and in training and development measures.

Conflicts of interest

Each member of the Supervisory Board is obliged to act in the interests of the Company. In making decisions, they may not pursue personal interests or take advantage of business opportunities to which the company is entitled 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 shall disclose conflicts of interest to the Supervisory Board. This applies in particular to conflicts of interest that may arise as a result of a consultancy or board position with customers, suppliers, lenders or other business partners. Material and not merely temporary conflicts of interest in the person of a Supervisory Board member shall lead to the termination of the mandate.

On December 13, 2021, Deutsche Balaton AG, Heidelberg, filed a declaratory action against Biofrontera AG with the Cologne Regional Court, which was decided by the Cologne Regional Court on December 9, 2022. Mr. Wilhelm K.T. Zours indirectly holds the majority of shares in Deutsche Balaton AG via VV Beteiligungen AG and is Chairman of the Supervisory Board of Deutsche Balaton AG. There is a de-entitlement agreement between VV Beteiligungen AG and Deutsche Balaton AG. Since December 14, 2021, Mr. Zours has also been a member of the Company's Supervisory Board and its Chairman. In essence, the lawsuit was about Deutsche Balaton AG's opinion - shared by the Cologne Regional Court in its judgment - that the IPO of Biofrontera Inc. together with capital measures would have

required the approval of the Annual General Meeting of Biofrontera AG. The action was directed against Biofrontera AG, represented by the Management Board and represented by the Supervisory Board. After becoming aware of the lawsuit, the Supervisory Board resolved that a committee be formed in this connection and appointed the following Supervisory Board members to the committee: Mr. Jörgen Tielmann (Chairman), Mr. Karlheinz Schmelig and Dr. Helge Lubenow. The Litigation Committee met once in the reporting period and otherwise passed resolutions in parallel proceedings.

Mr. Zours therefore did not participate in any deliberations or resolutions in connection with the lawsuit.

In the view of the Supervisory Board, the conflict of interest has thus been adequately taken into account. Even from a retrospective perspective, it cannot be determined that there was a material and not merely temporary conflict of interest that would have necessitated termination of the mandate.

Changes in the Supervisory Board

By resolution of the Annual General Meeting on August 23, 2022, Prof. Dr. Karin Lergenmüller was elected to the Supervisory Board of Biofrontera AG until the end of the Annual General Meeting for the financial year ending on December 31, 2025. With the appointment of Prof. Dr. Karin Lergenmüller, the Supervisory Board is once again composed of six members in accordance with the Articles of Association; until August 23, 2022, it consisted of only five members following the resignation of Prof. Dr. Franca Ruhwedel as of February 22, 2022.

Maruho Deutschland GmbH filed an action for annulment against the resolution. By further resolution of January 9, 2023, the Annual General Meeting confirmed the election. In an extension of the action, Maruho Deutschland GmbH is also contesting this confirmation resolution. The Company is currently conducting settlement negotiations with Maruho Deutschland GmbH to resolve the legal dispute.

Changes in the Management Board

Effective August 14, 2022, Mr. Ludwig Lutter (Chief Financial Officer) resigned from Biofrontera AG. Legal proceedings are pending between Mr. Lutter and the Company in which Mr. Lutter is asserting further payment claims arising from his Management Board service contract, which was terminated by summary dismissal for cause. The interim Management Board mandate of Mr. Paul Böckmann existed from June 9, 2022 and expired on September 30, 2022. However, he continued to support Biofrontera AG as an external advisor during the reporting period even after his departure. In September 2022, Mrs. Pilar de la Huerta Martinez, currently the only member of the Management Board, was appointed Chief Financial Officer. Mrs. Pilar de la Huerta has been CEO and CFO of various technology companies in the pharmaceutical and healthcare sector for more than 25 years and thus has relevant industry experience and a high level of professional aptitude. The Supervisory Board would like to thank Mrs. de la Huerta and Mr. Böckmann for their strong commitment to the Company in a challenging phase of business development and for the trustful cooperation.

Future

The Supervisory Board considers discussions between Biofrontera AG and Biofrontera Inc. on further restructuring steps with the aim of optimally combining the operating businesses to be expedient.

Even if Biofrontera AG can report a positive operating result for the 2022 financial year, we must not overlook the fact that we form a "community of fate" with Biofrontera Inc. in which we continue to hold around 30% of the shares and which is reporting high losses. The economic success of Biofrontera AG in the future depends to a large extent on the sales success of Biofrontera Inc. on the US market. Only if Biofrontera Inc., equipped with the funds required until Biofrontera Inc. breaks even, can continue to significantly increase its sales, can Biofrontera AG also continue to develop positively. The share of the US market in total sales of the product Ameluz® is expected to continue to increase, as is the dependence of Biofrontera AG's earnings on the success of Biofrontera Inc.

The development of the Biofrontera share price was also unsatisfactory in 2022. In the coming period, the Supervisory Board and the Management Board will continue to work constructively and in a results-oriented manner to improve the economic situation of Biofrontera AG and its valuation on the capital market.

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

Heidelberg, April 27, 2023

Wilhelm K. T. Zours
Chairman of the Supervisory Board

Corporate Governance Statement of Biofrontera AG pursuant to Sections 289f, 315d HGB for the financial year 2022 (unaudited)

The Company has made use of the option not to include the corporate governance statement pursuant to Sections 289f, 315d of the German Commercial Code (HGB) for the financial year 2021 in the (combined) management report for the financial year 2022, but refers to the publication of this statement as well as the statement of the Management Board and the Supervisory Board of Biofrontera AG (the Company) on the German Corporate Governance Code pursuant to Section 161 of the German Stock Corporation Act (AktG) (unaudited) on the Company's website at www.biofrontera.com in the section "Investors", subsection "Corporate Governance" with the corresponding labels.

Compensation Report

Remuneration system for the members of the Management Board:

Principles of the system for the remuneration of the members of the Management Board of Biofrontera AG.

The remuneration system for the Management Board aims to remunerate the members of the Management Board appropriately in accordance with their duties and responsibilities, taking into account the performance of each member of the Management Board and the success of the company. The structure of the remuneration system for the Management Board of Biofrontera AG aims to achieve a sustainable increase in the value of the company and success-oriented corporate governance. The remuneration system will apply to new contracts and contract extensions from December 2021. The performance of the Management Board members is appropriately taken into account through adequately and ambitiously set performance criteria within the variable remuneration components (pay for performance). Current market practice is taken into account when designing the compensation system.

In principle, the Supervisory Board is guided by the following guidelines when determining compensation levels and the compensation system:

- The compensation system in its entirety makes a significant contribution to promoting the business strategy.
- To this end, the variable compensation components in particular should also be linked to the achievement of strategic goals.
- The remuneration system and the performance criteria of its variable components incentivize the long-term and sustainable development of the Biofrontera Group.
- In this context, the strategic objectives formulated as part of the variable remuneration components are intended to ensure long-term and sustainable growth of the company.
- Furthermore, variable remuneration components with a multi-year character are intended to contribute to ensuring long-term developments, which are based on the price development of Biofrontera AG shares and thus link remuneration to the increase in earnings and to the interests of shareholders.

The remuneration system consists of

- a fixed basic remuneration, payable monthly, which takes into account the tasks and performance of the members of the Management Board ("**basic remuneration**"),
- a short-term variable compensation dependent on the achievement of the Company's annual performance targets in the form of an annual performance-related bonus ("**Short-Term Variable Compensation**"; "**STI**"), and
- long-term compensation in the form of a stock appreciation rights program ("SAR program"), which is therefore directly linked to the Company's performance and is intended to create an incentive for sustained commitment to the Company ("**long-term variable compensation**"; "**LTI**"),

together. The targets for short- and long-term variable remuneration are derived from Biofrontera AG's corporate strategy. In addition, fringe benefits customary in the market are granted.

Overall, the remuneration thus contributes to the long-term development of the company.

Target total compensation

The target total compensation for the individual Management Board members is calculated on the basis of 100% target achievement and comprises the basic compensation, the short-term variable compensation and the long-term variable compensation.

The Supervisory Board determines the level of target total compensation for each Management Board member in accordance with the compensation system.

In doing so, it shall take into account the economic situation as well as the success and future prospects of the Company in addition to an appropriate relationship to the duties and performance of the Management Board member. The Supervisory Board shall ensure that the target total compensation does not exceed the customary compensation without special justification.

The assessment of customary compensation is carried out both horizontally (external comparison/peer group comparison) and vertically (internal comparison).

Horizontal comparison
The peer group for assessing the marketability of total compensation is selected on the basis of the requirements of the Stock Corporation Act (in particular sector and size as well as international orientation).

The composition of the peer group is based on a peer group of listed companies in terms of sales, EBIT, number of employees and market capitalization. Furthermore, the peer group is selected as far as possible from a peer group of listed sector companies.

Vertical comparison
The compensation and employment conditions of employees are taken into account in the vertical comparison. This analysis is also carried out over the course of the last three years.

Compensation components in detail

Fixed compensation components
The fixed compensation components granted to the members of the Management Board under the compensation system comprise basic compensation and fringe benefits. The members of the Management Board do not receive a pension commitment.

Basic compensation
The members of the Management Board receive basic compensation, which is paid in twelve equal monthly installments.

Fringe benefits
Fringe benefits are granted on the basis of service contracts with the individual members of the Management Board and may include, for example: Private use of company cars, special payments such as payment of tuition, housing, rent and relocation expenses, subsidies for pension insurance (with the exception of the pension commitments presented here), subsidies for accident, life and health insurance or other insurances. Fringe benefits may be provided on a one-time or recurring basis. Fringe benefits shall not exceed an annual value of 10% of annual base compensation.

Short-term variable compensation (Short Term Incentives; "STI").
Members of the Management Board are entitled to short-term variable compensation which may result in an annual bonus payment. The short-term variable compensation is linked to the achievement of performance targets, the specific target values of which are agreed at the end of a fiscal year.

The STI payment is generally due one month after approval of the annual financial statements and the consolidated financial statements for the relevant fiscal year by the Company's Supervisory Board. If the Company terminates the employment relationship for good cause within the meaning of section 626 of the German Civil Code (BGB), the STI payment shall lapse for the fiscal year in which the termination takes effect.

Target amounts
Target amounts are agreed with the Management Board members in their service contracts, which are granted to them if they achieve 100% of their targets ("STI target amounts"). The amount of the STI target amounts is not to exceed 50% of the basic compensation in the case of 100% target achievement. The amount of short-term variable compensation depends on the degree of achievement of the agreed targets and can range from 0% to 200%. The exact payout is determined by multiplying the degree of target achievement by the STI target amount for the individual Management Board member. If the target is exceeded, an increase up to a maximum of 200% of the STI target amount (cap) takes place. If the target is achieved by up to 70%, the short-term variable compensation is reduced on a straight-line basis; if the target is achieved by less than 70%, the STI payment is cancelled completely.

Performance targets
In determining the annual target agreement, the Supervisory Board is guided by the following performance targets:

The assessment factors to be determined for the STI comprise financial and non-financial performance criteria and are mutually agreed at the end of each fiscal year for the following fiscal year in a target agreement. If no agreement is reached between the Management Board member and the Supervisory Board, the Supervisory Board shall decide on the assessment factors at its due discretion.

In addition to the Company's sales, earnings and profitability indicators shall be used as financial performance criteria (e.g. EBITDA (earnings before interest, taxes, depreciation and amortization), EBITDA margin). The Supervisory Board has the option of adjusting the earnings figure used for the valuation for extraordinary components.

In addition to criteria such as integrity, employee satisfaction and diversity as well as sustainability/environmental social governance (ESG) aspects, which should account for at least 10% of the overall target achievement, strategic criteria should be included in the target agreement as non-financial performance criteria. These can be, for example: the achievement of regulatory approvals, the successful completion of studies, the conclusion of important contracts, or the execution of financing.

A non-financial, strategic component is intended to take into account the contribution of the entire Management Board as well as the individual Management Board members to the implementation of the corporate strategy and thus also to the long-term development of the Company.

For the non-financial, strategic targets, the target agreement should comprehensibly define the conditions under which the respective target is fully met (100% target achievement of the individual criterion) and which parameters are used to assess the degree of target achievement.

Calculation of target achievement
The total target achievement of the short-term variable compensation is calculated as the weighted average of the individual performance criteria and the degree of target achievement for each criterion. In the weighting of target achievement, the financial performance criteria should generally account for up to 55%, the non-financial criteria for up to 45%.

Short-term variable compensation in the event of exceptional developments and performance by a member of the Management Board
In justified exceptional cases, the Supervisory Board may also grant members of the Management Board a special bonus, the amount of which shall be at the discretion of the Supervisory Board, but which may not exceed EUR 50,000 (gross) per fiscal year and Management Board member. The resolution on the existence of an exceptional case, which shall indicate the scope and quality of the extraordinary performance of the Management Board member, shall also specify in more detail the concrete amount of a special bonus and the time of payment by the Supervisory Board.

Long-term variable compensation (long-term incentive; "LTI")
Stock appreciation rights ("SARs") are granted to Management Board members as a long-term performance component. An annual target amount of 150% of the STI target amount ("LTI target amount") is agreed with the Management Board members. The number of SARs granted each year is equal to the LTI target amount divided by the economic value of the SARs at the grant date. The economic value per SAR to be used corresponds to the intrinsic value determined on the basis of the non-weighted average closing prices of the Company's shares in the closing auction in Xetra trading on the Frankfurt Stock Exchange or a corresponding successor system on the 15 trading days prior to the grant date. Upon exercise of the SARs, the Management Board members receive a payment based on the Company's share price performance.

Exercise requirements
SARs can only be exercised,

(i) if the reference price at the beginning of the respective exercise window exceeds the issue price by at least 20%, and

and

(ii) if, in addition, the reference price has performed as well as or better than the "MSCI World Health Care Index TR" or a comparable successor index ("**reference index**") on a percentage basis compared with the issue price in the period from the last trading day before the issue date to the 5th trading day (in each case the last calculation of the index on a day after USA Eastern Standard Time (EST)) before the start of the respective exercise window ("**reference period**"). If the

reference index is a total return index, dividends and other distributions paid by the Company to shareholders during the reference period shall be taken into account in the calculation of the performance in the amount of their gross amount.

The "**issue price**" corresponds to the non-weighted average closing price of the shares of the Company between the 15th and the last trading day preceding the issue date (inclusive).

The "**Reference Price**" shall correspond to the non-weighted average closing price of the shares of the Company between the 15th and the 5th trading day (each inclusive) prior to the beginning of the respective exercise window.

"**Closing prices**" are the prices determined in the daily closing auction in Xetra trading on the Frankfurt Stock Exchange or in a corresponding successor system. If a closing auction does not take place on relevant trading days or if no closing price is determined there, the last price determined in continuous trading shall be used as the closing price, provided that such a price was determined on the relevant trading day.

"**Trading days**" shall mean all days on which the Frankfurt Stock Exchange is open for securities trading.

Payout amount
The payout amount is calculated as follows:

Reference price - base amount = payout amount per SAR (gross).

The "**base amount**" corresponds to the lowest issue price for Biofrontera AG shares pursuant to Section 9 (1) of the German Stock Corporation Act (AktG).

Limitation of the amount paid out (cap)
SARs for which exercise conditions otherwise exist cannot be exercised if and to the extent that the gross proceeds from all exercised SARs granted to the Management Board member would exceed the basic compensation plus fringe benefits actually received by the Management Board member since the first grant of SARs by more than 300% without this cap.

Restriction periods
SARs may be exercised for the first time after a vesting period.

a) The vesting period for 15% of SARs granted on an issue date is one year after the respective issue date;

b) The vesting period for a further 25% of the SARs granted on an issue date is two years after the respective issue date;

c) The vesting period for an additional 25% of the SARs granted on an issue date is three years after the respective issue date;

d) The vesting period for the remaining 35% of the SARs granted on an issue date is four years after the respective issue date.

After expiration of the respective vesting period, the SARs may be exercised until the end of six years after the respective issue date. After this period, the right to exercise the SARs ends and the SARs not exercised by then expire without replacement.

Personal investment
Under the SARs terms and conditions, Management Board members are also required to make a personal investment in shares of the Company in such a way that the personal investment must be made within six months of the exercise date of the SARs in the amount of 25% of the payment amount (gross) and that the acquired shares of the Company may not be sold until at least four years after the SARs have been granted.

Share Ownership Guidelines
In order to further increase the long-term incentive effect of the variable compensation and thus its focus on sustainable corporate development, the Management Board members are also obligated in their Management Board contract to acquire a number of shares in the Company to be determined by the Supervisory Board and to hold them until the end of this service contract ("**Share Ownership Guideline**"). However, the total acquisition expense (including incidental acquisition costs) to be borne by the Management Board member is limited per fiscal year to an amount equivalent to 25% of the STI payment (gross) granted to him for the previous fiscal year.

Blocking periods
Blocking periods relating to acquired shares in the Company imposed on Management Board members end prematurely if, after the Management Board member has left the Company, the Company announces that the listing of the shares on the regulated market in Germany will be terminated.

Possibilities of the Company to reclaim variable compensation components

The Supervisory Board may determine that variable compensation components of the STI and/or LTI that have not yet been paid out are to be retained in full or in part and not paid out ("**claw back**") in the event of serious misconduct by the Management Board member. The Supervisory Board decides on the claw-back at its due discretion. Serious misconduct by the Management Board member in this sense is to be assumed in particular,

a) if he at least grossly negligently breaches his duties under § 93 AktG or

b) if he has at least grossly negligently violated internal standards of conduct or internal guidelines laid down in text form which have or had serious consequences for the Company, or

c) in the event of at least grossly negligent conduct relevant under criminal law in the exercise of his office as a member of the Board of Management, or

d) in the event of a deliberate violation of other statutory provisions in the exercise of the office as a member of the Board of Management.

e) The same applies in the event of serious misconduct by employees of the Company or the Group, in particular at least grossly negligent violations of provisions of criminal law or compliance-relevant provisions, which was recognized by the Management Board member in his capacity as the employee's supervisor and was not immediately prevented or which should have been recognized and immediately prevented by exercising the due care of an Management Board member.

With regard to payments from the STI, clawback is only permissible for the fiscal year in which the misconduct occurred, but not for previous or subsequent years. With regard to payments from the LTI, a clawback is permissible if and to the extent that the serious misconduct occurred within the four years following the granting of the entitlement from the LTI (i.e. since the SARs were granted).

A claw back of the STI is also permissible in the event of grossly negligent misconduct that was discovered after the relevant annual financial statements were approved and audited and that led to a subsequent correction of the Company's annual financial statements. In this case, the claw back is allowed to the extent that the STI was overstated on the uncorrected basis.

If there is a case of claw back in accordance with the above provisions, amounts of the STI and/or the LTI that have already been paid out and could therefore have been retained may also be reclaimed. Such a claim for repayment is permissible for the year in which the claim was made and the previous three fiscal years, calculated from the date on which the Supervisory Board became aware of the facts triggering the claim for repayment.

Amounts withheld under the claw-back or repaid by the Management Board member shall be offset against any claim for damages by the Company resulting from the misconduct of the Management Board member.

Commitments to members of the Board of Management in the event of resignation

The Supervisory Board may determine exit regulations for each compensation component and for each case in which the employment relationship of a member of the Management Board or the appointment as a member of the Management Board ends. This includes cases such as retirement or full or partial reduction in earning capacity, death, ordinary termination of the service contract or termination of the service contract for good cause, dismissal from office for good cause, transfer of a service contract to the major shareholder of the Company or to a company affiliated with the major shareholder of the Company. For each of these cases, the Supervisory Board may determine in advance what requirements apply in order for individual or all compensation

components to be paid either in full or in part, early or delayed, to the members of the Management Board or - in the event of death - to the heirs of the member of the Management Board concerned, or to lapse.

In this context, any payment of variable compensation components shall be made exclusively in accordance with the agreed targets and comparison parameters and the due dates or holding periods specified in the respective plan conditions.

Payments to a member of the Management Board on premature termination of his contract shall not exceed the value of two years' compensation assuming 100% target achievement (severance payment cap) and shall not compensate more than the remaining term of the employment contract.

Commitments for benefits in the event of premature termination of the employment contract by the Management Board member as a result of a change of control should not be agreed.

The Supervisory Board may agree a post-contractual non-competition clause with members of the Management Board for a period of up to two (2) years. If such a post-contractual non-competition clause takes effect, the members of the Management Board may receive compensation amounting to up to half of their respective basic compensation per year of the respective period of validity of the post-contractual non-competition clause. Payments under a post-contractual non-competition clause are to be offset against any severance payments.

Compensation system in the event of special and exceptional circumstances

In special and exceptional circumstances (e.g. in the event of a severe financial or economic crisis), the Supervisory Board has the right to temporarily deviate from the compensation system pursuant to Section 87a (2) sentence 2 AktG and to amend the rules relating to the compensation structure and the individual compensation components as well as the rules on the respective procedure, provided this is necessary in the interests of the long-term welfare of the Company. Unfavorable market developments shall not be deemed to be special and exceptional circumstances permitting a deviation from the compensation system.

Maximum compensation

The following maximum amounts apply:

In Euro	Chairman of the Management Board	Other members of the Management Board
Basic remuneration	500.000 p.a.	350.000 p.a.
Fringe benefits	Max. 10 % of basic compensation	Max. 10 % of basic compensation
STI	200% of the STI target amount p.a., which should not exceed 50% of the basic compensation if 100% of the target is achieved	200% of the STI target amount p.a., which should not exceed 50% of the basic compensation if 100% of the target is achieved
LTI	SARs for which exercise requirements are otherwise met cannot be exercised if and to the extent that the gross proceeds generated from all exercised SARs granted to the Management Board member would exceed the basic compensation plus fringe benefits actually received by the Management Board member since the first grant of SARs by more than 300% without this limit.	SARs for which exercise requirements are otherwise met cannot be exercised if and to the extent that the gross proceeds generated from all exercised SARs granted to the Management Board member would exceed the basic compensation plus fringe benefits actually received by the Management Board member since the first grant of SARs by more than 300% without this limit.
Potential additional short-term variable compensation in the event of exceptional developments and performance by a member of the Management Board	50.000 p.a.	50.000 p.a.

Relative share of individual compensation components

The Supervisory Board observes an appropriate ratio of the individual compensation components to the target total compensation. The share of the Management Board members' compensation components in the target total compensation based on 100% target achievement in the STI and payment of the LTI in the amount of the respective LTI target amount is as follows:

Basic compensation	44 %
STI compensation	22%
LTI compensation	33%

The share of the Management Board members' compensation components in the target total compensation based on 200% of the STI target amount and 300% of the LTI target amount is as follows:

Basic compensation	23,5%
STI compensation	23,5%
LTI compensation	53%

The above percentages are based on the assumptions made. The actual percentages may deviate in future fiscal years and in the event of the appointment of new members of the Management Board. The deviations may result in particular from the achievement of STI and LTI targets and from annual expenses relating to fringe benefits.

Procedures for determining, reviewing and implementing the compensation system

The compensation of the Board of Management is determined by the Supervisory Board as a whole. To this end, the Personnel Committee of the Supervisory Board prepares corresponding recommendations. If necessary, independent external advisors are consulted. In accordance with the Rules of Procedure for the Supervisory Board, the members of the Supervisory Board are required to report any conflicts of interest without delay. The Supervisory Board designs the system for the compensation of Management Board members taking into account applicable laws and regulations, in particular the requirements of the German Stock Corporation Act (AktG) as amended, regulatory requirements and the provisions of the German Corporate Governance Code. In doing so, it ensures clarity and comprehensibility. The Supervisory Board determines the specific target total compensation on the basis of the compensation system. The Management Board compensation system thus adopted by the Supervisory Board is submitted to the Annual General Meeting for a resolution on its approval.

The Supervisory Board regularly reviews the Management Board compensation system and the appropriateness of the compensation. The Personnel Committee of the Supervisory Board also prepares corresponding recommendations. At the end of a fiscal year, the Supervisory Board also agrees with the Management Board on the specific target values for the short-term variable Management Board compensation for the following fiscal year in a target agreement. In accordance with the requirements of Section 120a (1) of the German Stock Corporation Act (AktG), the Supervisory Board will submit the compensation system for the members of the Management Board to the Annual General Meeting for approval in the event of significant changes, but at least every four years. The present compensation system was confirmed by the Annual General Meeting on December 14, 2021.

In accordance with the statutory provision (Section 87a (2) AktG), the Supervisory Board may, at the proposal of the Personnel Committee, temporarily deviate from the components of the compensation system described below in exceptional circumstances if this is necessary in the interests of the long-term welfare of the Company.

Consideration of employees' remuneration and employment conditions when determining the compensation system

When determining the remuneration system and the specific amount of remuneration, the Supervisory Board also takes into account the employment conditions of the employees in the Biofrontera Group. For this purpose, the Supervisory Board has defined the senior management circle in the Biofrontera Group and distinguished it from the Management Board on the one hand and the total workforce in the Biofrontera Group on the other. As part of the regular review of the appropriateness of the remuneration of the Management Board, the Supervisory Board examines in particular whether any need for adjustment of the remuneration of the Management Board arises from changes in the relations between the remuneration of the Management Board, the senior

management and the total workforce. In doing so, the Supervisory Board also takes into account the development of the compensation of the groups described over time.

Conflicts of interest

The Supervisory Board shall take appropriate measures to ensure that potential conflicts of interest of the Supervisory Board members involved in the deliberations and decisions on the compensation system are avoided and, if necessary, resolved. In this context, each member of the Supervisory Board is obliged to disclose conflicts of interest to the Chairman of the Supervisory Board. The Chairman of the Supervisory Board shall disclose any conflicts of interest affecting him to his deputy. A decision on how to deal with an existing conflict of interest shall be made on a case-by-case basis. In particular, a Supervisory Board member affected by a conflict of interest may not attend a meeting or individual deliberations and decisions of the Supervisory Board or may abstain from voting.

Terms of Management Board employment contracts

The agreed term of the employment contracts of the Management Board members corresponds to the term of the intended appointment as a member of the Management Board. In the case of an initial appointment, the Supervisory Board shall determine the duration of the appointment in a manner appropriate to the individual case and oriented to the welfare of the Company, whereby the term of appointment shall in principle not exceed three years. The reappointment period shall be a maximum of five years, taking into account the provision of § 84 AktG. In the event of a reappointment of the Management Board member, the employment contract shall be extended in line with the duration of a reappointment; otherwise it shall end automatically, without the need for notice of termination, on expiry of the scheduled regular term of appointment. Any extension of the employment contract or reappointment shall be finally discussed with the Management Board member no later than 15 months before the expiry of the employment contract or term of appointment and a decision taken 10 months before expiry.

Compensation system in the event of special and exceptional circumstances

In special and exceptional circumstances (e.g. in the event of a serious financial or economic crisis, restructuring of the Group under company law such as spin-offs, acquisitions or sales of companies, or similar significant M&A transactions), the Supervisory Board has the right to temporarily deviate from the compensation system in accordance with Section 87a (2) Sentence 2 AktG and to amend the rules relating to the compensation structure and individual compensation components as well as the rules on the respective procedure, provided this is necessary in the interests of the long-term well-being of the Company. A deviation from the compensation system is only possible by a corresponding resolution of the Supervisory Board and after careful examination of the necessity. The components of the compensation system from which deviation is possible in the above circumstances are the procedure, the compensation structure, the individual compensation components and their performance criteria. Furthermore, in this case the Supervisory Board may temporarily grant additional compensation components or replace individual compensation components with other compensation components to the extent necessary to restore the appropriateness of Management Board compensation in the specific situation.

Compensation in fiscal year 2022

The total compensation for members of the Management Board in the 2022 financial year and the total number of stock options issued to members of the Management Board at December 31, 2022 are as follows:

	Pilar de la Huerta Martìnez		Paul Böckmann		Ludwig Lutter	
	CFO				CFO	
Term	September 12, 2022	incubent	June 9,2022	September 30, 2022	March 01, 2021	August 14, 2022
in EUR thousands (unless otherwise inidcated)	0	0	2022	2021	0	0
Fixed component of compensation	86	0	130	0	186	231
Compensation in kind	4	0	0	0	10	11
Severance pay	0	0	0	0	0	0
Total fixed compensation	90	0	130	0	196	242
Short-term incentive (variable, STI)	0	0	0	0	126	0
Long-term incentive (variable, LTI), thereof from	0		0	0	0	0
Stock Appreciation Rights (SARs) (maturity May 3, 2030)	0		0	0	0	0
Fair value of SARs	0	0	0	0	0	45
Income from exercising SARs	0	0	0	0	0	0
Total LTI	0	0	0	0	0	45
Total performance-based compensation	0	0	0	0	126	45
Total compensation	90	0	130	0	322	287
Number of stock options (Dec 31)	0	0	0	0	0	0
Number of stock options granted	0	0	0	0	0	0
Fair value when granted	0	0	0	0	0	0
Number of SARs (Dec 31)	0	0	0	0	0	132,353
Number of SARs granted	0	0	0	0	0	132,353
Fair value when granted	0	0	0	0	0	45

Paul Böckmann served the Company as interim Management Board member from June 09 to September 30, 2022. Prior to his Management Board activity, Mr. Böckmann had already acted as a consultant for the Company since May 25, 2022, and has continued this activity after the end of his Management Board activity, since October 01, 2022. For this advisory function, Mr. Böckmann received a fee of EUR 66 thousand in fiscal year 2022.

Prof. Hermann Lübbert, as a former member of the Executive Board, received the bonus for 2021 in the amount of EUR 208 thousand in June 2022, which was due in accordance with the target agreement.

Mr. Ludwig Lutter was dismissed from the Management Board for cause on August 14, 2022. A lawsuit filed by Mr. Lutter against the termination without notice is currently still pending against the Company.

Ms. Pilar de la Huerta was appointed to the Company's Management Board as CFO on September 12, 2022 and has been conducting business as sole member of the Management Board since October 01, 2022. She received a fee of EUR 23 thousand for her consulting activities in the period from August 18, 2022 to September 12, 2022.

The non-performance-related compensation component amounts to 100% for Ms. de la Huerta and 61% for Mr. Lutter (previous year 84%).

No stock options were granted to members of the Management Board in the financial year 2022. Furthermore, there are no "promised" stock options within the meaning of Section 162 (1) sentence 2 no. 3 AktG.

The maximum compensation of the members of the Executive Board from the non-performance-related and the one-year performance-related compensation (bonus) amounts to EUR 476 thousand for Ms. de la Huerta and EUR 540 thousand for Mr. Lutter. The total for Mr. Lutter includes the LTIs. For Ms. de la Huerta, this has not yet been decided and contractually agreed. With regard to the maximum compensation from the multi-year variable compensation, we refer to the following explanations on the stock option program and SAR program.

The existing service agreements provide that - depending on the achievement of targets to be agreed - an annual bonus is to be granted. The assessment factors are mutually agreed at the end of each fiscal year for the following fiscal year in a target agreement. The 2021 target agreement defined the following: Sales level (30%), EBITDA (earnings before interest, taxes, depreciation and amortization) (20%), additional financing of at least 10 million euros (30%), inclusion of a first patient in a new clinical trial (10%), at least 40% female share in Biofrontera's management (10%).

	Target definition	Weighting	Achievement	Achievement in %	Target achievement weighted
Revenue	37,425 TEUR	30%	28,786 TEUR	77%	23%
Net loss (without one-off effects)	16,986 TEUR	20%	18,768 TEUR	90%	18%
Addiotonal Funding	10,000 TEUR	30%	24,000 TEUR	170%	51%
Research & Development	Inclusion of first patient in new clinical trial	10%	2 CT018 Safety Phase 1 - 3 Tubes, CT014 - Acne Phase 2b	100%	10%
Sustainability	40% females in executive leadership (Vice President and above)	10%	43%	100%	10%
Achievement					**112%**

The contractually agreed bonus for 100% target achievement amounts to EUR 185 thousand for Prof. Lübbert and EUR 113 thousand for Ludwig Lutter. The aforementioned performance criteria set for 2021 were met 112% of the time, resulting in a bonus payment of EUR 208 thousand for Prof. Hermann Lübbert and EUR 126 thousand for Ludwig Lutter in fiscal year 2022.

The benchmark for the achievement of the target for the amount of revenue and earnings after tax was the revenue or earnings after tax according to the consolidated statement of comprehensive income for 2021, which was approved by the Supervisory Board. For the additional financing, an amount of 10 million was decisive, for the clinical trial the recruitment and first treatment of a patient. The ESG target "female leadership" was calculated as of December 31, 2021 on the basis of executives with the rank of vice president and above.

The targets for 2022 were set at EUR 26.5 million for sales and EUR 0.3 million for EBITDA breakeven.

Compensation Report Supervisory Board

Compensation system for members of the Supervisory Board

Pursuant to Section 113 of the German Stock Corporation Act (AktG), the compensation of the members of the Supervisory Board shall be commensurate with the tasks of the Supervisory Board members and the situation of the Company. The members of the Supervisory Board are not involved in operational activities. Rather, the Supervisory Board contributes to the long-term development of the Company through its monitoring activities. Recruiting outstanding members of the Supervisory Board is a prerequisite for providing the best possible supervision and advice to the Management Board, which in turn makes a significant contribution to a successful business strategy and the long-term success of the Company. The compensation should therefore also make the assumption of a mandate appear sufficiently attractive from an economic point of view to be able to attract and retain outstanding mandate holders, which also requires consideration of the compensation arrangements of other comparable listed companies (the compensation and employment conditions of the employees, on the other hand, are not of material importance for the compensation system of the Supervisory Board).

The Management Board and Supervisory Board are of the opinion that purely fixed compensation for the members of the Supervisory Board is best suited to ensure independent fulfillment of the Supervisory Board's monitoring function, as variable compensation, particularly in matters relevant to monitoring, could otherwise create a convergence of interests between the Management Board and the Supervisory Board with regard to their own compensation. The granting of purely fixed compensation seems preferable in this respect. Differentiated compensation for the individual functions on the Supervisory Board generally takes into account the workload incurred by the Supervisory Board member in each case. Experience has shown that the workload is particularly high for the Chairman of the Supervisory Board and his deputy, as well as for the chairmen and members of the committees, so that higher compensation is envisaged in this respect. According to Recommendation C. 13 of the German Corporate Governance Code (as amended on December 16, 2019) ("**Code**"), the higher time expenditure of the Chairman and Deputy Chairman of the Supervisory Board as well as the Chairman and members of committees should be appropriately taken into account in the compensation of Supervisory Board members. According to suggestion G. 18 of the Code, the compensation of the Supervisory Board should consist of a fixed compensation. These aspects are appropriately reflected in the determination of Supervisory Board compensation in the current version of Art. 18 of the Articles of Association.

The compensation is payable after the end of each quarter. There are no deferral periods for the payment of compensation components.

Supervisory Board members who are members of the Supervisory Board or a committee for only part of the fiscal year, or who chair or vice-chair the Supervisory Board or chair a committee, receive compensation on a pro rata basis.

There are no promises of compensation for dismissal, retirement or early retirement.

The Company reimburses the members of the Supervisory Board for expenses incurred in the performance of their duties, including any value-added tax payable on the compensation and the reimbursement of expenses, and includes the performance of the duties of the members of the Supervisory Board in the coverage of a pecuniary loss liability insurance policy taken out by the Company.

The compensation system for the Supervisory Board is adopted by the Annual General Meeting on the basis of a proposal by the Management Board and the Supervisory Board, in the same way as a compensation regulation in the Articles of Association. At regular intervals, at the latest every four years, the Management Board and Supervisory Board review whether the level and composition of Supervisory Board compensation still appears to be in line with the market and appropriate and, if necessary, submit proposals for adjustments to the Annual General Meeting.

As the members of the Supervisory Board are involved in the structuring of the compensation system relevant to them and must also submit resolution proposals in this respect to the Annual General Meeting in accordance with § 124 AktG, an unavoidable conflict of interest arises from the application of the law. However, this is effectively counteracted by the fact that the decision on the ultimate determination of compensation is assigned to the Annual General Meeting.

Pursuant to Section 113 (3) sentences 1 and 2 of the German Stock Corporation Act (AktG), the Annual General Meeting of listed companies must pass a resolution on the compensation of Supervisory Board members at least every four years, whereby a resolution confirming the compensation is permissible. The compensation of Supervisory Board members is governed by § 18 of the Company's Articles of Association. Section 18 of the Company's Articles of Association was adopted in its current version by the Annual General Meeting on August 23, 2022 and reads:

"§ 18 Compensation of the Supervisory Board

(1) Each member of the Supervisory Board shall receive an annual fixed remuneration of EUR 22,000. The Chairperson shall receive twice this amount, the Deputy Chairperson 1.5 times this amount.

(2) For their work on the Audit Committee of the Supervisory Board, those members of the Supervisory Board who are not simultaneously Deputy Chairman or Chairman of the Supervisory Board shall receive additional remuneration of EUR 3,000; the Chairman of the Audit Committee shall receive twice this amount.

(3) Supervisory Board members who are members of the Supervisory Board or the Audit Committee for only part of the fiscal year or who chair or vice-chair the Supervisory Board or chair the Audit Committee shall receive remuneration on a pro rata basis.

(4) The remuneration shall be paid after the end of each financial year.

(5) The Company shall reimburse the members of the Supervisory Board against invoice for expenses incurred in the performance of their duties, including any value added tax (VAT) payable on the remuneration and the reimbursement of expenses.

(6) The Company shall include the performance of the duties of the members of the Supervisory Board in the coverage of a pecuniary damage liability insurance policy taken out by the Company."

In the immediately preceding version of the Articles of Association, applicable for the period until the resolution of the current version by the Annual General Meeting on August 23, 2022, §18 was as follows:

"§18 Compensation of the Supervisory Board

(1) Each member of the Supervisory Board shall receive an annual fixed remuneration of EUR 20,000. The Chairman shall receive twice this amount, the Deputy Chairman 1.5 times this amount.

(2) Members of the Supervisory Board shall additionally receive the following compensation for serving on Supervisory Board committees:

a. Each member of the Audit Committee shall receive EUR 3,000, the Chairman of the Audit Committee shall receive twice this amount.

b. Each member of another committee receives EUR 2,000, the chairman of another committee receives double this amount. Membership of the Nomination Committee is not taken into account.

Committee activities are taken into account for a maximum of two committees. If this number is exceeded, the two highest-paid memberships shall be decisive.

(3) Supervisory Board members who are members of the Supervisory Board or a committee for only part of the fiscal year or who chair or vice-chair the Supervisory Board or chair a committee shall receive pro rata remuneration.

(4) In addition, the members of the Supervisory Board shall receive an attendance fee of EUR 1,000 for each participation in a meeting of the Supervisory Board or its committees. Participation in telephone and video conferences or participation in a meeting by means of connection by telephone and video conference shall be remunerated accordingly with an attendance fee. For several meetings - whether of the Supervisory Board or of committees - held on one calendar day, an attendance fee shall be paid only once in total.

(5) Furthermore, the members of the Supervisory Board, with the exception of the Chairman and his Deputy, shall receive a remuneration of EUR 4,000 for chairing a General Meeting.

(6) The remuneration shall be paid after the end of each quarter.

(7) The Company shall reimburse the members of the Supervisory Board for expenses incurred in the exercise of their office, including any value-added tax (VAT) payable on the remuneration and the reimbursement of expenses.

(8) The Company shall include the performance of duties by the members of the Supervisory Board in the coverage of a pecuniary damage liability insurance policy taken out by the Company."

Compensation in fiscal year 2022

The total compensation of the members of the Supervisory Board in fiscal year 2022 is as follows:

in EUR thousands	Fixed compensation		Committee activity		Attendance fee		Total	
	in TEUR	in %	in TEUR	in %	in TEUR	in %	in TEUR	in %
Wilhelm K.T. Zours (Supervisory Board: Chair) **	43	87	1	3	12	10	56	100
Dr. Jörgen Tielmann (Supervisory Board: Vice Chair)	31	77	4	11	23	12	59	100
Dr. Heikki Lanckriet**	21	80	1	5	12	15	34	100
Dr. Helge Lubenow (Personnel Committee: Chair)* **	21	66	6	18	25	16	51	100
Prof. Dr. Franca Ruhwedel (Audit Committee: Chair until February 22, 2022)*	3	61	1	18	1	21	5	100
Prof. Dr. Karin Lergenmüller								
Karlheinz Schmelig(Audit Committee: Chair since February 23, 2022)*	21	64	7	20	5	16	32	100
Gesamt	**147**	**0**	**20**	**0**	**78**	**0**	**245**	**0**

* Member Audit Committee

** Member Personnel Committee

***Member Litigation Committee

Vertical comparison

	Change 2022 vs. 2021	Change 2021 vs. 2020
Compensation of Management Board members		
Pilar de la Huerta Martìnez*	-	-
Ludwig Lutter	12%	-
Paul Böckmann*		
Compensation Supervisory Board members		
Wilhelm K.T. Zours*	2700%	-
Dr. Heikki Lanckriet*	1033%	-
Prof. Dr. Karin Lergenmüller**		
Dr. Helge Lubenow*	1600%	-
Prof. Dr. Franca Ruhwedel*	67%	-
Karlheinz Schmelig*	967%	-
Dr. Jörgen Tielmann*	1867%	-
Average compensation of employees		
Employees in Europe	**0%**	**8%**

**Previous year: time proportionate

**First payment in reporting year

In the presentation of average employee compensation, all employees of the European Group companies (excluding the Executive Board) were included. In addition to wages and salaries, average compensation also includes expenses for retirement benefits; social security contributions were not included. The compensation of part-time employees was extrapolated to full-time equivalents.

Highlights 2022

- Positive EBITDA and EBIT from operations due to the sales increase and the restructuring of the Biofrontera Group and the associated cost relief for Biofrontera AG
- Successful capital raise with gross proceeds of approximately EUR 7.1 million
- Appointment of Dr. Axel Drews as Vice President Global Sales & Marketing for the development of global sales strategies
- Establishment of Biofrontera UK Ltd. subsidiary to strengthen sales activities in UK
- Commercial launch of Ameluz® in Finland by Galenica AB
- Withdrawal of governmental price decree for Ameluz® in Spain
- Delisting of ADS from Nasdaq
- Swiss license partner Louis Widmer SA obtained Ameluz® label extension for the treatment of actinic keratosis on extremities, trunk and neck
- Granting for US patent on nanoemulsion formulation
- Granting for Australian patent on innovative PDT treatment protocol
- FDA added patent of novel RhodoLED® XL lamp to the FDA Orange Book
- Biofrontera Pharma was approved by the FDA as a contract laboratory for batch control and stability testing for Ameluz®
- Successful PDT workshop in Hamburg with more than 300 participants in livestreams and more than 50 visitors on site

Key figures in accordance with IFRS

	01.01.-31.12.2022		01.01.-31.12.2021	
Results of operations				
Sales revenue	25,738	100.00%	28,787	100.00%
Gross profit on sales	20,981	81.52%	24,873	86.41%
Result on operations	1,591	6.18%	(35,341)	(122.77)%
EBITDA	1,869	7.26%	27,950	97.09%
EBIT	1,124	4.37%	24,661	85.67%
Profit/loss before income tax	(43,210)	(167.89)%	35,683	123.96%
Profit/loss for the period	(44,166)	(171.60)%	33,857	117.61%

in EUR thousands	December 31, 2022	December 31, 2021
Net assets		
Total assets	32,725	76,699
Non-current assets	17,669	62,322
Cash and cash equivalents	6,376	6,908
Other current assets	8,645	7,056
Non-current liabilities	8,387	17,467
Current liabilities	4,002	1,235
Equity	20,336	57,997

	December 31, 2022	December 31, 2021
Number of employees	110	99
	0	0
Biofrontera Shares	0	0
Number of shares outstanding	63,807,058	56,717,385
Share price (Xetra closing price in EUR)	1.525	1.48

Consolidated management and group management report for the fiscal year 2022

Basis of the Biofrontera Group

Group structure

As of December 31, 2022, the Biofrontera Group (hereinafter also called "Biofrontera", "Biofrontera Group", "Group" or the "Company") consists of a parent company, Biofrontera AG and 4 (December 31, 2020: 5 (including Biofrontera Inc., USA)) wholly owned subsidiaries in Germany. The parent company's head office is located in Leverkusen, Germany.

Biofrontera Bioscience GmbH, Biofrontera Pharma GmbH, Biofrontera Development GmbH and Biofrontera Neuroscience GmbH are located at the parent company's headquarters in Leverkusen, Germany.

For sales support in Spain and the United Kingdom, two additional entities were founded, firstly Biofrontera Pharma GmbH, sucursal en España in Barcelona (03/2015) and Biofrontera UK Ltd. in Cambridge (11/2022). Biofrontera UK Ltd. is a wholly owned subsidiary of Biofrontera Pharma GmbH. Business model

The publicly listed entity Biofrontera AG assumes the holding function within the group of companies. It is responsible for the management, strategic planning, internal control and risk management and ensures the necessary financing needs are met. Biofrontera Bioscience GmbH carries out research and development tasks as well as all regulatory functions for the Biofrontera Group and holds the patents and approvals for Ameluz® as well as BF-RhodoLED® and RhodoLED® XL. According to a license agreement with Biofrontera Bioscience GmbH, Biofrontera Pharma GmbH, which is also the holder of the CE certificate of BF-RhodoLED®, bears the responsibility for the production, further licensing and marketing of Biofrontera Group's approved products.

The Biofrontera Group has its own sales organizations to distribute Ameluz® and the BF-RhodoLED® lamp in Germany, Spain and the United Kingdom. In some other European countries, sales are handled by independent license partners. Following the separation, Biofrontera Inc. is now the licensee responsible for marketing Ameluz® and the RhodoLED® lamp series in the USA.

Asian and Oceanic markets were licensed to Maruho Co, Ltd, Osaka, Japan under the exclusive license agreement signed in April 2020. Currently, Maruho is conducting the necessary clinical studies to obtain regulatory approval in Japan.

Production of Ameluz® for all markets is carried out by a contract manufacturer in Switzerland. The PDT-lamp series is manufactured at Biofrontera's headquarters in Leverkusen, Germany.

Ameluz® and the RhodoLED® lamp series are supplied to all the licensing partners under a license and supply agreement with Biofrontera Pharma GmbH and Biofrontera Bioscience GmbH, both wholly owned subsidiaries of Biofrontera AG.

Biofrontera Development GmbH and Biofrontera Neuroscience GmbH were founded in December 2012 and are additional wholly owned subsidiaries of Biofrontera AG. These two companies are intended for the development of pipeline products that are not part of Biofrontera's core business at this point in time and therefore currently cannot be sufficiently financed within the normal business activities. The product BF-derm1 (without patent protection since 2009) for the treatment of severe chronic urticaria is owned by Biofrontera Development GmbH, the product BF-1 (patent protection until 2034) for the prophylactic treatment of migraine by Biofrontera Neuroscience GmbH. Both products are currently not being pursued any further, as the corporate strategy focuses on the further development and marketing of Ameluz®. By outsourcing the development projects, projects, a structure has been created which allows to separate the financing of the development of these two products from the general financing of the Biofrontera Group.

Group strategy

The strategic goal of the Biofrontera Group is to optimize the positioning and market potential of Ameluz®, and in doing so to develop the Company into a leading innovative specialty pharma company in dermatology. The focus of activities is on the further territorial expansion of sales and the development of additional market potential through the expansion of the indications for Ameluz®.

Biofrontera has received a centralized approval for its own self-developed drug, which is marketed under the brand name Ameluz®. Since the market launch in February 2012, Biofrontera has been selling Ameluz® with its own sales force to dermatologists in Germany and since March 2015 also in Spain. In the UK, Ameluz® was initially promoted through a distribution partner, and since May 2018 has been actively promoted by Biofrontera's own sales force. Distribution in several other countries of the European Union and Switzerland is carried out through licensing partnerships.

The US-subsidiary, Biofrontera Inc., was set up as the commercial arm of Biofrontera in the USA and became independent with its IPO at the end of October 2021. Under a license and supply agreement with Biofrontera Pharma GmbH and Biofrontera Bioscience GmbH, both wholly owned subsidiaries of Biofrontera AG, and Biofrontera Inc. the responsibilities between the companies are regulated. The agreement was entered into for a period of 15 years and will be extended for another 5 years provided that a sales volume in the USA of more than USD 150 million has been achieved in the preceding 5 years. Under this agreement, Biofrontera Inc. acquires Ameluz® and the PDT lamps BF-RhodoLED® and RhodoLED® XL from Biofrontera AG. Up to annual Ameluz® sales of USD 30 million, Biofrontera Inc. will pay 50% of sales as a transfer price. This share decreases in two steps to 30% with sales more than USD 50 million, thus taking into account the associated higher distribution costs of Biofrontera Inc. Biofrontera AG has committed to maintaining the FDA approval, manufacturing the products, providing a pharmacovigilance database and conducting previously defined clinical trials.

Products

Ameluz® and PDT-lamps BF-RhodoLED® and RhodoLED® XL

In December 2011, Ameluz® 78 mg/g gel (Spanish for "love the light", development name BF-200 ALA) received its first centralized European approval for the treatment of mild and moderate actinic keratoses (AK) on the face and scalp. It's significant superior effect in combination with an LED lamp compared to the direct competitor product Metvix® for AK was proven during phase III development. Actinic keratoses are superficial forms of skin cancer with a risk of spreading to deeper skin layers and thus developing into potentially fatal squamous cell carcinoma. The combination of Ameluz® with light treatment is an innovative form of treatment that is classified as photodynamic therapy (PDT). The product information authorized by the European Medicines Agency (EMA) expressly states the significant superiority of Ameluz® in the removal of keratosis compared to the direct competitor product, both in conventional light treatment with a special lamp and in application with ordinary daylight.

Ameluz® has a number of product advantages in terms of efficacy, handling and user-friendliness. This, together with the associated skin rejuvenation effect and comparatively low recurrence rates, leads to the expectation that this treatment option will become even more of a focus for dermatologists in the coming years.

In 2017, Biofrontera submitted an application for approval for daylight-PDT with Ameluz® and was granted approval by the European Commission in March 2018. The label extension now includes the treatment of actinic keratoses and field cancerization with daylight-PDT. Daylight-PDT is a cost-effective and painless alternative to traditional PDT treatment with a special lamp. The topically applied drug is activated by natural or artificial daylight. As daylight-PDT does not require the treatment to be carried out in a doctor's office, it competes directly with self-applied topical drugs, which are used much more widely in Europe. As a result, Ameluz® is also reimbursed by the statutory health insurers in Germany for use with daylight-PDT, whereas use of the drug with conventional PDT is generally not reimbursed.

Since March 2020 Ameluz®-PDT also covers the treatment of mild and moderate actinic keratoses not only on the head, but also on the extremities and trunk/neck.

In May 2016, Biofrontera received the marketing approval for Ameluz® in the USA. The approved indication is "lesion and field directed PDT in combination with the BF-RhodoLED® lamp of mild and moderate actinic keratoses on the face and scalp". As the approval in the USA includes a combination of drug and lamp according to FDA guidelines, Biofrontera has developed its own PDT lamp, the BF-RhodoLED®. To meet the strict requirements of the FDA for the production of a Class III medical device, production of the lamp is carried out at the Company's headquarters in Leverkusen. This makes Biofrontera the responsible manufacturer from the perspective of the regulatory authorities. In the EU, this lamp has already been CE-certified in 2012, which also required ISO 9001 and ISO 13485 certifications for the entire company. The ISO certification was renewed in 2019 at regular intervals. In October 2021, the FDA approved the new, more advanced RhodoLED XL. This approval was also granted as a combination approval of lamp and the prescription drug Ameluz®. With the new RhodoLED® XL, larger areas can be illuminated, enabling simultaneous treatment of multiple interspersed lesions. The new lamp is protected by several patents, which also help to protect the drug Ameluz® in the U.S. market due to the combination approval.

Both RhodoLED® lamps emit light with a wavelength of approx. 635 nm via their LEDs. Light at this wavelength, which is optimal for illumination in PDT with ALA or methyl ALA containing drugs, emits red light, but is still below the warming infrared range. The RhodoLED® lamp series combines controlled and constant light output in the desired wavelength with simple and clear operability and energy efficiency. Light energy and fan power can be changed during PDT treatment to respond to treatment-related pain. No other lamp on the market offers comparable performance and flexibility. The BF-RhodoLED® can be distributed throughout the EU as well as the USA. The use of the RhodoLED® XL is currently only planned for the US market.

Belixos®

Belixos® is a medical skin care series developed for irritated and sensitive skin. It was initially designed as a cosmetic series in which various products precisely addressed different skin problems. Pure plant biocolloids were combined with medicinal plant extracts to form an extraordinary combination of active ingredients with a proven deep-acting effect. Also marketed under this brand was Belixos® Protect, a day cream with protective anti-aging properties specifically for photodamaged skin.

Since mid-2022, the Belixos® range has been undergoing restructuring. With a new type of formulation that delivers ingredients to the skin without the use of harmful additives, Belixos® will adapt even more closely to the needs of damaged skin. This product is so innovative that a patent application has been filed for the underlying formulation. The product launch will initially only take place in the German market and is planned for May 2023. Further expansions in other markets are planned for the coming years.

Sales and marketing

Germany and Europe

With its Central European approval, Ameluz® can be sold and distributed in all EU countries as well as Norway, Iceland and Liechtenstein. However, in many European countries, pricing and reimbursement status must be determined prior to launch, which can be a lengthy process. Reference pricing and re-importation can lead to low prices in individual EU countries, which in turn can have a negative impact on the overall EU market. For this reason, the drug is currently only available in certain EU countries. However, due to changing framework conditions, it is always necessary to monitor whether a territorial expansion might make sense. Ameluz® is available at pharmacy retail prices ranging from EUR 150 to approximately EUR 220 per 2 g tube. In Spain, the price was reduced by ministerial decree in 2020, against which the company successfully filed an administrative appeal. As of April 1, 2022, the price in Spain has returned to EUR 150 per tube, and low-priced reimports to other markets are no longer causing sales to shift.

In Europe, Ameluz® and BF-RhodoLED® are marketed in Germany (since 2012), Spain (since 2015) and Great Britain (since May 2018) by our own sales forces whereby Germany is by far the largest European market for Ameluz®. In other EU countries and in Switzerland, the products are distributed with the help of distribution partners. In Switzerland, independent approval procedures were required, which were carried out by our local marketing partner in collaboration with Biofrontera. The contracts with distribution partners were concluded in such a way that Biofrontera received no or only a moderate upfront payment and the regional partners purchase Ameluz® from Biofrontera at a price that is linked to their own sales price. Depending on the market conditions in each country, Biofrontera's share of the sales price varies somewhat, but averages 50% of net sales.

In December 2020, the Group covered sales in Scandinavia through an exclusive licensing partnership with Galenica AB, Malmö, Sweden. Sales of the products in the Scandinavian region started with the delivery of the first batch of Ameluz® in June 2021. Following initial product launches in Norway, Sweden and Denmark. Since November 2022 Ameluz® is also marketed in Finland.

In July 2021, a license agreement was signed with Medac Gesellschaft für klinische Spezialpräparate mbH for the commercialization of Ameluz® and BF-RhodoLED® in Poland. Medac started marketing Ameluz® and BF-RhodoLED® to selected customers in the fall of 2002. To date, activities have been limited to the private healthcare sector, as Ameluz® PDT is currently not reimbursed by public payers. Medac expects that the reimbursement of Ameluz® will be possible by the end of the year 2023.

In general, Biofrontera was able to significantly increase its presence in the European market through its own sales structures and the territorial expansion through additional licensing partners.

USA

Ameluz® was commercially launched by Biofrontera in the USA in October 2016. For marketing purposes, Biofrontera AG established its own sales organization in the USA for this purpose in March 2015, the Biofrontera Inc. based in Woburn. With the IPO of Biofrontera Inc. in 2021, it became a licensing holder. Since its launch, Ameluz®-PDT has gradually established itself in the US PDT market segment, and the increased sales efforts by Biofrontera Inc. and its sales expansion efforts promise further significant market growth. The clinical program defined in the licensing agreement also holds further market potential in the longer term through several label extensions.

Other regions

In April 2020, an exclusive license and supply agreement was entered into with Maruho Co., Ltd., Osaka, Japan (Maruho) for the development and marketing of Ameluz® for all indications in East Asia and Oceania. Under the agreement, the product will be marketed for a period of 15 years from the start of sales in the countries covered by the contract. A first batch of investigational medication was delivered to Maruho at the end of 2022. The clinical development program on which approval will be granted will initially focus on actinic keratosis as an indication.

Market overview

Actinic keratosis

Non-melanoma skin cancer and its precursor actinic keratosis (AK) is the main market for the flagship prescription drug Ameluz®. Actinic keratoses are superficial potentially pre-cancerous skin lesions caused by chronic sun exposure that may, if left untreated, develop into a form of potentially life-threatening skin cancer called squamous cell carcinoma. Actinic keratoses typically appear on sun-exposed areas, such as the face, bald scalp, arms or the back of the hands, and are often elevated, flaky, and rough in texture, and appear on the skin as hyperpigmented spots.

These skin lesions occur not only isolated, but in many cases also over a large area. Such an area of the skin is called field cancerization. In this case, visible and not yet visible skin damage can be in direct proximity to each other on the affected skin areas. In about one in ten patients with AK, a malignant form of non-melanoma skin cancer (squamous cell carcinoma) can develop from a skin lesion or in its vicinity. Even AK that are not yet visible already carry a high risk of transitioning into squamous cell carcinoma.

Lifetime dose of UV radiation plays an important role in the development of AK. Over many years, UV radiation damages the skin cells, which then mutate and proliferate, which can lead to abnormal keratinization (hyperkeratosis). This is why AK occurs most frequently in older people: in Germany, for example, more than 11 out of every 100 people between the ages of 60 and 70 are affected. Men are more frequently affected than women, as, among other things, it is not uncommon for men to work outdoors and thus be exposed to the sun, usually without protection. Particularly at risk are, for example, farmers and forestry workers, roofers, carpenters, gardeners and lifeguards. In addition to age and gender, other factors can promote the development of AK. These include a fair skin type, severe sunburns, or treatment with medications that weaken the immune system.

Therapy options for the treatment of actinic keratosis

Because actinic keratosis can develop into squamous cell carcinomas, actinic keratosis is classified by The European Academy of Dermatology and Venereology and other international treatment guidelines as a tumor that requires treatment. In order to minimize the risk of developing cancer, AK must be detected and treated early.

Actinic keratoses are treated using a wide range of methods. The traditional methods of treating actinic keratoses are cryotherapy (or the deep freezing of skin with liquid nitrogen); simple curettage; self-administered prescription topical medications (usually creams, gels, or solutions containing active ingredients that must be applied to the damaged areas of the skin, usually regularly over an extended period of time); and combining a drug with photodynamic therapy (PDT). When deciding on the treatment option, the physician takes into account the disease progression to date, the extent of the existing skin damage, and the patient's condition (age, possible existing concomitant diseases, medications to be taken).

The international treatment guidelines list photodynamic therapy as the "gold standard" for the treatment of actinic keratoses, especially for patients with large areas of actinic keratoses. In this process, a gel containing the active ingredient, such as Biofrontera's Ameluz®, is first applied to the affected areas of skin. The active ingredient is preferentially absorbed by cells with high metabolic activity, such as cancer cells and their precursors, and converted into its light-activatable form. As a result, they become more light-sensitive and are destroyed within a few hours by targeted illumination, while healthy skin cells remain unharmed. The dead cells are broken down and the skin renews itself. Usually, no scarring remains and the appearance of the skin visibly improves over the next weeks and months. There are two forms of PDT: one using an artificial light source (conventional PDT) and one using natural/simulated daylight (daylight PDT). Compared to conventional PDT with red light or another suitable light source, the treatment time for daylight PDT is shorter at about two and a half hours and the treatment is associated with less pain.

Market overview and competitive landscape in Germany

Germany is Biofrontera's largest European sales market. In Germany, about 1.7 million people are treated by dermatologists for AK, which corresponds to about 2 to 3% of the total population. However, the number of people suffering from the disease is probably higher. In 2022, a total of 965,848 prescriptions were given for the treatment of AK (previous year: 851,143). Most prevalent among these are topically applied medications such as prescription drug-containing creams and gels (topicals), which represent a market share of 93.9%, followed by PDT (the combination of a topically applied medication with light therapy) at 6.1% (previous year: 93.3% and 6.7%, respectively). The total 2022 market increased by 13% mainly due to the launch of another topical drug.

Although information on a frequency of use of cryotherapy or simple curettage treatments for actinic keratosis is not accessible in Europe, we assume that a large number of patients are also treated in this way due to the simplicity of these therapies and the low cost.

In Germany, the largest European market for Ameluz®, the market share for PDT drugs was stable at around 64% in 2022. Above all, the further establishment of daylight PDT enabled Ameluz® to continue to prove itself as a strong leader in the PDT market compared to its competing products. We estimate that daylight PDT will continue to capture further market share in the future that was previously limited to self-applied topical creams. Primarily because daylight PDT is reimbursable by statutory health insurance funds, which means that the number of patients who would in principle have access to treatment with Ameluz® has multiplied because of this available application. Due to remaining Corona restrictions, especially in the first half of the reporting period, Ameluz® sales in Germany only grew by around 2.3% in the year under review compared to 2021. Particularly notable in this regard was a very strong 4th quarter with growth of more than 8% compared to the same quarter of the previous year.

Since 2013, actinic keratosis has been recognized as an occupational disease in Germany by the Federal Ministry of Labor and Social Affairs. Based on this recognition, the employers' liability insurance associations in Germany cover the treatment costs of patients for life who have worked predominantly outdoors over an extended period and meet certain other criteria. Since March 2016, photodynamic therapy has been included as a recognized treatment option for occupational actinic keratosis in Germany and is thus paid for by the Berufsgenossenschaften for these patients.

Market overview and competitive situation in the other proprietary markets of Spain and the United Kingdom (UK)

In the Spanish market, Ameluz® sales in the first quarter of 2022 still benefited strongly from the price decrease mandated by the Ministry of Health. This was one of the reasons why, after 13,397 packs of Ameluz® in 2021, 15,211 units were sold in 2022, a growth of 14%. The market share in comparison to the main competitor Metvix was slightly increased in the PDT market from 53% to 55%.

Ameluz® also showed dynamic growth of 16% in the UK market. We were able to increase sales to customers in the UK from 2,930 packs in 2021 to 3,389 units in 2022. Market figures on the competitive situation are not available.

Market overview in European countries with distribution partners

Our distribution partners Pelpharma in Austria, Louis Widmer in Switzerland, Galenica in the Scandinavian countries and Finland, as well as our latest partner Medac in Poland can look back on a successful 2022. Overall, our partners contributed to the solid product development with nearly 10,000 units sold. Of particular note here is 13% growth in the Austrian market, as well as the launch of Ameluz® in Finland and Poland, in each case initially in the private sector.

Market overview and competitive situation in the USA

The USA is the most important pharmaceutical market in the world. According to the Skin Cancer Foundation, approximately 58 million people in the USA have actinic keratosis. In 2022, the market size was USD 2.3 billion for this indication, according to the Grand View Research Report (01/2023). The US market differs from the European market in that cryotherapy dominates the market with a market share of just over 75%. PDT has only a very small share of the overall market. Segment expansion is predicted for the coming years, but this is based on overall market growth rather than a proportionate redistribution within therapy options. Cryotherapy is expected to remain the dominant therapy option.

The PDT segment currently has a share of approximately 2%, with Ameluz®-PDT expanding its market share within this segment by 12% in the year under review.

It is therefore important to improve the acceptance of PDT, with its clear advantages, particularly in scar-free healing and in the treatment of field cancers, which would be preferable to surgical intervention. To this end, our US licensing partner is continuing to expand its US sales force and marketing expenditure is also being significantly increased. In the reporting year, the share of sales

generated per sales representative was increased by almost 20% compared to 2021. For 2023 Biofrontera Inc. anticipated a further sales improvement of about 25%.

Personnel matters

Management Board

As of December 31, 2022, the Management Board consisted of Pilar de la Huerta Martínez (CFO).

Name	Nationality	Age	Position	Date of first appointment	Term
Ludwig Lutter*	German	55	CFO	March 01, 2021	August 13. 2022
Paul Böckmann	Austrian	46	Interim Borad Member	June 09, 2022	September 30,2022
Pilar de la Huerta Martínez	Spanish	54	CFO	September 12, 2022	August 31, 2024

* Effective August 13, Mr. Ludwig Lutter was relieved of his position as Chief Financial Officer and his employment contract was terminated.

Employees

As of December 31, 2022 the Biofrontera Group had EUR 110 employees (previous year: EUR 99) who were distributed as follows:

	December 31, 2022	December 31, 2021
Total number of employees	110	99
Full-time	81	76
With academic degree	29	24
By business segments	110	99
Production	12	15
Research and development	9	5
Clinical and regulatory tasks	24	15
Marketing and sales	33	29
Quality management	7	7
Management, business development, finance, HR and administration	25	28
By countries	110	99
Germany	98	88
Spain	9	8
United Kingdom	3	3

In order to remain attractive as an employer in the competition for employees in the future, the Company must continue to be in a position to offer attractive compensation benefits and employment conditions in line with the market. This includes, among other things, the share- or securities-based compensation under our employee option program and the compensation from our stock appreciation rights program. The company is working on a new program that is simpler and more attractive than the current one, to be rolled out by the end of 2023.

Supervisory Board

In 2022, the Supervisory Board comprised the following members as representatives of the shareholders:

Name	Nationality	Age	Position	Date of first appointment	Term
Wilhelm K. T. Zours	German	61	Chairman	December 14, 2021	2026
Dr. Jörgen Tielmann	German	53	Vice Chair	December 14, 2021	2026
Dr. Heikki Lanckriet	Belgian	45	Member	December 14, 2021	2026
Prof. Dr. Karin Lergenmüller	German	64	Member	August 23, 2022	2026
Dr. Helge Lubenow	German	54	Member	December 14, 2021	2026
Prof. Dr. Franca Ruhwedel	German	50	Member	December 14, 2021	February 22, 2022 (resignation from mandate)
Karlheinz Schmelig	German	57	Member	December 14, 2021	2026

Research and development projects

All research and development activities of the Biofrontera Group relating to nanoemulsion and Ameluz® are carried out by Biofrontera Bioscience GmbH, which is responsible for pharmaceutical development, conducting preclinical and clinical studies, and for granting, maintaining, and extending the drug approvals. Responsibility for project management of all development activities is assumed internally; individual tasks such as data management and statistics for clinical studies are partially or completely outsourced. The development of the new red-light lamp RhodoLED® XL was the responsibility of Biofrontera Pharma GmbH. All ongoing clinical studies are carried out in the USA, this is part of the agreement entered into with Biofrontera Inc. to expand labeling for the U.S. market. Both for the approved drug Ameluz® and for the other research and development projects, with the exception of the further development of the new red-light lamp RhodoLED® XL, the research and development costs are recognized as expenses in the period in which they are incurred. In the reporting period, 33 people were employed in research and development and regulatory affairs (previous year: 20).

Update for 2022 on the ongoing clinical development program:

Phase I safety study with Ameluz®-PDT

The phase I safety study started in December 2021 is evaluating the safety and tolerability of photodynamic therapy (PDT) for the treatment of mild to severe actinic keratosis (AK) on the face and scalp with the simultaneous application of three tubes of Ameluz® together with the new RhodoLED® XL lamp.
This is a non-randomized, open, multicenter study in which 100 patients with mild to severe actinic keratosis are treated. Each patient will receive the content of three tubes of Ameluz® for field-directed treatment of actinic keratosis. A total of nine clinical sites in the USA are participating in the study.
Patient recruitment is nearing completion, so it is expected that an expanded approval dossier can be submitted to the FDA at the end of 2023.
This study follows a pharmacokinetics (PK) study completed in October 2020, the study results of which were submitted to the FDA in early 2021. In June 2021, the FDA had subsequently requested another safety study focusing on short-term side effects.

Phase II trial for the treatment of moderate to severe acne

In December 2021, patient recruitment started for the Phase IIb trial to evaluate the safety and efficacy of Ameluz® in combination with the BF-RhodoLED® red light lamp in the treatment of moderate to severe acne with photodynamic therapy (Ameluz®-PDT). During the reporting period, there were two protocol amendments to adjust the inclusion and exclusion criteria and to implement FDA recommendations, respectively, which should now enable improved recruitment.

In the multicenter, randomized, double-blind, four-arm study, 126 adult patients suffering from moderate to severe acne are being treated with Ameluz® PDT or placebo. The efficacy and safety of Ameluz® PDT will be tested at exposure times of one and three hours compared to placebo. The primary endpoint of the study is the reduction in the number of inflammatory lesions in combination

with an improvement in the severity of acne to "Free of acne" or "Almost free of acne". To ensure collection of highly consistent data across all participating sites, the study will combine clinical assessments performed by the physicians conducting the study with a cutting-edge, FDA-approved, artificial intelligence analysis platform that will provide a lesion count along with a severity assessment. A total of seven (in 2022; nine since Feb 2023) clinical sites are participating in the study. Indication expansion is planned for the USA, so the study is conducted there as well.

By the end of the year 2022, 23 patients had been enrolled in the study.

Phase III trial for the treatment of superficial basal cell carcinoma (sBCC) with Ameluz®-PDT

To further increase growth potential in the US market in the medium term, the company is conducting a clinical trial for the treatment of superficial basal cell carcinoma (sBCC) with Ameluz® together with the BF-RhodoLED® red light lamp in the USA. Intensive work on patient recruitment has been ongoing since September 2018. By the end of the year, 87% of the planned 186 patients had been included in the study and received treatment. However, patient recruitment, which takes a lot of time due to the demanding study protocol and was additionally impacted by the pandemic in recent years, has picked up speed again recently. Following a successful FDA approval, Ameluz® would be the only drug in the USA for the treatment of superficial BCC with PDT. A total of 19 clinical centers are involved in the trial.

Phase III trial for the treatment of actinic keratosis on the extremities, neck and trunk with Ameluz®-PDT

At the end of 2022, a randomized, double-blind, placebo-controlled, multicenter Phase III clinical trial was started to evaluate the safety and efficacy of Ameluz® in a field-directed treatment of actinic keratosis (AK) on the extremities, neck and trunk. Biofrontera's new red-light lamp RhodoLED® XL will also be used in this study. At multiple trial sites across the USA, 165 patients, each with 4-15 AK lesions on the extremities or trunk/neck, will be enrolled in the study. By introducing an optimized illumination profile, the study design further addresses a promising approach to alleviate PDT pain, which is often a hurdle in PDT treatment for patients and physicians. Mild to moderate actinic keratoses are treated with one or, if necessary, two PDT treatments. Patients will have their final examination three months after their last PDT. The clinical study phase will be followed by a follow-up period of twelve months after the last PDT. The primary endpoint of the study is efficacy in terms of the rate of complete healing of all lesions three months after the last treatment.

At the turn of the year, the first patients were already enrolled in the study.

Patent development

The Company maintains six different company-owned patent families worldwide. The Group's patents are held by Biofrontera Bioscience GmbH and Biofrontera Pharma GmbH.

The patent families refer to our technologies related to our nanoemulsion, our red-light lamp for photodynamic therapy (PDT), photodynamic therapy itself and migraine prophylaxis.

Nanoemulsion

For our nanoemulsion technology patents have been issued in Europe (validated for France, Germany, Italy, Spain, Switzerland/Liechtenstein, and the UK), Australia, Belarus, Canada, Chile, China, Hong Kong, Israel, Japan, Mexico, New Zealand, Russian Federation, South Africa, Singapore, and Ukraine. Patent protection in these jurisdictions will expire on December 21, 2027. For the corresponding U.S. patent application, a patent was issued on January 03, 2023, which expires on February 07, 2028.

On November 12, 2019, the term of another patent family describing the combination of nanoemulsions with aminolevulinic acid hydrochloride, the active ingredient in Ameluz®, expired. However, Ameluz® continues to be protected by the above listed nanoemulsion technology patent family, which expires on December 21, 2027, and February 07, 2028, respectively. As part of the license agreement with the strategic partner Maruho, the corresponding Japanese patent was transferred to Maruho. In addition, the risk of potential future generic competition is further mitigated by specific challenges in the development and market launch of generic dermatological combination products.

Red-light lamp for photodynamic therapy

As part of Biofrontera's patent strategy to protect Ameluz®, further patent applications have been submitted for photodynamic therapy itself as well as our red-light lamp.

An international patent application with the title "Illumination for photodynamic therapy" (PCT/EP2019/064642) was filed on June 5, 2019. The national phase in the USA was initiated on November 17, 2020. In addition, a continuation-in-part application was filed in the USA on April 19, 2021, for which a patent was issued on January 11, 2022. The patent has a maximum term until June 5, 2039. Furthermore, the national phase of the original international application was initiated in Australia, China, Europe, Hong Kong, Japan, New Zealand, and Singapore. Under the license agreement with the strategic partner Maruho the Japanese patent application was assigned to Maruho.

Another patent application "Illumination device for photodynamic therapy, method for treating a skin disease and method for operating an illumination device" was filed in the USA on October 15, 2020, also for which a continuation-in-part application was filed in the USA on March 29, 2021. For this continuation-in-part application a patent was issued on February 01, 2022, which will expire on October 15, 2040. Furthermore, an international patent application (PCT/EP2021/078045) was filed on October 11, 2021.

A further international patent application for protection of the lamp was filed on October 20, 2022, entitled "Illumination device for photodynamic therapy, method for treating a skin disease and method for operating an illumination device" (PCT/EP2022/079298).

To protect the recently FDA-approved RhodoLED® XL red-light lamp against imitations, a design application for certain key design aspects of the lamp was filed in the USA as a continuation-in-part application of the previously mentioned patent on October 19, 2021. Additionally, two further design applications were filed on October 18, 2022 in the USA covering other innovative aspects of the lamp.

Photodynamic therapy

An international patent application "Photodynamic therapy comprising two light exposures at different wavelengths" was filed on August 23, 2018. Entry into the regional/national phases was initiated for the EU, USA, Japan, Australia, China, Hong Kong, New Zealand and Singapore. On June 30, 2022, a patent was granted in Australia. On December 22, 2022, the notice of allowance was sent from the USPTO for the U.S. application. The Japanese patent application was transferred to Maruho under the license agreement.

Migraine prophylaxis BF-1

An international patent application regarding anti-migraine compounds and their use was filed. Patents were issued to the Group in Europe (validated for Germany, Spain, France, United Kingdom, Italy) and in the USA. The Company decided in January 2022 to not further pursue and renew, respectively, the patents in Europe.

Internal controls

Biofrontera AG is managed by its Management Board. The Management Board is responsible for and supervises the operational business. To this end, the Management Board regularly receives and reviews internal management reports.

Key performance indicators are compiled monthly, while the budget planning for the current financial year is revised and updated quarterly. In addition, medium-term planning is prepared once a year. In-depth cost analyses are performed on an ongoing basis.

Key financial performance indicators

With regard to the operating performance for the Group, the key figures revenue and liquidity as well as EBITDA and EBIT serve as financial control variables. Biofrontera AG uses the key figures liquidity and net income as financial performance indicators.

In the context of internal reporting, the Group's sales revenues are the key performance indicator, which are reported by region and by product. On a consolidated basis, revenue includes sales to wholesalers as well as to physicians and hospitals, sales to our licensing partners, and revenue from research contracts.

In addition, liquidity trends are used as a key performance and management metric for the Group as well as for Biofrontera AG. These are monitored daily. Liquidity is defined as the sum of cash and cash balances in bank accounts and is described as cash and cash equivalents.

Group EBITDA includes earnings before interest, taxes, depreciation of tangible assets and amortization of intangible assets. EBIT includes earnings before interest and taxes. These key performance indicators are suitable for describing and comparing operating

performance, as they do not include non-operating fluctuation variables such as valuation adjustments and amortization of acquired assets.

The key financial performance indicators are calculated as follows:

Result from operating activities
+ Depreciation and amortization
+ /- Other expenses and income
EBITDA
- Depreciation and amortization
EBIT
+/- Interest expense and interest income
Earnings before income taxes

Non-financial performance indicators

The maintenance and further development of our regulatory approvals is essential to secure and strengthen Biofrontera's market positioning and is, among other things, reflected in research and development costs. Consequently, both the maintenance of our regulatory approvals and the expansion of our labels as well as the number of external and internal audits are important nonfinancial control parameters for the Company.

Biofrontera's employees are an important success factor and therefore also represent a central control parameter. With respect to personnel, particular emphasis is placed on the qualifications and the necessary know-how of the employees to achieve the set goals in the operational and administrative areas. We therefore measure the annual number of external and internal training courses. Personnel costs are always considered on the basis of the salary level customary in the industry.

Management report for the 2022 fiscal year

Business performance

For Biofrontera Group, the reporting period was the first year in which revenues from the USA were accounted for as licensing income for the entire year and, at the same time, commercialization costs in the USA no longer had a negative impact on earnings. As a result, Biofrontera has taken a major step towards long-term profitability. The projected balanced EBITDA was achieved with EUR 1.9 million, and the company has also restructured itself in terms of costs. Research & development, general and administrative costs and the decreased sales costs are now almost balanced at EUR 7.1 million, EUR 6.0 million and EUR 6.4 million, respectively. During the reporting period, product sales decreased compared to the previous year, but this is due to the deconsolidation of Biofrontera Inc. mentioned above, because of which product sales from the USA are accounted for only on a pro rata basis.

The three first quarters with a sales increase of up to 19% compared to the same period of the previous year 2021 made up for a weak fourth quarter. License revenues from the USA are still the largest revenue contributor, accounting for considerably more than 60% of total revenues. In the fourth quarter no further product was supplied for the USA due to delays in production, with the result that this quarter was significantly below the prior-year period.

In the German market, on the other hand, which was still noticeably behind the previous year's figures in the first three quarters, a growth of 26% was realized in the fourth quarter. As German business was still heavily impacted by re-imports from Spain until September, a notable recovery was visible on the sales side in the final months of 2022.

Overall, the revenues generated in 2022 were in the forecast range.

Biofrontera generated total sales of EUR 25.7 million in the period from January 1 to December 31, 2022, compared to EUR 28.8 million in 2021, a decrease of approximately 11%. However, as already mentioned, the total revenue in the same period of the previous year included almost entirely product sales of the USA, which, following the deconsolidation of Biofrontera Inc. is now only booked on a

pro rata basis as licensing income. As a result, comparability with the previous year 2021 cannot be fully provided, but only to a limited extent.

Marketing & Sales of Ameluz® in Europe

Sales development in Germany was more subdued year-on-year. German product sales amounted to EUR 4.8 million compared to EUR 5.3 million in 2021, a drop of around 10%, mainly due to re-imports from Spain because of the price decree in force there until April. By contrast, direct tube-based Ameluz® sales in the German market grew by around 2% in the reporting year compared with 2021. For the 4th quarter, growth of 8% was realized compared with the prior-year quarter. The share of Ameluz® PDT in the PDT segment was virtually unchanged at 64% in 2022.

The In the rest of Europe, Biofrontera achieved product sales of EUR 3.5 million, compared to EUR 3.3 million in 2021, an increase of 5%. In the Spanish market, Ameluz® initially still benefited strongly in sales from the imposed price decree in the first quarter of 2022. Over the entire reporting year, significantly more tubes of Ameluz® were sold in the spanish market, with an increase of 14%, so that the market share in the PDT segment also increased slightly from 53% to 55%.

Ameluz® also showed dynamic growth of 16% in the UK market. We were able to increase sales to customers in the UK from 2,930 packs in 2021 to 3,389 packs in 2022.

After Galenica AB started marketing Ameluz® and BF-RhodoLED® in the Scandinavian countries and now also in Finland, Medac Gesellschaft für klinische Spezialpräparate mbH was also able to start marketing in Poland in the middle of the year, probably initially only in the private healthcare sector with selected customers, as Ameluz is not yet reimbursed by the statutory health insurers.

Sales of Ameluz® in the USA

Sales to Biofrontera Inc. amounted to approximately EUR 16.5 million in the reporting period. A year-on-year comparison of U.S. sales is not comparable, as U.S. market sales were presented in the previous year, whereas in the current year license revenues from deliveries to Biofrontera Inc. are considered. The USA is also supplied with product batches, just like all European license partners, which are then sold into the market. Therefore, it is not unlikely that certain quarters will show a significant increase in sales in the future, while other quarterly comparisons will be significantly weaker. According to the annual report of Biofrontera Inc., it was able to record sales growth of 19% in 2022, so its marketing offensive has already shown initial success. For 2023, the sales force is now also being significantly increased in terms of personnel, so that a new sales momentum can be expected.

Regulatory and clinical progress

The aim of Biofrontera's commercial and clinical development strategy is to successively adapt Ameluz® to market requirements and patient needs and to use it for additional indications. The full treatment and market potential of Ameluz® can only be leveraged with appropriate extensions to the label.

The company is currently conducting four independent clinical trials in parallel to expand the US approval of Ameluz®. One phase I clinical trial is evaluating FDA-required safety data on the use of three tubes of Ameluz® within a single PDT treatment. In this trial, almost all patients were enrolled in the reporting period, so Biofrontera expects to submit an expanded approval dossier at the end of 2023. The second trial is testing the efficacy of Ameluz®-PDT in moderate to severe forms of acne in adults. Here, two protocol amendments were necessary to adjust the inclusion and exclusion criteria and to implement FDA recommendations. This is intended to improve patient recruitment, so that a significantly increased recruitment rate can now be expected. To date, 28 of 126 patients have been enrolled in the study. A phase III trial was launched before the end of December 2022 to test the efficacy of Ameluz®-PDT on the extremities, trunk and neck. This will also involve the use of a new illumination profile that is intended to alleviate pain during PDT.

The clinical study on Ameluz® PDT for superficial basal cell carcinoma, which has been ongoing since 2018, showed progress in patient recruitment, with around 87% of patients now enrolled in the trial by the end of the reporting period.

Further information on the ongoing studies can be found in the Research and Development section.

Execution of the capital increase resolved on April 07, 2022.

On November 11, 2022, the Company announced the completion of the capital increase resolved by the Extraordinary General Meeting of Shareholders on April 07, 2022. In total, the Company issued 7,089,673 new ordinary shares, bringing their total number to 63,807,058 after registration in the Commercial Register. The capital measure was fully placed, with the company raising total gross proceeds of approximately EUR 7.1 million.

Biofrontera Inc.

Biofrontera AG continues to hold its shares in Biofrontera Inc. Due to the exercise of previously issued Biofrontera Inc. warrants and various capital measures of Biofrontera Inc. the total number of outstanding Biofrontera Inc. shares has increased significantly. Biofrontera AG's stake in Biofrontera Inc. of 8,000,000 shares currently represents 29.9% of the current outstanding shares. Unchanged from the ownership structure of Biofrontera Inc., Biofrontera Group benefits directly from the growing Ameluz® sales in the USA. Under a licensing agreement, Biofrontera Group will receive up to 50% of Ameluz® sales in the form of a transfer price. This share applies up to USD 30 million in annual sales and decreases to 40% between USD 30 million and USD 50 million in annual sales and to 30% above that. The implementation of a clearly defined clinical trial program is also part of the licensing agreement and is intended to significantly increase the market potential of Ameluz®-PDT in the long term.

Litigation

On December 13, 2021, Deutsche Balaton AG filed an action for a declaratory judgment with the Cologne Regional Court, the subject of which was the legal examination and determination of a so-called unwritten competence of the Annual General Meeting for the IPO of Biofrontera Inc. On December 9, 2022, the Regional Court of Cologne ruled in a declaratory judgment that the resolutions of approval of the then Executive Board and the then Supervisory Board on the IPO of Biofrontera Inc. were unlawful because the prior approval of the IPO required under the Holzmüller doctrine was unlawfully not obtained by the Annual General Meeting. The further action was dismissed. In its reasoning, the court stated that the IPO initiated a significant loss of control in that the approval of the IPO allowed third-party investors to acquire a majority stake in the subsidiary by waiving the exercise of the parent company's subscription rights. In the opinion of the court, this loss of control resulted in significant asset losses for Biofrontera AG and its shareholders. Since all of the former members of the Management Board and Supervisory Board who were involved in the resolutions have left the company, the former members of the Management Board and Supervisory Board have been served with notices of dispute regarding possible claims for damages. The Company has decided not to appeal against the ruling. Due to appeals by the notices of disputes, the judgment is not yet final, but will be continued by the interveners in the second instance. The effectiveness of the IPO of Biofrontera Inc. remains unaffected by the judgment.

Change in the composition of the Management Board

On June 09, 2022, Mr. Paul Böckmann was appointed interim Executive Board member of the Company. He was initially to support the sole Chief Financial Officer Ludwig Lutter for a limited period until September 30, 2022. Mr. Lutter was relieved of his duties as Chief Financial Officer with immediate effect on August 13, 2022. Ms. Pilar de la Huerta Martínez was then appointed as a member of the Executive Board on August 19, 2022, with effect from September 12, 2022. In this context, Mr. Paul Böckmann's contract was extended until the end of October. Since then, Ms. de la Huerta Martínez has now been the sole member of the Management Board. Mr. Böckmann continues to support Biofrontera AG as an advisor, but without being part of the management.

Change in the composition of the Supervisory Board

Prof. Dr. Franca Ruhwedel resigned from her mandate on February 22, 2022. From that date until the Company's Annual General Meeting, the Supervisory Board initially consisted of only five members. At the Annual General Meeting of Biofrontera AG, Prof. Dr. Karin Lergenmüller was elected to the Supervisory Board and her election was confirmed again at the Extraordinary General Meeting of Biofrontera on January 09, 2023. Both resolutions are still the subject of actions for annulment.

Impact of the Ukraine conflict and consequences of the pandemic

The Ukraine war has far-reaching impacts on the region and beyond. Relations between Russia and many Western countries, including the EU and the US, have massively deteriorated. This in turn has significant economic implications. Concerns about energy

security, high inflation, and the currently unpredictable end to the conflict pose significant challenges to society as well as companies. In combination with the global post-pandemic effects, there are presently significant supply chain problems. Biofrontera is also affected, and the extent to which this development may have an impact on business activities in the future is not yet foreseeable. As a smaller company, Biofrontera needs to be financially flexible to face these challenges. The Extraordinary General Meeting on 09 January 2023 approved two capital resolutions that enable such flexibility. First, Biofrontera may issue up to 7,089,673 new shares in a capital increase with subscription rights granted. The subscription price per new share shall be EUR 1.05 and the proceeds shall be used to pre-finance the costs of the expected increased order intake in the production area. In addition, authorized capital was created in the amount of 12.7 million shares, which the Executive Board can issue in partial amounts on one or more occasions with the approval of the Supervisory Board.

Evaluation of the business performance of the Biofrontera Group

Comparison of actual and forecast business performance

The Biofrontera Group generated revenues of about EUR 26 million in the financial year 2022, thus meeting the revenue forecast of 24 to 27 million EUR.

For the fiscal year 2022, the Company had forecast a break-even EBITDA and exceeded this forecast with an actual EBITDA of EUR 1.9 million, the reason being mainly lower expenses for clinical trials due to time delays and adjustments due to changed regulatory requirements. In contrast, costs for our marketing and sales activities as well as for general and administrative expenses developed at the planned level. Accordingly, EBIT for the fiscal year of EUR 1.1 million is also above the forecast in the low negative single-digit million range.

Liquidity developed as expected and amounted to EUR 6,376 thousand as of December 31, 2022, slightly below the prior-year level of EUR 6,908 thousand.

Developments in the non-financial indicators also mostly met forecasts in the fiscal year. The number of external training activities increased slightly to 48 in the reporting year compared with 47 in the previous year. Here, the company's internal identification of further training measures is carried out in line with requirements, so that the development of this key figure is clearly dependent on the level of qualification of the current workforce. The number of documents describing standardized and controlled operating procedures (SOPs) also increased slightly in the reporting period. The company currently manages 699 SOPs (previous year 683). Internal training was at a similar level to the previous year. In the internal training courses, employees are trained in new and modified SOPs. If there are product modifications or also a change in regulatory requirements, such training courses become necessary. The regulatory environment of a pharmaceutical company sets extremely high standards in this regard, so that the internal and external training standard at Biofrontera has already been at an extremely high level since the introduction of this indicator. Likewise, the number of external and internal audits increased to 16 in the current year compared to 8 in the previous year. In the past, the quality assurance system was audited in its entirety once a year. In 2022, Biofrontera switched to conducting the internal audits on a departmental basis, so that the depth of the audit could be significantly increased. This in turn explains the disproportionately strong increase in this key figure in the reporting period.

Regulatory progress planned for 2022, on the other hand, fell slightly short of expectations: for the phase III trial to test Ameluz® PDT in superficial basal cell carcinoma, instead of completing patient recruitment, only 87% of patients have been included in the trial to date. This was due to the challenging study protocol and the aftermath of the COVID-19 pandemic in 2022.

A slight delay occurred in the completion of patient recruitment in the Phase I safety trial for actinic keratosis of the face and scalp, which was planned for 2022 and in which patients are treated with three tubes of Ameluz® each. Due to regulatory required protocol changes and after-effects of the corona pandemic, there were delays in the initially very dynamic patient recruitment. As a result, patient recruitment was not completed until March 2023, when the 100th patient was treated.

Fewer patients than expected were also treated in 2022 in the patient recruitment for the phase IIb trial on the efficacy of Ameluz® in moderate to severe acne. The inclusion of suitable patients was slower than forecast due to the initially very strict inclusion criteria and, in addition, was further delayed due to necessary protocol changes, some of which were required by regulatory authorities. By the end of the year, just under 20% of the required patients had been enrolled in the study. With the protocol now in place and the inclusion of two new centers, it is anticipated that patient recruitment will be significantly improved in 2023.

The start of a further phase III trial on the efficacy of Ameluz® PDT in actinic keratosis with the aim of expanding the indication to include treatment of the extremities, trunk and neck took place in the fourth quarter of 2022 with initially 2 trial centers. The first patient was already screened in December 2022 and treated in January 2023. With the completion of the Phase I safety study in actinic keratosis, enrollment will accelerate significantly in 2023 with the inclusion of additional trial sites.

Evaluation of the business performance by the Management Board

Business development for both the Biofrontera Group and for Biofrontera AG. was positive overall with a view to the year as a whole. While the impact of the Covid pandemic continued to weaken as expected, the Company's business was increasingly impacted by supply constraints during the year, which had a particular impact in the final quarter of the year.
Business development in 2022 was in line with management's expectations. Adjusting revenues for the effect of the spin-off of the US subsidiary results in an increase compared to the previous year . Only in Germany did sales decline, due to re-import trade triggered by the temporary decline in prices achieved in Spain. Once prices have settled back to previous levels and parallel trading has ended, the German market will grow again. The effects resulting from deconsolidation led to a significant improvement in EBITDA, enabling the company to report positive figures.

The Covid effect was fully compensated, although the company suffers from inflationary pressure on the cost of some materials, mainly related to lamp production.

From a supply side perspective, there are shortages of certain raw materials on the market. For this reason, several suppliers require advance payments in order to commit with specific delivery dates. This mainly affects lamp production and creates a peak cash requirement, which puts a strain on our liquidity situation.

Group EBITDA reached EUR 1,869 thousand in the financial year 2022 (previous year: EUR 27,950 thousand). The year 2021 was characterized by extraordinary effects (settlement with DUSA -EUR 19,457 thousand, deconsolidation of Biofrontera Inc. EUR 59,180 thousand). Adjusted for these effects, the development of EBITDA is as follows:

in EUR thousands	2022	2021
EBITDA	1,869	27,950
One-off effects	0	(39,723)
Adjusted EBITDA	1,869	(11,772)
Ammortizatiion and depreciation	(746)	(3,290)
Adjusted EBIT	1,124	(15,062)

Depreciation and amortization in fiscal year 2022 was lower at EUR 746 thousand than in the previous year at EUR 3,290 thousand, resulting from the portion of Biofrontera Inc. included in the previous year's figure at EUR 2.6 million. Accordingly, EBIT in the reporting year amounted to EUR 1,124 thousand compared to EUR 24,661 thousand in the previous year.

Despite the positive EBITDA of around EUR 2 million, earnings before income taxes amounted to EUR -43,210 thousand in fiscal year 2022 (previous year: EUR 35,683 thousand), mainly caused by the impairment of the equity investment in Biofrontera Inc. of EUR -42,568 thousand.

In the separate financial statements of Biofrontera AG, a net loss of EUR -31,527 thousand is reported, compared to a loss of EUR 4,130 thousand in the previous year.

Due to the capital measure resolved in April 2022 and implemented in December 2022, the Group was in a sufficient financial position in the reporting year. With the successful IPO of Biofrontera Inc. in October 2021, the capital raised can be invested in further growth to further expand the presence in the US market. Through the license and supply agreement, Biofrontera AG also benefits from a strengthening of Biofrontera Inc. in the largest market without having to finance the largest cost block in the past, namely sales and marketing in the USA, itself.

Biofrontera Group financial position and performance

Results of operations of the Biofrontera Group

The results of operations as of December 31, 2022 are as follows; due to the fact that Biofrontera Inc. was still fully consolidated in the previous year, comparability with the previous year is only possible to a limited extent. Please refer to our presentation of the pro forma income statement in the notes:

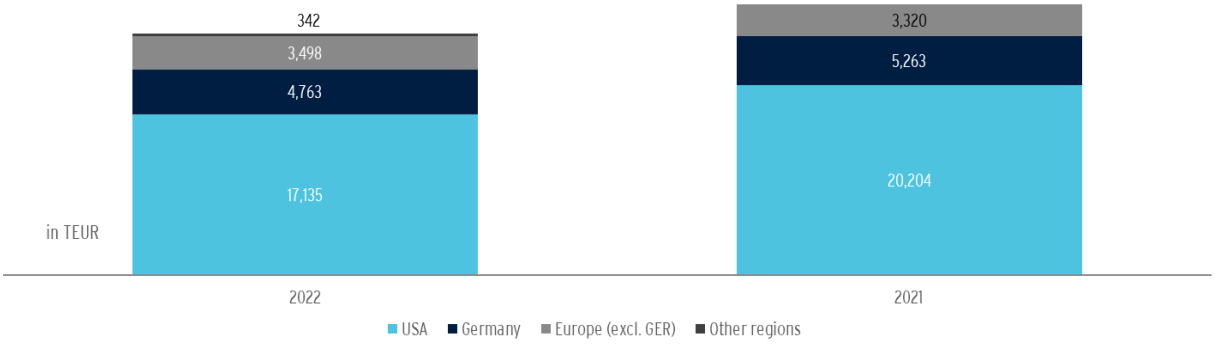
in EUR thousands	2022	2021
Sales revenue	25,738	28,787
Gross profit on sales	20,981	24,873
Research and development costs	(7,128)	(7,009)
General administrative costs	(5,906)	(30,781)
Sales and marketing costs	(6,357)	(22,423)
Result on operations	**1,591**	**(35,341)**
Other expenses and income	(467)	60,001
EBITDA	1,869	27,950
EBIT	**1,124**	**24,661**
Financial result	(44,334)	11,022
Loss before income tax	**(43,210)**	**35,683**
Loss after income tax	**(44,166)**	**33,286**

Sales revenue

The Biofrontera Group generated total sales of EUR 25,738 thousand in the reporting year 2022, a decrease of 11% compared to the previous year's figure (previous year: EUR 28,787 thousand), whereby the previous year's sales still included the US market sales of the former subsidiary Biofrontera Inc. in the amount of EUR 20,204 thousand, which are opposed in the current year by licence revenue from deliveries made to Biofrontera Inc. in the amount of EUR 16,487 thousand and service revenues of EUR 648 thousand.

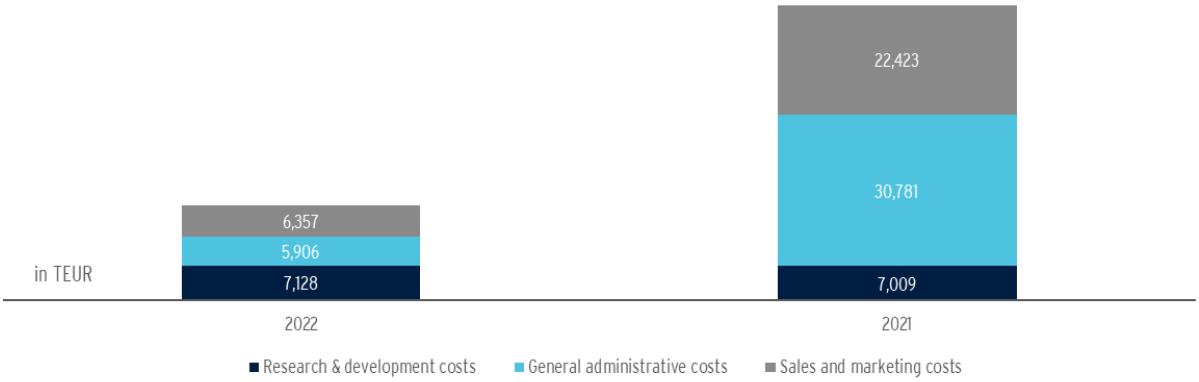
Total revenues in Europe decreased by 4% to EUR 8,260 thousand (previous year: EUR 8,582 thousand) compared to the previous year. Sales in Germany decreased by 10% year-on-year to EUR 4,763 thousand (previous year: EUR 5,263 thousand). In the rest of Europe, total sales increased by 5% to EUR 3,498 thousand (previous year: EUR 3,320 thousand).

Revenues from other regions amounted to EUR 342 thousand in the fiscal year (previous year: EUR 0 thousand) and include both license income and revenues from the sale of study materials.



Gross profit on sale

Gross profit decreased by EUR 3,892 thousand in the reporting year 2022 to EUR 20,981 thousand compared to EUR 24,873 thousand in the prior-year period. The gross margin decreased from 86% in 2021 to 82% in fiscal year 2022, mainly due to the fact that the Company no longer consolidates U.S. sales, but only reports the license portion in the income statement.



Research and development costs

With an increase of 2% to EUR 7,128 thousand in the reporting year, research and development costs were roughly on a par with the previous year's figure of EUR 7,009 thousand. In addition to costs for clinical trials, research and development costs also include regulatory expenses, i.e., for the granting, maintenance, and extension of our marketing authorizations.

General and administrative costs

General and administrative expenses amounted to EUR 5,906 thousand in fiscal year 2021 (previous year: EUR 30,781 thousand) and thus decreased by a total of EUR 24,875 thousand compared to the previous year. This was mainly due to the costs included in the previous year's figure for the settlement payment as part of the out-of-court settlement in the legal dispute with DUSA Pharmaceuticals Inc. amounting to EUR 19,457 thousand (USD 22.5 million) and the cost share of Biofrontera Inc. amounting to EUR 5,622 thousand in the previous year.

Sales and marketing costs

Sales and marketing expenses amounted to EUR 6,357 thousand in fiscal year 2021, an decrease of EUR 16,066 thousand compared with the previous year (EUR 22,423 thousand), mainly due to the costs of Biofrontera Inc. of EUR 16,874 thousand included in the previous year's figures. Selling expenses include the costs of our own sales force in Germany, Spain, the United Kingdom, and the United States, as well as marketing expenses.

EBITDA and EBIT

The Group's EBITDA includes earnings before interest, taxes, depreciation of property, plant and equipment and amortization of intangible assets and decreased by EUR 26,081 thousand to EUR 1,869 thousand in fiscal year 2022 compared with the prior-year period (EUR 27,950 thousand). However, the previous year's figure includes special or non-recurring effects from the settlement with DUSA Pharmaceuticals Inc. and from the deconsolidation of Biofrontera Inc. totaling EUR 39,723 thousand.

EBIT includes earnings before interest and taxes and improved year-on-year to EUR 1,124 thousand (previous year: EUR 24,661 thousand), whereby adjusted EBITDA in the previous year, taking into account the above-mentioned effects, amounted to a loss of EUR 15,062 thousand accordingly.

Financial result

In addition to the interest result, the financial result totaling EUR -44,334 thousand (previous year: loss of EUR 11,022 thousand) includes expenses from the subsequent measurement of the carrying amount of the investment in Biofrontera Inc. amounting to EUR 44,172 thousand (previous year: profit of EUR 14,729 thousand).

The net interest expense amounts to a loss of EUR 163 thousand (previous year: loss of EUR 3,707 thousand) and mainly includes interest on the DUSA liability (EUR 101 thousand; previous year: EUR 0 thousand), interest expenses for a short-term bond issued in the financial year and already repaid (EUR 34 thousand; previous year: EUR 0 thousand), and interest expense recognized in accordance with IFRS 16 (EUR 15 thousand; previous year: EUR 23 thousand).

Other income and expenses

Other expenses and income totaled a loss of EUR 449 thousand in the reporting period (previous year: EUR 60,001 thousand), with the previous year's figure mainly reflecting the deconsolidation gain of EUR 58,773 thousand from the departure of Biofrontera Inc. from the Group. In addition, expenses and income from currency translation amounting to EUR 378 thousand (previous year: EUR 160 thousand) are reflected here.

Income taxes

This item includes current income taxes of EUR 156 thousand (prior-year period: EUR 47 thousand) and deferred tax expenses of EUR 800 thousand (prior-year period: EUR 1,778 thousand) from the reduction of tax-deductible loss carryforwards at Biofrontera Pharma GmbH.

Net assets of the Biofrontera Group

The net assets position as of December 31, 2022is as follows:

in EUR thousands	December 31, 2022	December 31, 2021
Non-current assets	17,669	61,750
Current financial assets	9,324	8,171
Other current assets	5,732	6,206
Total assets	**32,725**	**76,127**
Equity	20,336	57,426
Non-current liabilities	4,002	1,235
Current financial liabilities	5,109	10,478
Other current liabilities	3,277	6,990
Total equity and liabilities	**32,725**	**76,127**

Non-current assets

Non-current assets as of December 31, 2022, totaling EUR 17,669 thousand(previous year: EUR 61,750 thousand) include recognized deferred tax assets on tax loss carryforwards at Biofrontera Pharma GmbH in the amount of EUR 4,375 thousand (previous year: EUR 5,176 thousand), property, plant and equipment in the amount of EUR 3,012 thousand (previous year: EUR 2,281 thousand), and intangible assets (EUR 1,198 thousand; previous year: EUR 1,139 thousand). Also included here is the investment in Biofrontera Inc. valued at equity in the amount of EUR 8,982 thousand (previous year: EUR 53,154 thousand).

Current financial assets

Current financial assets totaled EUR 9,324 thousand as of December 31, 2022 (previous year: EUR 8,171 thousand). This includes cash and cash equivalents of EUR 6,376 thousand (previous year: EUR 6,908 thousand), trade receivables of EUR 691 thousand (previous year: EUR 793 thousand), and other current financial assets of EUR 878 thousand (previous year: EUR 57 thousand).

Other current assets

Other current assets mainly contain inventories. This decreased slightly to EUR 4,794 thousand (previous year: EUR 4,814 thousand). In the reporting year, impairment losses of EUR 155 thousand (previous year: EUR 42 thousand) were recognized on inventories.

Equity

In accordance with IFRS, the Group reported equity of EUR 20,336 thousand (previous year: EUR 57,997 thousand). The equity ratio decreased from 76% to 63%.

Non-current liabilities

Non-current liabilities include financial liabilities (EUR 1,055 thousand; previous year: EUR 851 thousand), the obligations under the SAR program in the amount of EUR 304 thousand (previous year: EUR 384 thousand) and non-current liabilities to associates (EUR 2,642 thousand; previous year: EUR 0 thousand).

Non-current financial liabilities include liabilities from leases to be reported in accordance with IFRS 16 in the amount of EUR 1,055 thousand (previous year: EUR 851 thousand).

Non-current liabilities to associates include the tranche of the liability from the DUSA settlement due in January 2024 in the amount of EUR 2,642 thousand, which was included in other liabilities in the previous year in the amount of EUR 2,485 thousand.

Current financial liabilities

Current financial liabilities include in particular trade accounts payable of EUR 1,984 thousand (previous year: EUR 2,735 thousand) and liabilities to associated companies of EUR 2,653 thousand (previous year: EUR 5,279 thousand) as well as current financial liabilities of EUR 446 thousand (previous year: EUR 2,449 thousand).

Current financial liabilities reflect current liabilities from leases under IFRS 16 amounting to EUR 444 thousand (previous year: EUR 357 thousand).

Other current liabilities

Other current liabilities amounted to EUR 3,277 thousand (previous year: EUR 6,990 thousand) and include in particular provisions of EUR 603 thousand (previous year: EUR 1,012 thousand) and other accruals of EUR 2,518 thousand (previous year: EUR 5,977 thousand).

Financial position of the Biofrontera Group

The Company's capital management body regularly reviews the equity ratio of both the Biofrontera Group and the parent company. The objective is to ensure an appropriate equity base, within the framework of the expectations of the capital market, and creditworthiness with respect to national and international business partners. The Group's Management Board ensures that all Group companies have sufficient liquidity at their disposal.

in EUR thousands	2022	2021
Cash flow from/in operating activities	(3,895)	30,439
Cash flow from/in operating activities	(981)	(42,259)
Cash flow from/in financing activities	4,344	2,182
Cash and cash equivalents	6,376	6,908
Non-current financial liabilities	1,055	851
Current financial debt	446	2,449
Net liquidity	4,874	3,609

Net cash flow in operating activities of EUR -3,895 thousand (previous year: EUR 30,439 thousand) decreased mainly due to the negative financial result in the amount of EUR -44,334 thousand(previous year: profit EUR 11,022 thousand).

Net cash flow from investing activities increased from EUR -42,259 thousand to EUR -951 thousand in fiscal year 2022 and, in addition to investments in property, plant and equipment and intangible assets of EUR 981 thousand (previous year: EUR 629 thousand), primarily includes the effect of the deconsolidation of Biofrontera Inc. in the amount of EUR 0 thousand (previous year: EUR -41,630 thousand).

Net cash flow from financing activities amounted to EUR 4,344 thousand (previous year: EUR 2,182 thousand) and mainly includes the proceeds from the capital increase carried out in November.

The convertible bond 2017/2022 in the amount of EUR 2,031 thousand (previous year: EUR 2,031 thousand) was repaid on schedule in January 2022.

Cash and cash equivalents

Cash and cash equivalents in the Group amount to EUR 6,376 thousand as of December 31, 2021 (previous year: EUR 6,908 thousand).

From today's perspective, both the Group and Biofrontera have sufficient liquidity for the next 12 months from the date of preparation of the consolidated financial statements, taking into account the earnings expectations, the capital increase resolved on January 9, 2023, and a level of cash and cash equivalents of EUR 6.4 million in the Group as of December 31, 2022. If, contrary to expectations, the resolved capital increase cannot be implemented, the Company will secure interim financing through borrowing. Although the Company expects an overall further improving earnings development in 2023, liquidity is nevertheless expected to be below the level at the end of fiscal year 2022 due to the payment of the second and third installment of the liability from the DUSA settlement at the end of 2023 and the beginning of 2024, respectively, without taking into account the planned capital increase.

Biofrontera AG financial position and performance

Results of operations of Biofrontera AG

in EUR thousands	2022	2021
Sales revenue	3,754	3,698
Other operating income	1,403	12,362
Personnel costs	(2,751)	(3,325)
Depreciation and amortization	(22)	(28)
Other operating expenses	(6,203)	(16,647)
Other interest and similar income	1,934	1,748
Depreciation on financial assets	(29,492)	0
Interest and similar expenses	(146)	(1,937)
Other taxes	(2)	(1)
Net loss	**(31,527)**	**(4,130)**

The sales reported in the separate financial statements under commercial law include income from intercompany services. Other operating income mainly relates to the internal recharging of litigation costs in the patent dispute in the USA.

The decrease in personnel expenses is mainly due to the reduction in Management Board compensation. For further details, please refer to the compensation report.

Other operating expenses decreased by EUR 10,443 thousand to EUR 6,203 thousand. This is due mainly to the fact that the previous year's figure included the costs of ending the legal dispute with DUSA Pharmaceuticals, Inc. by means of an out-of-court settlement. Financing costs also reduced significantly by EUR 234 thousand compared to EUR 2,385 thousand in the previous year, in line with the lower gross issue proceeds of the capital increase carried out in November 2022 compared to the capital increase carried out in February 2021.

Interest and similar income results almost exclusively from subsidiaries. Interest expense decreased by EUR 1,791 thousand to EUR 146 thousand due to the termination of the EIB loan and the convertible bond 2017/2022.

The net loss for the year amounts to EUR -31,527 thousand (previous year: EUR -4,130 thousand), adjusted for the impairment loss on the investment in Biofrontera Inc. in the amount of EUR 29,492 thousand, the adjusted net loss for the year was EUR -2,035 thousand. The adjusted net loss of EUR -2,035 thousand improved compared to the forecast net loss of EUR 4 million mainly due to the previously described decrease in interest expenses and personnel expenses.

Net assets of Biofrontera AG

in EUR thousands	December 31, 2022	December 31, 2021
Non-current assets	41,176	70,689
Receivables due from affiliated companies	72,112	72,126
Cash and cash balances with banks	5,706	6,516
Other assets	609	1,052
Total assets	**119,603**	**150,383**
Equity	111,493	135,879
Provisions	2,417	5,866
Bonds	0	2,031
Liabilities to banks	0	0
Other liabilities	5,694	6,607
Total equity and liabilities	**119,603**	**150,383**

Non-current assets mainly relate to shares in affiliated companies at EUR 32,224 thousand (previous year: EUR 32,224 thousand) and associated companies at EUR 8,933 thousand (previous year: EUR 38,425 thousand).

Cash and cash equivalents decreased from EUR 6,516 thousand in the previous year to EUR 6,516 thousand in 2022. For further details on the financial position, please refer to the presentation of the Group's financial position.

Biofrontera AG has equity under commercial law of EUR 111,493 thousand as of December 31, 2022 (previous year: EUR 135,879 thousand). Due to the capital increase in November 2022 subscribed capital increased by EUR 7,090 thousand.

Provisions mainly include provisions for outstanding invoices, litigation costs, SARs, bonuses for employees as well as annual audit and tax filings.

The convertible bond 2017/22 was repaid in full on January 03, 2022 including interest.

Assessment of the financial position of Biofrontera AG and the Group

In the individual financial statements of Biofrontera AG, the liquidity of EUR 5,706 thousand is, as expected, below the previous year's figure of EUR 6,516 thousand. The main factors influencing this in the 2022 financial year were the repayment of the convertible bond 2017/2022 in January and the capital increase carried out in November with gross issue proceeds of EUR 7,090 thousand. The Group's liquidity decreased by EUR 533 thousand to EUR 6,376 thousand in fiscal year 2022.

From today's perspective, both the Group and Biofrontera AG, taking into account the expected results, the capital increase resolved on January 9, 2023, a level of cash and cash equivalents of EUR 6.4 million in the Group as of December 31, 2022 on the date of preparation of the consolidated financial statements, have sufficient liquidity available for the next 12 months from preparation. If, contrary to expectations, the resolved capital increase cannot be implemented, the Company will secure interim financing through borrowing. Although the Company expects an overall further improving earnings development in 2023, liquidity is nevertheless expected to be below the level at the end of fiscal year 2022 due to the payment of the second and third installment of the liability from the DUSA settlement at the end of 2023 and the beginning of 2024, respectively, without taking into account the planned capital increase.

Outlook and forecast

General conditions

We expect the global economy to grow in 2023 after overcoming the Corona crisis and despite the ongoing Ukraine war, although the pace of recovery will be more moderate and with significant regional differences. Supply chain issues, strongly rising inflation rates, and the energy crisis will have a significant impact on this.

The German government's (Federal Ministry for Economic Affairs and Energy) Annual Economic Report 2023, published on January 26, 2023, indicates a slight increase of 0.2% in German gross domestic product (GDP), with a more significant recovery of 1.8% expected in 2024. At the beginning of January, the Federal Statistical Office had already announced that economic performance in 2022 had grown by 1.9%, a significantly better result than expected by the German government at the beginning of 2022. With a strong program of measures to control inflation, manage the energy crisis and address the growing lack of skilled workers, the German government's annual economic report predicts that inflation could be overcome as early as 2024 with a 4.9% increase in disposable income.

According to a January 26, 2023 release by the U.S. Bureau of Economic Analysis (BEA), U.S. gross domestic product rose 2.1% in 2022, well short of the 5.9% growth in 2021. In its revised economic forecast on February 15, 2023, the Congressional Budget Office (CBO) projects that real GDP growth will halt in 2023 and not recover until 2024 to 2027, with average growth rates of 2.4 percent. The CBO considers persistently high inflation and faster-rising interest rates, and also assumes that unemployment will rise as a result of slower economic growth.

For the pharmaceutical market, moderate growth of 0.1% to 0.4% is expected for Western Europe and North America in 2023 and subsequent years. Growth of -1% to +2% is forecast for the U.S. market, representing a slight reduction from previous forecasts and resulting from the Inflation Reduction Act. Growth in the European market is expected to be driven primarily by generics, biosimilars and new launches, whereas pricing pressure on innovative medicines is expected to remain. The increase in the manufacturer's discount from 7% to 12% for reimbursable medicines without a reference price decided for Germany for 2023 on the basis of the SHI Financial Stabilization Act, which is initially limited to 2023, could remain in place beyond this period. A return to pre-pandemic growth rates is not expected until 2024. Growth drivers in the pharmaceutical sector are likely to be oncological and immunological therapies. The dermatology sector is expected to grow at a 5-year CAGR of 4-7% over the period 2023-27.

For the pharmaceutical market, moderate growth of 0.1% to 0.4% is expected for Western Europe and North America in 2023 and subsequent years. Growth of -1% to +2% is forecast for the U.S. market, representing a slight reduction from previous forecasts and resulting from the Inflation Reduction Act. Growth in the European market is expected to be driven primarily by generics, biosimilars and new launches, whereas pricing pressure on innovative medicines is expected to remain. The increase in the manufacturer's discount from 7% to 12% for reimbursable medicines without a reference price decided for Germany for 2023 on the basis of the SHI Financial Stabilization Act, which is initially limited to 2023, could remain in place beyond this period. A return to pre-pandemic growth rates is not expected until 2024. Growth drivers in the pharmaceutical sector are likely to be oncological and immunological therapies. The dermatology sector is expected to grow at a 5-year CAGR of 4-7% over the period 2023-27.

Guidance

The Biofrontera Group provides the following guidance for full year 2023, which reflects a recovery in global economic growth. This is based on the assumption that appropriate measures will be taken globally to limit the effects of inflation, the energy crisis and the after-effects of the pandemic. The recovery in our key sales markets that we had already anticipated for 2022 was much more moderate, so we expect growth to be more solid in 2023, as the restrictions imposed by the pandemic in particular no longer apply.

Forecast of key performance indicators relevant to management

The Group expects sales of EUR 27 to 33 million in fiscal year 2023. The success of our own sales teams as well as those of our licensing partners in the U. S. and Europe, and as a result our own business activities, depend strongly on regional economic strength and the resulting dynamics.

In the United States in particular, the main sales market for our flagship product Ameluz®, we expect to see an increasing momentum and a rise in demand over the course of the year. Comprehensive marketing measures to support sales by our U.S. licensing partner led us to expect a more significant market penetration.

In Germany, the most important European sales market, the Company expects for the ongoing year to expand the PDT market by gaining market share in topical drug sector. The increasing awareness of actinic keratosis as an early form of skin cancer that requires effective treatment and the daylight approach as a patient-friendly and reimbursable form of therapy should support a new sales momentum in the market.

As a result of the broader base of distribution partners and the resulting regional expansion of the marketing of Ameluz, particularly in the Scandinavian region and in Poland, we expect a constant increase in sales for the European market. The higher sales price in Spain and the expansion of sales efforts in the United Kingdom, also provided a boost to such market growth. However, as stated at the beginning of this report, sales growth is heavily dependent on the continued recovery of the economy and the control of the impact of the Ukraine war. As a result, there is still some uncertainty with respect to the sales revenues that can be achieved in the current year.

Assuming a recovery in global economic strength, Biofrontera AG expects positive EBITDA of EUR 3 to 5 million and positive EBIT of EUR 2 to 4 million in 2023. Furthermore, assuming a further recovery of the markets, the company expects further sales increases as well as positive EBITDA and EBIT in the mid single-digit million range from 2024 onwards.

From today's perspective, both the Group and Biofrontera AG have sufficient liquidity for the next 12 months from the date of preparation of the consolidated financial statements, taking into account the earnings expectations, the capital increase resolved on January 9, 2023 and a level of cash and cash equivalents of EUR 6.4 million in the Group as of December 31, 2022. If, contrary to expectations, the resolved capital increase cannot be implemented, the Company also has authorized capital in the amount of 12.7 million new shares to be created. The Company expects earnings to continue to improve in 2023, but is able to react to changing market conditions at short notice by creating additional capital. Biofrontera expects liquidity at the end of 2023 to be between EUR 1 million and EUR 3 million due to the payment of the second of the liability from the DUSA settlement at year-end 2023, excluding the planned capital increase.

For the separate financial statements of Biofrontera AG, we continue to expect a loss that is likely to be in the low single-digit million range.

Forecast of further key figures

Biofrontera does not expect the number of employees to increase in 2023. Due to the slight increase in the number of employees in 2022 and the increasing requirements for pharmaceutical companies listed on the capital market, we assume that the number of training measures in 2023 will be at a comparable level to that in 2022.

Maintaining and extending our authorization is essential for securing and strengthening Biofrontera's market position and is reflected, among other things, in our quality management. Thus, the number of external and internal audits are important non-financial control parameters for the company. We expect the number of audits in 2023 to remain at a comparably high level to 2022.

Planned regulatory progress

Patient enrollment in the Phase III trial for regulatory expansion in the U.S. to include the indication of superficial BCC has already started in September 2018. To date, close to 90% of the planned 186 patients have been enrolled in the study. The company expects patient enrollment to be completed during 2023.

The Phase I safety study evaluating the safety and tolerability of PDT for the treatment of mild to severe actinic keratosis on the face and scalp with the simultaneous application of three tubes of Ameluz® together with the new RhodoLED® XL lamp is nearing completion of patient recruitment. The last patient was treated in March 2023 and the clinical part of the study was completed with the last examination in April. The Company expects to submit the extended registration dossier in the fourth quarter of 2023.

Patient recruitment for the phase IIb trial to test the safety and efficacy of Ameluz® in combination with the BF-RhodoLED® red light lamp in the treatment of moderate to severe acne with photodynamic therapy has been ongoing since December 2021. By the end of 2022, just under 20% of suitable patients had been enrolled in the trial. The slow enrollment in 2022 should be overcome by the modifications made to the study protocol and with the addition of further trial sites, Biofrontera expects to complete patient enrollment in the first quarter of 2024.

The registration trial for Ameluz® for the treatment of AK on the extremities and trunk/neck was started in December 2022, and the company expects the therapy phase to be completed in the third quarter of 2024.

Risk and opportunity report

Each industry has its own specific characteristics that give rise to specific risks. The health industry, in particular, is in a state of constant change, with the ensuing risks and opportunities being shaped by a wide variety of influences.

As an internationally biopharmaceutical company, the Biofrontera Group is exposed to a large number of risks arising from its business activities, which can have a significant impact on the achievement of the targets. Deviations from the plan are to be understood as opportunities (positive deviations) and risks (negative deviations).

Risk management system

Biofrontera's management counters the risks existing in the Group with a comprehensive risk management system. Due to its holding function, Biofrontera AG controls all legally independent entities within the Biofrontera Group. Therefore, a uniform group-wide assessment of risks and opportunities within the group is necessary.

The primary objective of the Biofrontera Group is to grow sustainably and thus to steadily increase the value of the company. Risk management makes a significant contribution to achieving this goal. Risk management at Biofrontera involves the identification of risks that could lead to a permanent or significant impairment of the Biofrontera Group's net assets, financial position and results of operations, the responsible analysis and monitoring of these risks, and the taking of appropriate countermeasures. This requires defined principles, organizational structures, and measurement and monitoring processes that are specifically geared to the activities of the Biofrontera Group.

Appropriately detailed risk prevention measures are the prerequisite for fully exploiting the opportunities arising from Biofrontera's business activities. The existing risk management structures at Biofrontera within the framework of the quality management system required for pharmaceutical manufacturers and entrepreneurs as well as for medical device manufacturers are constantly being further developed. The marketing and sales activities as well as the international responsibilities that a marketing authorization holder has for the manufacture and distribution of drugs, medical devices and cosmetics are included in this system.

The Biofrontera Group's risk management is integrated into the business processes and entrepreneurial decisions, and thus into the Group-wide planning and controlling processes. Risk management and control mechanisms are coordinated with each other. They ensure that risks relevant to the company are identified and assessed at an early stage. At the same time, it serves to quickly seize potential opportunities.

Risk management at Biofrontera is organized both decentrally and centrally. The Executive Board has overarching responsibility for this. The coordinated subsystems are the responsibility of the specialist departments. Opportunities and risks are regularly identified and evaluated across all hierarchical levels. All executives of the Group and the Audit Committee are involved in Groupwide risk monitoring and the associated reporting. This includes both the Executive Board and the managing directors of the Group companies as well as the process and project managers.

Risk management reports to the risk management team headed by the Management Board. The risk management team coordinates the individual management bodies and ensures they are kept informed at an early stage and on an ongoing basis. In addition, the team is responsible for the ongoing monitoring of the risk profile, the initiation of risk prevention measures and the corresponding control instruments. Within the framework of regular meetings, the management of the Biofrontera Group comes together to exchange and evaluate risk management-relevant information between the operational and central divisions across all levels.

The Group-wide contact person is the risk officer, who is also a member of the risk management team. If unforeseen risks arise, he immediately initiates the necessary steps to counter them. On the one hand, he is responsible for the further development of the risk management system and its documentation. In addition, the risk officer defines uniform standards and ensures that similar risk management processes are applied within the Biofrontera Group. For example, the regular analysis of key figures relating to the course of business serves to identify and evaluate possible deviations from expected developments in terms of potential opportunities or risks at an early stage and to initiate necessary measures. Overall monitoring of the relevant control parameters and business processes is carried out. Risk planning and identification are carried out in cooperation with the respective department heads.

Accounting risk management system and internal controls

The accounting process of the Group as well as of Biofrontera AG pursues the presentation of correct and complete figures and disclosures in the instruments of external accounting (bookkeeping, annual and consolidated financial statements, summarized management report) as well as compliance with the relevant legal and statutory provisions. The structures and processes in place

for this purpose integrate detailed internal control measures with regard to the accounting process. In connection with the increasing business activities, the accounting-related internal control system is subject to a continuous monitoring and improvement process.

The aim of the internal control system is to identify, assess and manage all risks that could prevent the preparation of our annual and consolidated financial statements in accordance with the rules. Identified risks must be assessed with regard to their impact on the annual and consolidated financial statements. It is the task of the accounting-related internal control system to ensure that the closing process complies with the rules by implementing appropriate principles, procedures and controls. The internal control system covers all departments that are important for the annual and consolidated financial statements and all processes relevant to the preparation of the financial statements.

Significant aspects of risk management and control in accounting are the clear allocation of responsibilities and controls in the preparation of the financial statements and transparent accounting policies. The dual control principle and the separation of functions are further important control principles in the accounting process.

Risk reporting concerning financial instruments

In the ordinary course of business, the Group is exposed to risks that may have an impact on its net assets, financial position and results of operations.

Market risk

As of the reporting date, the Biofrontera Group was exposed to foreign currency risks, in particular due to the transfer price in US-Dollar agreed with the former 100%-owned subsidiary Biofrontera Inc. The Company does not enter into any specific currency hedging transactions. Exchange rate fluctuations are recognized in profit or loss.

Credit risk

The Group is exposed to credit risk if transaction partners are unable to meet their obligations within the usual payment periods. The maximum default risk is represented in the balance sheet by the carrying amount of the respective financial asset. The development of the receivables portfolio is monitored in order to identify potential default risks at an early stage and to initiate appropriate measures. Biofrontera's financial instruments bear a minimal risk of default.

Liquidity risk

Liquidity risk refers to the inability to meet existing or future payment obligations as they become due. To ensure the ability to pay at all times and to avoid financial shortages, Biofrontera has established a central cash management system that monitors liquidity requirements in the short, medium and long term. Refinancing for all Group companies is mainly provided by Biofrontera AG.

Liquidity is monitored and managed on the basis of short- and long-term corporate planning. Liquidity risks are identified at an early stage by simulating various scenarios. Current cash and cash equivalents are recorded and monitored on a daily basis.

For further information, please refer to the section "Liquidity, profitability and capital markets access".

Risks and opportunities relating to future business development and growth

The business strategy of Biofrontera AG is based to a large extent on establishing the current products, in particular the drug Ameluz®, on the relevant sales markets in the long term. In order to exploit market potential, it is necessary to obtain and expand the existing approvals in the USA and Europe. In addition, the aim is to broaden the product pipeline. The protection of our intellectual property is to be secured by a suitable patent strategy. The prerequisite for achieving these targets is ensuring sustained profitability and sufficient liquidity.

Risks may arise from deviations from targets in the form of negative developments, the insufficient realization of targeted and already recognized opportunities or potentials, or the failure to take advantage of new opportunities. Biofrontera's risk management takes this into account through continuous analysis of relevant influencing factors.

Net assets

Biofrontera AG has investments in subsidiaries, some of which have significant carrying amounts. If the companies do not develop according to plan in the long term, there is a risk that the carrying amounts of the investments may have to be written down.

External influences and global risks

The increasing integration of the global economy due to globalization and digitalization can have a negative impact on Biofrontera's target achievement in the context of macroeconomic developments. In addition, political developments in our sales markets can have an influence on the structures relevant to Biofrontera in the respective healthcare sector.

In addition to effects on individual markets, global crises may arise in this context that could have a significant impact on the Biofrontera Group's business operations.

As a result of potential crises, the maintenance of business processes may be jeopardized, among other things, by the ordering of official measures that do not permit full business operations, by the fact that employees of the Biofrontera Group are affected, or due to impairments of relevant suppliers.

However, the Executive Board assumes that it will be able to counter these possible effects by means of suitable measures.

To this end, the company had already developed a suitable set of tools after the onset of the COVID pandemic to counter these risks and safeguard business processes through comprehensive cost reductions, contingency planning to maintain central processes, and activities to protect employees. These could be re-executed if necessary.

The war in Ukraine, which broke out at the end of February 2022, does not currently have a direct impact on Biofrontera, as the company is not active in Ukraine or Russia. However, there are negative indirect factors influencing the company's success, such as price increases on the procurement markets and a further impairment of supply chains that were already impaired in the context of the COVID 19 pandemic. There is also the possibility of further escalations and the resulting cross-regional economic risks.

For further risks in connection with the ongoing Ukraine crisis, please refer to the comments in the section on liquidity, profitability and access to capital markets.

Since February 1, 2020, the United Kingdom is no longer a member state of the European Union. As the regulatory framework for pharmaceutical products in the United Kingdom, which covers quality, safety and efficacy of pharmaceutical products, clinical trials, marketing authorization, commercial distribution and sales of pharmaceutical products, is derived from European Union directives and regulations, this could impact the future regulatory regime which applies to products and the approval of product candidates in the United Kingdom. It remains to be determined how, if at all, withdrawal will affect the regulatory requirements for products in the United Kingdom. Due to the immaterial volume of revenues from product sales in the United Kingdom, the Company considers this risk to be low.

These risks cannot be influenced by Biofrontera. In the past, however, the monitoring processes and standards implemented in the company have enabled Biofrontera to always adapt external effects or risks appropriately and successfully.

Liquidity, profitability and capital markets access

Liquidity risks can arise from possible loss situations of the company and uncertainties regarding the future further business development, or from not being able to exploit market potentials in line with Biofrontera's business strategy due to insufficient liquidity.

Biofrontera balances this risk with a long-term capital market strategy. In addition, potential risks are regularly identified and assessed as part of our short-, medium- and long-term Group-wide liquidity planning in order to be able to take timely measures to achieve targets, if necessary.

The Biofrontera Group might not be able to meet existing or future payment obligations due to insufficient availability of cash. To date, the Group has been able to meet its payment obligations at all times. By injecting equity or debt capital, Biofrontera has so far always succeeded in providing the financing required for its business operations.

The additional capital requirements could be covered by the capital increase resolved by the Extraordinary General Meeting on January 09, 2023. An action for annulment against this resolution of the Annual General Meeting was filed by two shareholders with

the Cologne Regional Court. The action was served on the Company on March 16, 2023. The action was withdrawn on April 13, 2023. So-called release proceedings in accordance with section 246a of the German Stock Corporation Act (AktG) before the Cologne Higher Regional Court are therefore no longer necessary. A prospectus, which is currently being prepared, is required for the implementation of the capital measure.

Law and compliance

The Group may be exposed to litigation or legal proceedings in the future. These include in particular risks from the areas of product liability, antitrust law, competition law, patent law, tax law and environmental protection. Risks may also arise in connection with disclosure and information requirements on the capital market. Investigations and inquiries into possible infringements of statutory provisions or regulatory requirements may result in criminal and civil sanctions, including substantial monetary penalties, as well as other financial disadvantages, damage our reputation and ultimately have a negative impact on our business success or our access to the capital markets.

An action for avoidance has been filed by two shareholders against all resolutions of the Company's Extraordinary General Meeting on January 9, 2023, i.e. inter alia against the resolutions under agenda item 1 (resolution on authorized capital) and agenda item 2 (resolution on the increase in capital stock). The claim was withdrawn on April 13, 2023.

Further information on litigation is provided separately in the section "Litigation".

Regulatory approvals

Restrictions on existing approvals in Europe and the United States would jeopardize the ability to market the Company's products. The risk also exists that strategically relevant marketing authorization extensions may not be approved, or may be approved with delays or only to a limited extent, which could impair the Company's ability to compete with its competitors.

The Company compensates for these risks through consistent compliance with regulatory requirements and an effective quality management system.

Research and development

The Company is also exposed to a further risk in the context of product development processes or indication expansions. No guarantee exists that a product can be brought to market after the end of the clinical development process of a project - on average 6 to 10 years. Due to a lack of success in individual study phases, for example in study design, patient recruitment, possible quality deficiencies or the documentation of study results, studies can prove to be more cost-intensive than planned, be delayed or even come to a complete standstill. Invested funds may not be recovered, or only partially recovered, through the revenues generated.

The Company seeks to mitigate these risks to some extent by selecting projects with relatively appealing risk profiles and by establishing a project control and reporting system. The project control system maps the entire development process up to approval in detail and enables analysis of the impact that even small changes or delays, for example in clinical trials, have on the development process and its costs. In this way, the risk of individual projects can be closely monitored and the necessary steps can be taken to minimize development risk.

Product portfolio

With Ameluz® , the company currently has only one approved product, which is sold in some European countries and the USA with its own sales force or by license partners. The risk exists that Ameluz® may not be sufficiently or sustainably established on the market.

Another potential risk is that the company may be at a competitive disadvantage compared with its competitors due to advantages in terms of the range of indications for competing products. For this reason, for example, indication extensions are initiated in order to gain competitive advantages.

A further risk is that the company's own product pipeline cannot be broadened and that successor or supplementary products cannot be brought to market maturity.

Biofrontera counters these risks by constantly monitoring the market with regard to the activities of known competitors or the market entry of new competitors, and carries out extensive research and development activities to broaden the indication base. In addition, cooperation opportunities to expand the product portfolio are evaluated.

Through the acquisition of Cutanea Life Sciences, Inc. in March 2019, Biofrontera Inc. became a licensee of Xepi® and has since been marketing the FDA-approved drug launched in the U.S. market. Prior to the deconsolidation of Biofrontera Inc. at the end of the reporting period, Xepi was still part of Biofrontera AG's product range. For the consolidated financial statements, the risk of impairment for the acquired Xepi® license in the event of insufficient or sustained establishment on the market thus no longer exists.

Patent protection

The company may be subject to patent protection risks. In case of successful commercialization, the contribution margins can be used to continue and sustainably invest in research and development. Due to the long time between the patent application and the market launch of a product, Biofrontera usually has only a few years to generate an adequate return on its intellectual output. If a patent expires or if a patent cannot be successfully defended, increased competition can usually be expected. Lack of patents can jeopardize the market position of the Company's products and facilitate market entry by competitors. To avoid these risks, Biofrontera's patent portfolio is continuously reviewed and the patent strategy is adjusted. Further information on individual patents is presented in the section on patent and trademark development.

Lawsuits filed by third parties due to potential infringement of patents or other intellectual property rights by Biofrontera may impede or even stop the development or manufacture of certain products and may require us to pay damages or royalties to third parties. Our patent department regularly reviews the current patent situation in cooperation with the respective operating units and monitors possible patent infringement attempts in order to initiate legal action if necessary.

Ameluz® is protected by a family of patents relating to nanoemulsion technology. The patent was not granted in US until January 2023 with a term until February 2028. In Europe, Australia, Canada and other countries, this patent was granted earlier, with a term until December 2027. The risk of potential future generic competition is further mitigated by specific challenges in the development of generic dermatological products, including regulatory hurdles. As part of Biofrontera's patent strategy to further protect Ameluz®, additional patent applications have been filed in recent years to protect the use of the combination of Ameluz® and BF-RhodoLED®. With the granting of these patents in December 2021, a substantial contribution has been made to limiting this risk.

Further information on patent development is provided in the section entitled "Patent development". Further information on patent litigation is presented separately in the section "Litigation".

Products and product stewardship

As an international biopharmaceutical company, Biofrontera is subject to the highest requirements and associated risks in the quality and safety areas. Biofrontera assesses potential environmental and health risks associated with a product along the entire value chain. This includes every stage from research and development to disposal, including production, marketing and customer use. Despite extensive studies, the possibility exists of previously unknown and unexpected side effects from Biofrontera products. The Company may be exposed to a cost risk due to product safety deficiencies if, for example, our products are recalled voluntarily or as a result of legal or regulatory action. Possible payments of damages associated with the aforementioned risks could exert a considerable negative effect on the Company's financial results. These risks are offset by established pharmacovigilance processes in the Company and ensure that potential side effects or other product-related problems are quickly identified. As no previously unknown side effects of our drugs have appeared, we consider it highly improbable that risks of this kind will arise.

Both regulatory requirements and standards applied beyond them are guaranteed by a wide variety of processes integrated into the Company. The Company's product-related risks are countered with a functioning quality management system. Biofrontera's focus on Good Manufacturing Practice (GMP) guidelines and Standard Operation Procedures (SOPs), which are mandatory in the pharmaceutical industry, ensures the quality and safety requirements for products and processes. Regular internal audits of standards at suppliers and subcontractors contribute in this context. Regular checks and inspections are also carried out by regulators.

Markets

Biofrontera operates in regulated competitive markets. The Company's sales and revenue targets could be jeopardized by measures taken by competitors with an impact on sales and revenue with regard to the fields of application of their products, the pricing strategy or the marketing strategy, but also by new products from competitors. If the sales targets are not achieved, this could also have a negative effect on the Company's earnings and liquidity targets, as well as impairments on product inventories already produced.

Realignments in the respective healthcare systems and changes in the reimbursement behavior of drug reimbursement organizations, as well as market barriers in the relevant markets, may result in the risk of insufficient or unsustainable market penetration. The competitive position of our products may also be negatively impacted by product characteristics that are not perceived as optimal compared to competitive products in the respective market. In addition, our products compete with other therapies such as simple curettage and, particularly in the United States, cryotherapy, which do not require the use of a drug but have gained significant market acceptance due to their long history of use.

To avoid these risks, Biofrontera's sales and marketing organization closely monitors the market and conducts regular market analyses. The marketing instruments used and the communication with our customers are subject to constant further development in this context in order to be able to identify opportunities and risks and to strengthen the company's competitive position.

Procurement and production

As a pharmaceutical manufacturer, the Company is exposed to various risks in connection with the procurement and production of its products. Biofrontera relies on individual manufacturers or suppliers for the production of its finished products as well as raw materials, whose exchange would entail lengthy regulatory approval processes. Difficulties regarding procurement prices, quality, delivery reliability or quantity at or with these suppliers may affect the Company's revenue and results targets. By establishing alternative suppliers, changing production sizes and actively managing contracts and inventories, Biofrontera seeks to minimize these dependencies and ensure the supply of the required goods and services.

Risks associated with the manufacturing, bottling, storage and transportation of products may result in personal injury or material or environmental damage and may give rise to an obligation to pay damages. Using our own audit and monitoring system, Biofrontera regularly ensures that the manufacturing conditions at its most important suppliers meet the required standard. This enables us to avoid such risks and damages. We have also established our own production facilities for in-house production quality control of the BF-RhodoLED® lamp to reduce our dependence on suppliers in this area, too.

Business strategy

Due to changing framework conditions, the strategy chosen by the Company to guarantee its sales, growth and profitability targets may not be sufficiently effective in the future. As part of the risk management process, management uses ongoing analyses to counteract current and potentially future influencing variables or developments in order to initiate suitable measures if necessary.

Staff

The recruitment of qualified and dedicated staff is a key prerequisite for the Company's success. A high staff turnover rate could jeopardize the achievement of corporate goals and the safeguarding of the Company's know-how. In order to counter these risks, motivate employees and retain key personnel, the Company offers competitive compensation, participation in option programs and extensive training and professional development opportunities for employees. Furthermore, the Group pursues a diversity-orientated personnel policy in order to leverage the labor market's full potential. To date, Biofrontera has always succeeded in recruiting the qualified staff the Company requires. For this reason, the Company regards this risk as low. However, this assessment could change significantly in the case of a change of control.

Information technology and data protection

The Group's business processes and internal and external communication are increasingly based on global IT systems. A significant technical malfunction or total failure of IT systems could result in severe impairment of our business processes. It is of fundamental importance to us that both internal and external data remain confidential. If the confidentiality, integrity or authenticity of data or information were to be lost, the manipulation and/or uncontrolled outflow of data and know-how could arise. We have adopted appropriate measures to mitigate this risk, such as an authorization concept. However, while we have IT security measures and disaster recovery plans in place, they may prove to be inadequate or ineffective. Our IT systems may be vulnerable to cyberattacks, unauthorized access, computer viruses, system failures, human error, natural disasters, fire, power failure, communication

disruptions or acts of sabotage. The measures adopted by the Company have always proven adequate to date, so such risk is to be regarded as low.

As a pharmaceutical company, Biofrontera is exposed to additional risks in the area of data protection. A large volume of person-related data is generated, particularly in the area of clinical trials and drug safety reports and must be protected in particular under the new Basic Data Protection Regulation (EU-DSGVO). Violations or violations of these regulations may result in severe penalties against the Company. Biofrontera counteracts these risks with continuous data protection processes and the implementation of legal guidelines.

Insurance coverage

The Company may be subject to the risk of insufficient insurance coverage for the continuation of business operations in the event of damage, for events affecting the Company's assets or claims for damages due to product defects as well as actions by the Company and its employees. Biofrontera mitigates these risks as part of its risk analysis with regular reviews of the adequacy of the relevant insurance coverage.

Taxes

The future use of the tax loss carryforwards accrued to date in the consolidated group of companies may not be realized or may not be optimized due to the organizational structure of the Company. To this end, Biofrontera carries out regular analyses to make appropriate adjustments, if necessary.

However, the Company cannot influence the risk of limited use of the tax loss carryforwards due to changes in tax law or as a result of a tax-relevant change in the shareholder structure.

Opportunities

In addition to the identification of risks, the Biofrontera Group's risk management system also includes opportunities, which are to be seen as positive deviations from corporate planning.

The company considers opportunities in the expansion of the indications of its products, particularly in the extension of the approval of Ameluz® in our important sales markets, especially in the USA to expand and exploit market potential. For example, at the time of publication of the annual report, the company is conducting a phase III clinical trial for the treatment of superficial basal cell carcinoma (BCC) with Ameluz® , a phase IIb trial to expand the approval of Ameluz® for moderate to severe acne in the U.S., and a phase I safety trial to amend the product information,which currently limits use to one tube of Ameluz® per treatment, to three tubes. In addition, a Phase III trial is in preparation for approval of the US approval extension for Ameluz® for the treatment of AK also on the extremities and trunk/neck, which is expected to start at the end of 2022. To complement this progress with an optimized illumination source, the Group has also achieved development and FDA approval of a larger RhodoLED® XL lamp. In addition, there is a medium- and long-term opportunity for portfolio expansion through the development of new products based on our nanoemulsion technology.

We also see further long-term revenue opportunities in the form of milestone and royalty payments through licensing and supply agreements with our licensing partners in Europe, Asia, and the United States. At the same time, the company is analyzing new markets such as Canada or Brazil with regard to cooperation with a relevant market player there. In the European market, marketing options for countries such as France, Italy or the Netherlands are also being examined, either through a partnership or the establishment of a dedicated sales unit. The growth and expansion of the Ameluz markets is a clear priority for Biofrontera.

Overall opportunity and risk situation at Biofrontera

The Management Board considers the overall risks not related to the current crisis to be controllable. The Management Board has confidence in the effectiveness of the risk management system with regard to positive and negative changes in the environment and the requirements of the current business. The assessment is based on various factors, which are summarized below:

- The company has developed a suitable set of tools to counteract risks and safeguard business processes if necessary through comprehensive cost reductions, contingency planning to maintain central processes, and activities to protect employees. These could be carried out again if necessary.

- To date, the Group has been able to meet its payment obligations at all times.

In recent years, the Company has regularly relied on external cash and cash equivalents. According to current planning and taking into account the cash and cash equivalents available at the balance sheet date, the current liquidity position is sufficient to meet all obligations beyond the first quarter of 2024. This analysis does not yet take into account possible cash inflows from the capital increase resolved on January 09, 2023

- The market position was further strengthened by the EU approval extensions received in recent years - the approval of daylight PDT with Ameluz® , as well as photodynamic therapy of actinic keratoses on the extremities and the trunk and neck in the EU. In this regard, we continue to see an increase in the market potential of Ameluz® in the EU.

- To further increase growth opportunities in the US market, we are currently conducting a phase III clinical trial for the treatment of superficial basal cell carcinoma (BCC) with Ameluz® , a phase IIb trial for the approval extension of Ameluz® for moderate to severe acne in the US, and a phase I - safety trial to amend the product information, which currently limits use to one tube of Ameluz® per treatment, to three tubes. In addition, a phase III trial is in preparation for approval of the US approval extension for Ameluz® for the treatment of AK also on the extremities and trunk/neck.

- To further strengthen its competitive position, Biofrontera has also achieved development and FDA approval in October 2021 of a larger RhodoLED® XL lamp, which will allow Ameluz® to be applied to larger areas. With the market launch of this new medical product, the Group expects a further increase in sales of Ameluz® , particularly in the US market.

- Also, in the medium and long term, there is an opportunity for portfolio expansion through the development of new products based on our nanoemulsion technology.

- With the IPO of Biofrontera Inc., the capital raised by Biofrontera Inc. can be invested in further growth to further expand its presence in the US market. Under a license and supply agreement, Biofrontera AG will receive up to 50% of Ameluz® sales in the form of a transfer price. This share applies up to $30 million in annual sales and decreases to 40% between $30 million and $50 million in annual sales and to 30% above that. With the license and supply agreement, Biofrontera AG also benefits from a strengthening of Biofrontera Inc. in the US market without having to fund the largest cost block of the past, sales and marketing in the US. A sufficiently financed Biofrontera Inc. is the only way for both companies to grow and develop successfully, both together and independently of each other.

With regard to legal disputes, Biofrontera considers itself well positioned. The judgment obtained by Deutsche Balaton AG declaring that the resolutions of the former Management Board and the former Supervisory Board approving the IPO of Biofrontera Inc. were unlawful will not affect the IPO of Biofrontera Inc. or the company's operating business. The action for avoidance brought by two shareholders against the capital increase resolved at the Extraordinary General Meeting on January 9, 2023 was withdrawn on April 13, 2023. the action for avoidance is thus terminated.

Litigation

Maruho Deutschland GmbH v. Biofrontera AG (actions for annulment)

In a statement of claim dated May 9, 2022, Maruho Deutschland GmbH filed an action for annulment with the Cologne Regional Court against the capital increase resolved under agenda item 2 at the Extraordinary General Meeting on April 7, 2022. After a release procedure requested by the Company from the Cologne Higher Regional Court was successful, Maruho Deutschland GmbH withdrew the action for annulment.

In a further action for annulment with the Cologne Regional Court, Maruho Deutschland GmbH objected to the election of Prof. Dr. Karin Lergenmüller to the Supervisory Board resolved under agenda item 8a at the Annual General Meeting on August 23, 2022. In an extension of the action, Maruho Deutschland GmbH is also contesting the confirmation pursuant to Art. 244 sentence 1 AktG of the election of Prof. Dr. Karin Lergenmüller to the Supervisory Board resolved at the Extraordinary General Meeting on January 9, 2023 under agenda item 5. The Cologne Regional Court has not yet ruled on the action and the extension of the action.

Deutsche Balaton AG v. Biofrontera AG (declaratory action)

On December 13, 2021, Deutsche Balaton AG filed an action with the Regional Court of Cologne, the subject of which was the legal examination and determination of a so-called unwritten competence of the Annual General Meeting for the IPO of Biofrontera Inc. The statement of claim was served to Biofrontera AG represented by the Management Board and represented by the Supervisory Board on February 9, 2022.

After service, the Supervisory Board resolved to form a Litigation Committee for further decisions in connection with the lawsuit, consisting of Dr. Helge Lubenow, Mr. Karlheinz Schmelig and, as Committee Chairman, Dr. Jörgen Tielmann.

All members of the former Executive Board and Supervisory Board involved in the resolutions challenged by the action have since left the Company. They have been served with notices of dispute regarding possible claims for damages.

On December 9, 2022, the Cologne Regional Court ruled in a declaratory judgment that the resolutions approving the IPO of Biofrontera Inc. passed by the former Management Board and the former Supervisory Board were unlawful because the required prior approval for the IPO by the Annual General Meeting was unlawfully not obtained. The further action was dismissed. In its reasoning, the court stated that the IPO initiated a colossal loss of control by allowing third-party investors to acquire a majority stake in the subsidiary by waiving the exercise of the parent company's subscription rights. In the opinion of the court, this loss of control resulted in asset losses for the Company and its shareholders.

The IPO remains unaffected by the ruling. On the unanimous recommendation of the Litigation Committee, the Executive Board and Supervisory Board have decided not to appeal the ruling. Due to the appeals of the disputants, the judgment is not yet final.

Biofrontera AG v. Biofrontera Inc.

The Company brought an action before the Court of Chancery of the U.S. State of Delaware seeking in particular to annul the resolutions adopted at the Annual General Meeting of Biofrontera Inc. on December 12, 2022, including the elections to the Board of Directors of Biofrontera Inc. Among other things, the Company requested a repetition of the Annual General Meeting of Biofrontera Inc. taking into account the proposed resolutions of Biofrontera AG. After a hearing on January 22, 2023, as a preliminary decision, the motion to expedite requested by the Company was granted. The Company has agreed in an out-of-court settlement agreement dated April 11, 2023 ("Inc. Agreement dated April 11, 2023") with, among others, Biofrontera Inc. to file a joint statement with Biofrontera Inc. to terminate the proceedings by mutual consent in the Court of Chancery. The Company will not file a motion for reimbursement of its legal costs in the Court of Chancery proceeding. For the further content of the Inc. agreement of April 11, 2023, we refer to the announcement pursuant to § 248a AktG agreed therein.

Biofrontera Inc et al. v. Biofrontera AG

An action for avoidance was filed by two shareholders against all resolutions of the Company's Extraordinary General Meeting of January 9, 2023, i.e., inter alia, against the resolutions under agenda item 1 (resolution on authorized capital) and agenda item 2 (resolution on the increase of the share capital). The action was withdrawn on April 13, 2023. The withdrawal of the action is part of the Inc. agreement of April 11, 2023.

Ludwig Lutter v. Biofrontera AG

In two actions before the Cologne Regional Court, Mr. Ludwig Lutter is contesting his dismissal as a member of the Board of Management and the termination of his employment contract and is claiming (partial) continuation of his remuneration. The Cologne Regional Court has not yet ruled on the actions.

Biofrontera Inc et al. v. Biofrontera AG

In an action before the Cologne Regional Court, an injunction was obtained against Biofrontera AG prohibiting Biofrontera AG from accessing data from certain e-mail accounts relating, among others, to a former employee and a former member of the Management Board. The parties to the lawsuit are currently in settlement negotiations.

Takeover-relevant information

Trading platforms

Biofrontera shares are traded under the stock exchange code B8F and the ISIN DE0006046113 in the Prime Standard of the Frankfurt Stock Exchange and on all other German stock exchanges. In the USA, Biofrontera AG share certificates were traded as American Depository Shares (ADS) under the ticker symbol BFRA on the US Nasdaq stock exchange until 6 March 2022. One ADS certifies the right to two ordinary shares in Biofrontera AG. With an ad hoc announcement dated 14 February, 2022 Biofrontera AG Annual Report 2022 55 announced that it will cease listing on Nasdaq and registering all classes of its registered securities with the Securities and Exchange Commission (SEC) under the Securities Exchange Act in order to reduce reporting complexity and associated costs. On 7

March 2022, Biofrontera's ADSs, with the support of BNY Mellon as depositary bank, were transferred to a sponsored "Level I" ADS programme and have since traded on the US over-the-counter (OTC) market under the ticker symbol BFAGY.

Shareholder structure

The detailed presentation of the positions held by the shareholders as of December 31, 2022 on the basis of the mandatory disclosures by the shareholders can be found in the notes to the consolidated financial statements under 9 Equity and in the notes to the individual financial statements of Biofrontera AG under item "III. Information on the balance sheet and income statement" under "5 Subscribed capital, capital reserve, conditional capital".

Share capital and existing capital

The detailed presentation of share capital as of December 31, 2022 is included in the notes to the consolidated financial statements under 9 Equity and in the notes to the single-entity financial statements of Biofrontera AG under "III. Information on the balance sheet and income statement" under "5 Subscribed capital, capital reserves, conditional capital".

Articles of association

The Articles of Association of Biofrontera comply with the applicable statutory requirements. There are no stipulations beyond Sections 84, 85 and Sections 133, 179 of the German Stock Corporation Act regarding the appointment and dismissal of members of the Management Board.

Restrictions affecting voting rights or the transfer of shares

Each share grants one vote at the Annual General Meeting. The Company is not aware of any restrictions on voting rights.

Holders of special rights to shares with special rights conferring powers of control

There are no shares with special rights conferring powers of control.

Type of voting rights control if employees have an interest in the capital and do not exercise their control rights directly.

If employees have an interest in the capital, their control rights are not subject to any restrictions.

Powers of the Board of Management to issue shares

The Board of Management is not authorized to issue shares.

Powers of the Executive Board to repurchase shares

There are no restrictions on the repurchase of shares.

Significant agreements of the Company that are subject to the condition of a change of control as a result of a takeover bid

No agreements have been made in this respect.

Compensation agreements between the Company and the Management Board or employees in the event of a takeover bid

No agreements have been made in this respect.

Leverkusen, April 27, 2023

Biofrontera AG

Pilar de la Huerta Martínez
CFO

Corporate Governance Statement of Biofrontera AG pursuant to Sections 289f, 315d HGB for the financial year 2022 (unaudited)

The Company has made use of the option not to include the corporate governance statement pursuant to Sections 289f, 315d of the German Commercial Code (HGB) for the financial year 2021 in the (combined) management report for the financial year 2022, but refers to the publication of this statement as well as the statement of the Management Board and the Supervisory Board of Biofrontera AG (the Company) on the German Corporate Governance Code pursuant to Section 161 of the German Stock Corporation Act (AktG) (unaudited) on the Company's website at www.biofrontera.com in the section "Investors", subsection "Corporate Governance" with the corresponding labels.

Leverkusen, April 27, 2023

Biofrontera AG

Pilar de la Huerta Martínez
CFO

Consolidated financial statements as of December 31, 2022

Consolidated balance sheet as of December 31, 2022

Assets

in EUR thousands		December 31, 2022	December 31, 2021	December 31, 2021* adjusted
Non-current assets				
Tangible assets	(1)	3,012	2,281	2,281
Intangible assets	(1)	1,198	1,139	1,139
Deferred tax	(8)	4,375	5,747	5,176
Investments accounted for using the equity method	(2)	8,982	53,154	53,154
Non-current contractual assets		101	0	0
Total non-current assets		**17,669**	**62,322**	**61,750**
Current assets				
Financial assets				
Trade receivables	(4)	691	793	793
Receivables from associated companies	(31)	1,344	413	413
Other financial assets	(5)	878	57	57
Cash and cash equivalents	(7)	6,376	6,908	6,908
Current contractual assets		35	0	0
Total financial assets		9,324	8,171	8,171
Other assets				
Inventories	(3)	4,794	4,814	4,814
Other assets	(6)	938	1,392	1,392
Total other assets		5,732	6,206	6,206
Total current assets		**15,056**	**14,377**	**14,377**
Total assets		**32,725**	**76,699**	**76,127**

* adjusted according to IAS 8 (see Notes)

Equity and liabilities

in EUR thousands		December 31 , 2022	December 31 , 2021	December 31 , 2021*
Equity	(9)			
Subscribed capital		63,807	56,717	56,717
Capital reserve		137,318	137,332	137,332
Loss carried forward		(136,623)	(169,909)	(169,909)
Loss for the period		(44,166)	33,857	33,286
Total equity		**20,336**	**57,997**	**57,426**
Non-current liabilities				
Financial debt	(10)	1,055	851	851
Liabilities to associated companies		2,642	0	0
Other financial liabilities	(11)	0	384	384
Total non-current liabilities		**4,002**	**1,235**	**1,235**
Current liabilities				
Financial liabilities				
Trade payables	(12)	1,984	2,735	2,735
Liabilities to associated companies	(33)	2,653	5,279	5,279
Current financial debt	(11)	446	2,449	2,449
Other financial liabilities	(11)	26	14	14
Total financial liabilities		5,109	10,478	10,478
Other liabilities				
Income Tax	(13)	156	0	0
Other provisions	(14)	603	1,012	1,012
Other liabilities	(15)	2,518	5,977	5,977
Total other liabilities		3,277	6,990	6,990
Total current liabilities		**8,387**	**17,467**	**17,467**
Total equity and liabilities		**32,725**	**76,699**	**76,127**

* adjusted according to IAS 8 (see Notes)

Consolidated statement of comprehensive income for the fiscal year 2022

in EUR thousands		01.01.-31.12.2022	01.01.-31.12.2021	01.01.-31.12.2021*
Sales revenue	(17)	25,738	28,787	28,787
Cost of sales	(18)	(4,756)	(3,913)	(3,913)
Gross profit from sales	**(18)**	**20,981**	**24,873**	**24,873**
Operating expenses				
Research and development costs	(19)	(7,128)	(7,009)	(7,009)
General administrative costs	(20)	(5,906)	(30,781)	(30,781)
Sales costs	(21)	(6,357)	(22,423)	(22,423)
Result from operations		**1,591**	**(35,341)**	**(35,341)**
Depreciation and amortization	(27)	746	3,290	3,290
Other Expenses	(24)	(902)	(214)	(214)
Other Income	(24)	435	60,215	60,215
EBITDA		**1,869**	**27,950**	**27,950**
Depriciation and amortization	(27)	(746)	(3,290)	(3,290)
EBIT		**1,124**	**24,661**	**24,661**
Effective interest expenses	(22)	0	(28)	(28)
Interest expenses	(22)	(163)	(3,692)	(3,692)
Interest Income	(22)	1	13	13
Income from investments accounted for using the equity method	(23)	(44,172)	14,729	14,729
Profit/loss before income tax		**(43,210)**	**35,683**	**35,683**
Income tax	(25)	(956)	(1,826)	(2,397)
Profit/loss for the period		**(44,166)**	**33,857**	**33,286**
Profit attributable to non-controlling interests		0		
Profit attributable to owners of the parent company		(44,166)	38,318	37,747
Other comprehensive income after income taxes				
Items which may in future be regrouped into the profit and loss statement under certain conditions.				
Translation differences resulting from the conversion of foreign business operations		0	-1,866	-1,866
Total profit/loss for the period		**(44,166)**	**31,991**	**31,420**
Basic earnings per share in EUR	(26)	(0.77)	0.69	0.68
Diluted earnings per share in EUR	(26)	(0.77)	0.68	0.67

* adjusted according to IAS 8 (see Notes)

Consolidated statement of changes in equity for the fiscal year 2022 (adjusted according to IAS 8(see Notes))

		Ordinary shares	Subscribed capital	Capital reserve	Reserve from foreign currency conversion adjustment (OCI)	Loss carried forward Loss for the period	Total
		Number of shares	in EUR thousands	in EUR thousands	in EUR thousands	in EUR thousands	in EUR thousands
Balance as of January 01, 2021		**47,747,515**	**47,748**	**123,493**	**1,866**	**-165,732**	**7,375**
Loss for the period		0	0	0	0	33,857	33,857
Error correction (according to IAS 8)		0	0	0	0	-571	-571
Foreign currency conversion		0	0	0	-1,866	0	-1,866
Total loss for the period		**0**	**0**	**0**	**-1,866**	**33,286**	**31,420**
Capital increase		8,969,870	8,970	15,697	0	0	24,667
Conversion of stock options from the stock option program		0	0	0	0	0	0
Cost of equity procurement		0	0	-2,000	0	0	-2,000
Increase in capital reserve from the stock option program		0	0	142	0	0	142
Disposal scope of consolidation		0				-4,177	-4,177
Balance as of December 31, 2021	**(10)**	**56,717,385**	**56,717**	**137,332**	**0**	**-136,623**	**57,427**

		Ordinary shares	Subscribed capital	Capital reserve	Reserve from foreign currency conversion adjustment (OCI)	Loss carried forward Loss for the period	Total
		Number of shares	in EUR thousands	in EUR thousands	in EUR thousands	in EUR thousands	in EUR thousands
Balance as of December 31, 2021	**(10)**	**56,717,385**	**56,717**	**137,332**	**0**	**-136,623**	**57,427**
Loss for the period		0	0	0	0	-44,166	-44,166
Foreign currency conversion		0	0	0	0	0	0
Total loss for the period		**0**	**0**	**0**	**0**	**-44,166**	**-44,166**
Capital increase		7,089,673	7,090	0	0	0	7,090
Conversion of stock options from the stock option program		0	0	0	0	0	0
Cost of equity procurement		0	0	-64	0	0	-64
Increase in capital reserve from the stock option program		0	0	50	0	0	50
Balance as of December 31, 2022	**(10)**	**63,807,058**	**63,807**	**137,318**	**0**	**-180,789**	**20,336**

Consolidated cash flow statement for the fiscal year 2022

in EUR thousands		01.01.-31.12.2022	01.01.-31.12.2021	01.01.-31.12.2021*
Cashflows from operations				
Loss before income tax		-43,210	35,683	35,683
Adjustments to reconcile loss before income tax to cash flow into operations				
Income tax		-956	-1,826	-2,397
Financial result		44,334	-11,022	-11,022
Depreciation		746	3,290	3,290
Losses from disposal of assets		11	3	3
Non-cash (income) and expenses		569	259	830
Changes in operating assets and liabilities				
Trade receivables		-831	-788	-788
Other assets and income tax assets		-367	-683	-683
Inventories		20	-5,938	-5,938
Trade payables		-3,204	8,250	8,250
Provisions		-309	-1,735	-1,735
Other liabilities		-728	4,946	4,946
Net cash flow from/in operational activities		**-3,895**	**30,439**	**30,439**
Cash flow from investment activities				
Purchase of intangible and tangible assets		-981	-629	-629
Loss of control over subsidiaries		0	-41,630	-41,630
Net cash flow from/in investment activities		**-981**	**-42,259**	**-42,259**
Cashflows from financing activities				
Proceeds from the issue of shares		7,090	24,667	24,667
Costs of equity procurement		-64	-2,000	-2,000
Proceeds from draw down of EIB loan		-2,031	-15,000	-15,000
Leasing payments		-453	-624	-624
Interest paid		-198	-4,861	-4,861
Net cash flows from/in financing activities		**4,344**	**2,182**	**2,182**
Net increase/(decrease) in cash and cash equivalents		-532	-9,638	-9,638
Cash and cash equivalents at the beginning of the period		6,908	16,546	16,546
Cash and cash equivalents at the end of the period	**(30)**	**6,376**	**6,908**	**6,908**

* adjusted according to IAS 8 (see Notes)

Notes to the consolidated financial statements as of December 31, 2022

Information about the Company

Biofrontera AG (hereinafter also referred to as "Biofrontera" or the "Company"), registered in the Commercial Register of the Local Court of Cologne, Department B under No. 49717, and its wholly owned subsidiaries Biofrontera Bioscience GmbH, Biofrontera Pharma GmbH, Biofrontera Development GmbH, and Biofrontera Neuroscience GmbH, all with registered offices at Hemmelrather Weg 201, 51377 Leverkusen, Germany, and the Spanish branch Biofrontera Pharma GmbH sucursal en España with registered offices in Cornellá de Llobregat, research, develop and distribute dermatological products.

The declarations on the German Corporate Governance Code required by § 161 of the German Stock Corporation Act have been submitted and made available to the shareholders on Biofontera's website (www.biofrontera.com).

The shareholding in Biofrontera Inc. as at the reporting date amounts to 29,96% and is reported under investments in associates using the at-equity method.

On 10 November 2022, Biofrontera Pharma GmbH founded the wholly owned subsidiary "Biofrontera UK Ltd." in Great Britain to maintain and expand sales activities there. The company's business operations had not yet commenced as of the reporting date.

Segment reporting

Biofrontera's main business activity is the sale of pharmaceuticals and medical products and the associated research and development activities to optimize their market potential. The Biofrontera Group is essentially a single-product company. Accordingly, segmentation is based exclusively on geographical aspects and only with regard to sales revenues, as internal reporting to management and corporate controlling are also based exclusively on these criteria. Internal reporting to management is a condensed presentation of the consolidated statement of comprehensive income. The results of the companies are monitored separately by management in order to be able to measure and assess their performance.

For further information, please refer to our comments in the notes on „Sales revenue“ (Note 17).

Summary of significant accounting policies

Basis for preparation of the consolidated financial statements

The consolidated financial statements of Biofrontera AG for the financial year from January 1, 2022 to December 31, 2022 have been prepared in accordance with the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB) and the interpretations of the International Financial Reporting Standards Interpretations Committee (IFRS IC) valid at the reporting date and recognized by the European Union (EU). In addition, the provisions of German commercial law applicable under Section 315e (1) of the German Commercial Code (HGB) have been observed.

The consolidated financial statements have been prepared on a going concern basis.

Biofrontera AG is the ultimate controlling company preparing consolidated financial statements for the group of consolidated companies.

The consolidated financial statements as of December 31, 2022 are prepared in EUR or EUR thousand. Rounding differences may occur in the tables due to commercial rounding.

The consolidated financial statements as of December 31, 2022 were authorized for issue and forwarding to the Supervisory Board by the Executive Board on April 27, 2023.

Changes in accounting standards

The accounting policies applied are consistent with those used as of December 31, 2021, with the exception of the new and revised standards and interpretations described below, the application of which was mandatory for the first time as of fiscal year 2022.

Standard	Description	Mandatory application	Expected effects
Amendment to IFRS 3	"Business combinations IFRS 3" References to the Conceptual Framework	January 1, 2022	No effects
Amendment to IAS 16	"Property, plant and equipment IAS 16": Revenues before the intended use	January 1, 2022	No effects
Amendment to IAS 37	"Provisions, contingent liabilities and contingent assets": Adverse contracts - costs of contract fulfillment	January 1, 2022	No effects
Annual Improvements to IFRSs	Annual improvements to IFRSs Cycle 2018-2020	January 1, 2022	No effects

Future changes in accounting standards

Biofrontera has not implemented early adoption or does not intend to implement early adoption of the following standards, interpretations and amendments to the set of regulations approved by the IASB:

Standard	Description	Mandatory application	Expected effects
IFRS 17	Insurance contracts	January 1, 2023	No effects
Amendments to IFRS 17	Insurance contracts: Initial Application of IFRS 17	January 1, 2023	
Amendment to IAS 1	"Presentation of financial statements": Disclosure of accounting policies	January 1, 2023	No effects
Amendment to IAS 8	"Accounting Policies, Changes in Accounting Estimates and Errors": Definition of accounting estimates	January 1, 2023	No effects
Amendment to IAS 12	"Income taxes": deferred taxes relating to assets and liabilities arising from a single transaction	January 1, 2023	Effects not reliably estimable
Amendment to IAS 1*	"Presentation of financial statements": Classification of liabilities as current or non-current	January 1, 2024 *	No effects
Amendment to IFRS 16*	"Leases": Lease liability in a Sale-and-Leaseback	January 1, 2024*	No effects

* Endorsement by the EU still pending

Basis of consolidation

The consolidated financial statements as of December 31, 2022 include the financial statements of the parent company, Biofrontera AG, and the subsidiaries in which the parent company holds a direct majority of the voting rights.

The basis for the consolidation of the companies included in the consolidated financial statements was the annual financial statements (or HBII according to IFRS) of these companies as of December 31, 2022, prepared in accordance with uniform principles.

The consolidated financial statements as of December 31, 2022 were prepared on the basis of standard accounting and valuation principles (IFRS).

The subsidiaries are fully consolidated from the date of acquisition. The date of acquisition is the date on which the parent company obtained control of these group companies. Subsidiaries are included in the consolidated financial statements until control of these entities is lost.

All intercompany receivables and payables as well as income and expenses have been eliminated in the course of consolidation.

Associated companies in which the companies of the Biofrontera Group hold a share of between 20% and 50% of the voting rights, or in which relevant indicators point to significant influence, are accounted for using the equity method. For investments accounted for using the equity method, the carrying amounts are increased or decreased by the changes in equity corresponding to Biofrontera's equity interest. The changes in the proportionate equity recognized in profit or loss are included in the result from investments accounted for using the equity method.

Adjustment of errors according to IAS 8 from the consolidated financial statements 2021

The following adjustment was taken into account in the 2022 consolidated financial statements:

> In the 2021 consolidated financial statements, deferred tax assets were actually recognized in the amount of EUR 5,747 thousand and not in the amount of EUR 5,176 thousand.

In accordance with IAS 8, the error was corrected through the profit and loss statement in 2021.

in EUR thousands	01.01.-31.12.2021	01.01.-31.12.2021* adjusted
Profit/loss before income tax	**35,683**	**35,683**
Income tax	(1,826)	(2,397)
Profit/loss for the period	**33,857**	**33,286**
Other comprehensive income after income taxes		
Items which may in future be regrouped into the profit and loss statement under certain conditions.		
Translation differences resulting from the conversion of foreign business operations	(1,866)	(1,866)
Total profit/loss for the period	**31,991**	**31,420**
Basic earnings per share in EUR	0.69	0.68
Diluted earnings per share in EUR	0.68	0.67

*adjusted according to IAS 8

Deconsolidation of Biofrontera Inc.

Since the Initial Public Offering (IPO) of Biofrontera Inc., headquartered in Woburn, Massachusetts, USA, in the third quarter of 2021, Biofrontera AG's investment in Biofrontera Inc. decreased until the control criteria of IFRS 10 were no longer met and Biofrontera Inc. was no longer considered a subsidiary of Biofrontera AG. Accordingly, deconsolidation took place in the previous year and the investment in Biofrontera Inc. as of the reporting date is reported under investments in associates using the equity method.

Due to the deconsolidation date of December 31, 2021, the consolidated statement of comprehensive income for the previous year includes all remaining expenses and income of Biofrontera Inc. after consolidation of expenses and income, making direct comparability with the consolidated statement of comprehensive income of the current financial year unfeasible.

The prior-year consolidated statement of comprehensive income that would have resulted without full consolidation of Biofrontera Inc. is as follows:

in EUR thousands	*01.01.-31.12.2022*	*01.01.-31.12.2021 PRO-FORMA*

Sales revenue	*25,738*	*17,185*
Cost of sales	*(4,756)*	*(3,536)*
Gross profit from sales	***20,981***	***13,648***
Operating expenses		
Research and development costs	*(7,128)*	*(6,773)*
General administrative costs	*(5,906)*	*(15,518)*
Sales costs	*(6,357)*	*(5,550)*
Result from operations	***1,591***	***-14,192***
Depreciation and amortization	*746*	*664*
Other Expenses	*(902)*	*(94)*
Other Income	*435*	*352*
EBITDA	***1,869***	***-13,270***
Depriciation and amortization	*(746)*	*(664)*
EBIT	***1,124***	***-13,934***
Financial result	*(44,334)*	*(2,322)*
Profit/loss before income tax	*(43,210)*	*(16,256)*
Income tax	*(956)*	*(1,778)*
Profit/loss for the period	*-44,166*	*-18,034*
Profit attributable to non-controlling interests	***0***	***0***
Profit attributable to owners of the parent company	*(44,166)*	*(18,034)*
Other comprehensive income after income taxes		
Items which may in future be regrouped into the profit and loss statement under certain conditions.		
Translation differences resulting from the conversion of foreign business operations	*0*	*0*
Total profit/loss for the period	*(44,166)*	*(18,034)*

This presentation is intended solely to enhance comparability and does not represent the actual consolidated statement of comprehensive income of the Biofrontera Group.

Translation of amounts in foreign currencies

The consolidated financial statements as of December 31, 2022 are presented in EUR (or EUR thousand), which is the functional currency of the German entities included in the consolidated financial statements, and the presentation currency of the Group.

For subsidiaries whose functional currency, other than the Group's presentation currency, is the local currency of the country in which the entity is domiciled, assets and liabilities denominated in foreign currencies that are reported in the balance sheets of the foreign entities are translated into euros using the exchange rate prevailing at the balance sheet date (2022: 0.88693 GBP/EUR). Revenue and expense items are translated at the average foreign currency exchange rates (2022: 0,96742 GBP/EUR) during the underlying period. The difference resulting from the valuation of equity at the historical exchange rate and the closing rate is recognized as a change in equity within other components of equity with no effect on profit or loss (2022: EUR 0 thousand).

Transactions denominated in currencies other than EUR are recognized at the current exchange rate on the date of the transaction. Assets and liabilities are revalued at each balance sheet date using the closing rate.

Application of estimates

The preparation of the consolidated financial statements as of December 31, 2022 has been made in accordance with the estimates and assumptions by management required by IFRS, which affect the reported amounts of assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period.

Main areas of application for significant assumptions, estimates and the exercise of discretion arise for the following matters:

- Assessment of the recoverability of non-current assets

  Biofrontera is required to assess external and internal sources of information for non-current assets that are subject to amortization, based on which possible indications of impairment or reversal of impairment can be identified. When assessing whether there are indications of impairment or a reversal of impairment losses and - if such indications exist - when determining the fair values required in this case as part of an impairment test, management must make assumptions and estimates about the expected future cash flows from the use of the non-current assets and a determination of the cost of capital.

- Income taxes

  Biofrontera is required to calculate the expected current income tax for each group company, as well as to assess temporary differences arising from the different treatment of certain balance sheet items between the IFRS consolidated financial statements and the financial statements prepared for tax purposes. Where temporary differences exist, these generally result in the recognition of deferred tax assets and liabilities in the consolidated financial statements. Management must make assumptions and estimates when calculating actual and deferred taxes. The recognition of deferred tax assets of Biofrontera is subject to higher requirements due to the loss history. Deferred tax assets are only recognized if it can be substantiated that taxable profits will be generated in the future and that it is then probable that the deferred tax item to be capitalized can be offset against future taxable profits. In order to assess the probability of the future utilization of deferred tax assets, various factors have to be taken into account, such as the earnings situation in the past and operational planning. If actual results differ from these estimates, or if these estimates have to be adjusted in future periods, this could have an adverse effect on the Group's net assets, financial position and results of operations. If there is a change in the assessment of the recoverability of deferred tax assets, the recognized deferred tax assets - corresponding to the original recognition - are to be written down through profit or loss or recognized in equity, or impaired deferred tax assets are to be recognized through profit or loss or in equity.

- Provisions for litigation risks

  Provisions are recognized for pending legal proceedings on the basis of current estimates. The outcome of the legal proceedings cannot be determined or is subject to uncertainties. In assessing the risks arising from litigation, management must make assumptions and estimates as to whether and to what extent provisions for litigation risks should be recognized. Actual claims arising from legal proceedings may therefore differ from the amounts accrued.

- Estimates in connection with liabilities from the SAR program

  In connection with the measurement of liabilities arising from the stock appreciation rights program, estimates are made to determine the fair value. The determination requires management to make assumptions regarding the valuation models used.

- Development costs

  At Biofrontera, research and development costs include expenses for clinical trials as well as for the granting, maintenance and extension of approvals. Both for the approved drug Ameluz® and for the other research and development projects, with the exception of the further development of the new BF-RhodoLED® XL red light lamp, research and development costs are recognized as expenses in the period in which they are incurred. In the opinion of management, the criteria prescribed by IAS 38.57 for the recognition of development costs as assets are not met due to the uncertainties associated with the development of new products by the Biofrontera Group until approval in the target markets has been obtained

and it is probable that future economic benefits will flow to the Company. The BF-RhodoLED® XL red light lamp is a further development of the existing lamp, from which Biofrontera expects a future economic benefit.

Estimates are based on experience and other assumptions that are believed to be reasonable under the circumstances. They are reviewed on an ongoing basis but may differ from actual values.

Changes in previous estimates due to the impact of the COVID 19 pandemic or the Ukraine war did not occur in fiscal year 2022.

The carrying amounts of the items affected by estimates can be found in the respective explanations of the items in the notes to the consolidated financial statements.

Tangible assets and leases

In accordance with IAS 16, property, plant and equipment are carried at historical cost less depreciation. Depreciation of property, plant and equipment is generally charged on a straight-line basis over the estimated useful lives of the assets (generally between three and thirteen years). The main useful lives are unchanged:

- IT equipment 3 years, linear
- Other equipment, furniture and fixtures 4 years, linear
- Office and laboratory equipment 10 years, linear
- Laboratory equipment 13 years, linear

Since January 1, 2018, low-value assets with acquisition costs between EUR 250 and EUR 1,000 are posted in the year of acquisition to a collective item for the respective year, which is fully depreciated over 5 years.

Biofrontera is a lessee mainly for buildings and motor vehicles used for operational and administrative purposes. The lease liability to be recognized is calculated as the present value of the highly probable payments to be made to the lessee. It is amortized using the effective interest method. The right-of-use asset to be recognized in return is measured at cost at the inception of the lease. In addition to the lease payments, any initial direct costs incurred by the lessee and dismantling costs are included in the calculation. Incentive payments granted by the lessor are to be deducted. The capitalized right-of-use asset must be depreciated on a straight-line basis and tested for impairment if there are indications of impairment.

The main useful lives of leases are determined by the term of the lease and are as follows:

- - Motor vehicles 3 years, straight-line
- - Buildings 6 years, straight-line

Future lease payments are to be discounted at the lessor's imputed interest rate or, if this is not available, at the marginal borrowing rate on the date of initial application.

For expenses from leases with a remaining term of no more than one year and from leases with a low value, Biofrontera has decided to make use of the simplification of IFRS 16.6 and to immediately recognize the monthly lease payments in profit or loss.

Biofrontera is a sublessor with regard to the subleasing of business premises. The subleases were classified as finance leases on the basis of the right of use from the main lease. Accordingly, rights of use from the main lease were derecognized, with simultaneous recognition of the net investment in the lease as a contractual asset.

Intangible assets

Acquired intangible assets consist of software and licenses as well as other rights (rights of use). They are recognized at acquisition or production cost less accumulated amortization. These intangible assets are capitalized and amortized on a straight-line basis over their estimated useful lives of between 4 and 12 years.

The principal useful lives for intangible assets are:

- - Software and licenses 3 years, straight-line

- - Rights of use 4 to 12 years, straight-line

Intangible assets under development relate to the further development of BF-RhodoLED®. Beyond this, no development costs are capitalized, as the requirements for the capitalization of internally generated intangible assets are not met.

There are no intangible assets with indefinite useful lives.

Borrowing costs are not recognized as part of the cost of the acquired assets, but as an expense in the period in which they are incurred because the Group does not have any significant qualifying assets as defined by IAS 23.5.

Associated companies

Associated companies as defined by IAS 28 are accounted for using the equity method.

An associated company is a company over which the Group can exercise influence, but not control, by participating in the financial and operating policies. Significant influence is presumed when the parent company holds 20% or more but less than 50% of the voting rights (Associated companies). Under the equity method, investments in associated companies are initially recognized in the consolidated statement of financial position at cost, adjusted for changes in the Group's share of profit or loss and other comprehensive income of the associate after the date of acquisition. At the balance sheet date, the Group's share of equity is translated into the reporting currency using historical exchange rates. The Group's share of profit or loss for the year plus intercompany eliminations and related deferred taxes is recognized in the income statement using the closing rate.

Impairment of assets

The Group reviews non-current tangible and intangible assets for impairment whenever there is an indication that the carrying amount of an asset may not be recoverable. The recoverable amount of an asset is the higher of its value in use and its fair value less costs to sell. The value in use is determined by the future cash flows expected to be generated by the asset. Biofrontera measures any impairment to be recognized at the amount by which the carrying amount of the asset exceeds its recoverable amount.

Financial assets

Financial assets are recognized if Biofrontera has a contractual right to receive cash or other financial assets from another party. Customary purchases and sales of financial assets are generally recognized on the settlement date. Financial assets are assigned to the "hold" category and measured at amortized cost. Non-interest-bearing or low-interest-bearing receivables are recognized at present value.

Impairment of financial assets

Biofrontera determines the credit risk of trade receivables as the probability-weighted amount of the expected shortfall in collections compared to the contractual payment claims. The basis for the estimation of expected credit losses is, in addition to individual factors, the general experience with the collection of receivables in the past. The Company adjusts the fixed allowance rates derived from these, which are based on the extent to which the receivables are past due, in the event of significant changes in economic conditions.

Trade receivables

Trade receivables are recognized at their nominal value. In the case of adjustments, these are booked directly against the receivable in question.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and checks, bank balances and cash deposits with a maturity of up to three months at the time of acquisition. They are measured at amortized cost.

Inventories

Raw materials and supplies as well as finished goods and work in progress are stated at the lower of cost and net realizable value. Borrowing costs are not capitalized. Cost is determined using the first-in, first-out (FIFO) method. An allowance is made for inventories at the balance sheet date if the net realizable value is lower than the carrying amount.

Financial liabilities

Financial liabilities include original liabilities. Original liabilities are recognized if there is a contractual obligation to transfer cash or other assets to another party. The initial recognition of a non-derivative financial liability is at fair value. In the subsequent measurement of financial liabilities measured at amortized cost, any discount between the amount received and the repayment amount is amortized over the term of the liability using the effective interest method.

Trade payables

Trade payables and other liabilities are recognized at their repayment amount. Due to their short-term nature, the carrying amount reported reflects the fair value.

Provisions

Provisions are recognized if an obligation to a third party resulting from a past event exists, and it is probable that an outflow of assets will be required to settle the obligation in the future, and a reliable estimate can be made of the amount of the obligation.

Stock options

Stock options (equity-settled share-based payment transactions) are recognized at fair value at the time of granting. The fair value of the obligation is recognized as personnel expense over the vesting period. If Biofrontera AG has the option to settle in cash or in shares when the option is exercised, the capital reserve is initially increased in accordance with IFRS 2.41 and IFRS 2.43. The expense is recognized over the vesting period. The fair value of cash-settled and equity-settled share-based payment transactions is generally determined using internationally accepted valuation techniques.

Stock Appreciation Rights

Obligations under Biofrontera's stock appreciation rights program are cash-settled share-based payments that are recognized at fair value. Changes in the fair value during the term are recognized in profit or loss. The fair value is determined using internationally recognized valuation techniques.

Income taxes

Biofrontera recognizes deferred taxes in accordance with IAS 12 for valuation differences between the IFRS carrying amounts and the tax base. Deferred tax liabilities are generally recognized for all taxable temporary differences.

The recognition of deferred tax assets is subject to more stringent requirements due to the loss history. Deferred tax assets are only recognized if there are substantial indications that taxable profits will be generated in the future and that the deferred tax item to be capitalized can then probably be offset against future taxable profits.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is not probable that sufficient taxable profit will be available against which the deferred tax asset can be at least partially utilized. Previously unrecognized deferred income tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable, from a current perspective, that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax liabilities and deferred tax assets are offset if a right of set-off exists and they are levied by the same taxation authority.

Current taxes are calculated on the basis of the Company's taxable income for the period. The tax rates of the respective company applicable on the balance sheet date are used as a basis.

Earnings per share

Earnings per share are calculated in accordance with IAS 33 ("earnings per share") by dividing net income by the weighted average number of shares outstanding during the year.

Revenue recognition

The Company recognizes as revenue all income from product sales and the granting of licenses. The completed customer contracts each comprise only one performance obligation. The Company is entitled to a fixed consideration for the products sold and licenses

granted. To the extent that return obligations for expired products have been agreed with customers, Biofrontera recognizes revenue only in the amount that is most likely to be recoverable, taking into account the proportion of the products that are expected to be returned. The timing and amount of revenue to be recognized in the consolidated income statement is determined by the extent to which Biofrontera transfers control of the products to be delivered or rights to be granted to the customers.

The majority of revenue is generated from product sales. In accordance with the respective local laws on the sale of pharmaceuticals and medical devices, Ameluz® is sold in Germany exclusively via pharmaceutical wholesalers or directly to hospitals, and in other European countries also directly to pharmacies or hospitals.

In the case of direct sales of BF-RhodoLED® , the deliveries and services owed are only provided after installation has taken place. The installation service represents a purely ancillary service because, for legal reasons, the lamp may only be used after it has been installed by the customer. This is a uniform performance obligation. In the United States, lamps are sometimes made available to physicians for a fee for an evaluation period of up to six months, and a final purchase decision does not have to be made until the end of this period. The Company generates revenue from monthly fees during the evaluation period and from the sale of lamps.

Belixos® is sold through Amazon and through pharmaceutical wholesalers. Revenue is recognized through Amazon upon delivery and payment by the customer and through pharmaceutical wholesalers upon delivery. Experience has shown that customers make only insignificant use of the rights of return granted on sales.

Sales are recognized net of sales-related taxes and sales deductions. For expected sales deductions, such as rebates and discounts, amounts estimated at the time of revenue recognition are taken into account accordingly. The payment terms include short-term payment terms with the possibility of cash discounts.

Cost of sales

Cost of sales includes cost of materials for products sold, payments to third parties for services directly attributable to the generation of sales or production of the products, as well as directly attributable personnel expenses and depreciation and amortization, and a proportion of overheads.

Research and development expenses

Pursuant to IAS 38, development costs are recognized as "intangible assets" under certain conditions. Research costs are expensed as incurred. Development costs are capitalized if the criteria of IAS 38.57 are met, depending on the potential outcome of the development activities.

Research and development costs for both the approved drug Ameluz® and the Company's other research and development projects are therefore recognized as expenses in the period in which they are incurred. The intangible assets under development relate to the further development of BF-RhodoLED® , as the recognition criteria of IAS 38.57 are fulfilled.

Notes to the consolidated balance sheet

1. Intangible and tangible assets

As in the previous year, no impairment losses were recognized on property, plant and equipment or intangible assets during the fiscal year 2022. Biofrontera uses external and internal sources of information to determine at each reporting date whether there are any indications of impairment or a reversal of impairment losses.

Property, plant and equipment and intangible assets break down as follows:

Statement of changes in non-current assets for 2022

in EUR thousands	Purchase and production cost						Accumulated depreciation					Carrying amounts	
	01.01. 2022	Currency translation	Additions	Disposals	Transfers	31.12.2022	01.01. 2022	Currency translation	Additions	Disposals	31.12.2022	31.12.2022	01.01. 2022
Tangible assets and leases													
Operating and business equipment	3,551	0	767	-639	0	3,680	-2,441	0	-188	633	-1,997	1,683	1,110
Right-of-use leasing properties	2,710	0	400	0	0	3,110	-1,728	0	-278	0	-2,005	1,105	982
Right-of-use leasing tangible assets	949	0	165	-159	0	954	-760	0	-130	159	-730	225	189
Tangible assets and leases	**7,210**	**0**	**1,332**	**-798**	**0**	**7,744**	**-4,928**	**0**	**-595**	**792**	**-4,732**	**3,012**	**2,281**
	0	0	0	0	0	0	0	0	0	0	0	0	0
Intangible assets	0	0	0	0	0	0	0	0	0	0	0	0	0
Software and licenses	260	0	24	-25	0	259	-203	0	-30	20	-212	46	57
Right-of-use assets	887	0	12	-163	0	736	-859	0	-12	163	-707	28	28
Self-generated intangible assets	1,073	0	178	0	0	1,250	-18	0	-109	0	-127	1,124	1,055
Intangible assets under development	0	0	0	0	0	0	0	0	0	0	0	0	0
Intangible assets	**2,219**	**0**	**214**	**-188**	**0**	**2,245**	**-1,079**	**0**	**-150**	**183**	**-1,047**	**1,198**	**1,139**
	0	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Total	**9,429**	**0**	**1,546**	**-986**	**0**	**9,989**	**-6,008**	**0**	**-746**	**975**	**-5,778**	**4,210**	**3,421**

Statement of changes in non-current assets for 2021

in EUR thousands	Purchase and production cost							Accumulated depreciation						Carrying amounts	
	01.01.2021	Currency translation	Additions	Change of consolidation group	Disposals	Transfers	31.12.2021	01.01.2021	Currency translation	Additions	Change of consolidation group	Disposals	31.12.2021	31.12.2021	01.01.2021
Tangible assets and leases															
Operating and business equipment	3,958	14	224	-544	-101	0	3,551	-2,574	-4	-281	320	98	-2,441	1,110	1,385
Right-of-use leasing properties	4,213	2	0	-1,115	-390	0	2,710	-1,227	0	-803	-89	390	-1,728	982	2,986
Right-of-use leasing tangible assets	1,778	1	175	-325	-681	0	949	-1,098	0	-389	46	681	-760	189	681
Tangible assets and leases	**9,949**	**17**	**399**	**-1,983**	**-1,172**	**0**	**7,210**	**-4,898**	**-4**	**-1,472**	**277**	**1,169**	**-4,928**	**2,281**	**5,051**
	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Intangible assets	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Software and licenses	227	0	55	-23	0	0	260	-201	-1	-25	23	0	-203	57	27
Right-of-use assets	22,336	1,073	19	-22,541	0	0	887	-5,590	-507	-1,775	7,013	0	-859	28	16,746
Self-generated intangible assets	0	0	0	0	0	1,073	1,073	0	0	-18	0	0	-18	1,055	916
Intangible assets under development	916	0	156	0	0	-1,073	0	0	0	0	0	0	0	0	0
Intangible assets	**23,480**	**1,073**	**230**	**-22,564**	**0**	**0**	**2,219**	**-5,791**	**-508**	**-1,817**	**7,037**	**0**	**-1,079**	**1,139**	**17,689**
	0	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Financial assets	**0**	**0**	**53,154**	**0**	**0**	**0**	**53,154**	**0**	**0**	**0**	**0**	**0**	**0**	**53,154**	**0**
	0	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Total	**33,429**	**1,090**	**53,784**	**-24,548**	**-1,172**	**0**	**62,583**	**-10,689**	**-512**	**-3,290**	**7,314**	**1,169**	**-6,008**	**56,575**	**22,740**

2nd Financial assets accounted for using the equity method

Financial assets include the carrying amount of the investment in Biofrontera Inc. of EUR 8,982 thousand (previous year: EUR 53,154 thousand), which is included and measured in the consolidated financial statements using the equity method:

General information

	Capital share		Share of voting rights		Fair value of the investment when a quoted market price exists in TEUR	
	31.12.2022	31.12.2021	31.12.2022	31.12.2021	31.12.2022	31.12.2021
Biofrontera Inc., Woburn (USA)	29.96%	46.77%	29.96%	46.77%	6,854	53,154

The decrease in shares is due to dilution by further capital measures of the associated company.

Description of the type of activity of the associated company

Biofrontera Inc., based in Woburn, Massachusetts, USA, distributes Biofrontera's products in the USA as a license partner. For further details, please refer to our related party disclosures.

Financial information

The table below summarizes the financial information of Biofrontera Inc. as presented in its own financial statements (values do not relate to the shares attributable to Biofrontera AG, but represent the values based on a notional shareholding of 100%):

in TEUR	31.12.2022	31.12.2021
Current assets	40,446	43,522
thereof cash and cash equivalents	16,134	23,012
Noncurrent assets	7,260	6,374
Current liabilities	19,589	12,972
Noncurrent liabilities	5,730	26,294
	0	0
Revenues	26,884	22,595
Operating Result	(17,421)	(23,627)
Other Income	16,851	11,678
Result after tax	(600)	(35,358)

Reconciliation to the carrying amount included in the consolidated balance sheet

The carrying amount of the investment in Biofrontera Inc. developed as follows:

in EUR thousands	
Carrying amount as of December 31, 2021	**53,154**
Proportionate earnings after taxes 2022	-1,604
Impairment	-42,568
Carrying amount as of December 31, 2022	**8,982**

Obligations to the associated company

The Group has obligations to Biofrontera Inc. in the amount of EUR 11 thousand resulting from services rendered under service agreements. Furthermore, future obligations to Biofrontera Inc. in the amount of EUR 5,284 thousand in connection with the settlement payments arising from the legal dispute with DUSA Pharamaceuticals Inc. are included in liabilities.

1. Inventories

in EUR thousands	December 31, 2022	December 31, 2021
Raw materials	2,746	2,506
Unfinished goods	1,045	315
Finished goods and products	1,003	1,638
Prepayment on inventories	0	356
Total	**4,794**	**4,814**

In the reporting year, impairment losses of EUR 218 thousand (previous year: EUR 42 thousand) were recognized on finished goods.

The advance payments on inventories included in this item in the previous year were reclassified to other financial assets in the amount of EUR 687 thousand in the current financial year.

2. Trade receivables

Trade receivables mainly relate to the sale of Ameluz®, the PDT lamp BF- RhodoLED® and the medical cosmetic product Belixos®. It is expected that all trade receivables will be settled within twelve months of the balance sheet date.

As in the previous year, there were no overdue, unimpaired receivables as of the balance sheet date.

3. Other financial assets

Other financial assets mainly comprise security deposits, primarily for rented premises, credit cards and leased vehicles (EUR 27 thousand; previous year: EUR 23 thousand), as well as advance payments for services (EUR 816 thousand; previous year: EUR 19 thousand). As in the previous year, there was no impairment in the year under review.

4. Other assets

Other assets mainly comprise prepaid expenses (EUR 791 thousand; previous year: EUR 1,060 thousand) and VAT receivables of EUR 147 thousand (previous year: EUR 316 thousand). As in the previous year, no impairment losses were recognized in the reporting year.

5. Cash and cash equivalents

Cash and cash equivalents include cash on hand and checks, bank balances, and cash deposits with a maturity of up to three months at the time of acquisition totaling EUR 6,376 thousand (previous year: EUR 6,908 thousand).

6. Deferred income tax

Deferred tax assets amount to EUR 4,375 thousand (previous year: EUR 5,176 thousand) and relate exclusively to Biofrontera Pharma GmbH.

The reduction in deferred tax assets in the amount of EUR 800 thousand (previous year: EUR 2,349 thousand) results from the reduction in the usable tax loss carryforwards of Biofrontera Pharma GmbH, whereby the amount of the usable tax loss carryforwards was reduced to the expected utilization during the planning period. This also includes the subsequent correction in accordance with IAS 8 of the calculation error in the previous year in the amount of EUR 571 thousand; for further details, please refer to our disclosures on accounting policies.

The following table explains the deferred tax assets arising from tax loss carryforwards, as they have developed within the Group:

in EUR thousands	December 31, 2022		December 31, 2021	
	Loss carried forward	Deferred tax assets	Loss carried forward	Deferred tax assets
Corporation tax including Solidarity Surcharge	151,887	24,036	152,367	24,112
Business tax	133,709	11,700	134,909	11,805
Total		**35,736**		**35,917**

These loss carryforwards have an unlimited carryforward period under current German law.

in EUR thousands	December 31, 2022		December 31, 2021	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Loss carried forward	4,651		5,435	0
Non-current assets				
- Intangible assets	0	(276)	0	(259)
- Tangible assets	0	(327)	0	(288)
-Receivables and other assets	0	(25)	0	0
Current assets				
- Receivables and other assets	0	(8)	0	0
Non-current and current financial liabilities	0	0	0	0
Current liabilities				
- Liabilities and other	360	0	288	0
Total	5,011	(636)	5,723	(547)
Netting of deferred tax assets and liabilities	(636)	636	(547)	547
As recognized on balance sheet	**4,375**		**5,176**	**0**

Deferred taxes on loss carryforwards are capitalized to the extent that there are substantial indications that they can probably be offset against future profits or that they are offset by deferred tax liabilities to the same extent. Due to the lack of predictability of

future taxable profits, taking into account the loss history, the remaining deferred tax assets from loss carryforwards of EUR 31,085 thousand (previous year: EUR 30,428 thousand) have not been recognized in accordance with IAS 12.34.

The following is a reconciliation of the expected income tax expense to the income tax expense actually recognized, using the applicable income tax rate of 24.575% (previous year: 24.575%) of the parent company as the starting point.

in EUR thousands	December 31, 2022	December 31, 2021* adjusted
Consolidated loss before tax	(43,210)	35,685
Expected income tax reimbursement	**10,619**	**(8,770)**
Differences arising from different tax rates	0	260
Share of result of associated companies	(394)	0
Tax increases due to non-deductible expenses		
- from impairment of at-equity investments	(10,461)	0
- other non-deductible expenses	(117)	468
Changes in unrecognized deferred tax assets	0	0
- from active temporary differences	0	124
- from loss carryforwards	(617)	(6,541)
Tax-free income (deconsolidation result)	0	12,074
Other effects	13	(12)
Income taxes per statement of comprehensive income	**(957)**	**(2,396)**

* adjusted according to IAS 8

7. Equity

Share capital

The fully paid-in share capital of the parent company, Biofrontera AG, amounted to EUR 63,807,058.00 as of December 31, 2022. It consisted of 63,807,058 registered shares with a nominal value of EUR 1.00 each. On December 31, 2021, the share capital had amounted to EUR 56,717,385.00.

The shares of Biofrontera AG were listed on the Regulated Market of the Düsseldorf Stock Exchange in 2006. In August 2012, at the request of the Company, admission to trading on the Regulated Market of the Frankfurt Stock Exchange was also granted. The shares are also traded on the Xetra computer trading system and on all other German stock exchanges. On June 03, 2014, the shares were admitted to the Prime Standard of the Frankfurt Stock Exchange.

The listing on the NASDAQ Capital Market in the USA took place on February 14, 2018, where Biofrontera AG share certificates are traded as American Depositary Shares (ADS) under the ticker symbol BFRA. One ADS certifies the right to two ordinary shares of Biofrontera AG. Biofrontera delisted its ADSs from the Nasdaq Capital Market ("Nasdaq") effective at the beginning of March 2022, since when ADSs can be traded through a Level I program on the U.S. over-the-counter (OTC) market under the symbol BFAGY. One ADS represents the right to two ordinary shares of Biofrontera AG.

The share capital was held as follows on December 31, 2022:

	December 31, 2022	December 31, 2021
Maruho Co., Ltd., Osaka Japan		
The total share of voting rights is assigned to Maruho Co., Ltd, Osaka, through the company Maruho Deutschland GmbH, Düsseldorf, which is controlled by the former.	13,399,965	13,399,965
Wilhelm Konrad Thomas Zours		

The voting rights through the chain of subsidiaries listed below are attributed to Mr. Zours: • DELPHI Unternehmensberatung Aktiengesellschaft; • VV Beteiligungen Aktiengesellschaft • Deutsche Balaton Aktiengesellschaft; • Heidelberger Beteiligungsholding AG; • SPARTA AG; • Deutsche Balaton Biotech AG (*no longer included in the group of companies listed in 2021 - AEE Ahaus-Enscheder AG; MARNA Beteiligungen AG; Youbisheng Green Paper AG; Strawtec Group AG)	17,021,057	14,218,773
Biofrontera Inc., Woburn, USA	6,466,946	n.a.
Free float	26,919,090	26,327,221
Total	**63,807,058**	**56,717,385**

Only those shareholders are listed who are subject to reporting requirements under the German Securities Trading Act (WpHG) and the Securities and Exchange Commission (SEC) and have made a corresponding notification. This includes all shareholders who hold at least 3% of the outstanding shares or voting rights. The number of shares listed here refers to the last notification of the respective shareholders, since then they may have changed their holdings within the respective notification thresholds without informing the Company.

In the event of the Company achieving an annual surplus, the Management and Supervisory boards are authorized to transfer all or part of the annual surplus that remains, after deduction of the sums to be placed in the legal reserves and of a loss carried forward, to retained earnings. It is not permissible to transfer more than half of the annual surplus to retained earnings if, after such a transfer, the other retained earnings would exceed half of the share capital. The shareholders' share of profits is calculated based on the size of their holding of the share capital.

Authorized/conditional capital

The Company had no authorized capital as of the reporting date.

The conditional capital consisted of three share capital amounts.

The conditional increase in the share capital (Conditional Capital I) of EUR 6,434,646 was approved on August 28, 2015, of which is EUR 1,359,864 available as at December 31, 2022. Conditional Capital I serves to secure the granting of option rights and the agreement of option obligations in accordance with the bond terms and conditions.

The conditional increase in the share capital (Conditional Capital III) of EUR 542,400 was approved on February 28, 2015, of which is EUR 249,050 available as of December 31, 2022, and serves exclusively to fulfill option rights (2010 share option program) granted on July 1, 2015 on the basis of the annual general meeting ("AGM") of July 2, 2010.

The conditional increase in the share capital (Conditional Capital V) of EUR 1,814,984 approved on February 28, 2015. of which is EUR 1,554,984 available as at December 31, 2022 and serves exclusively to fulfill option rights (2015 share option program) granted until August 27, 2020 on the basis of the AGM on August 28, 2015.

Convertible bond 2017/2022

On December 23, 2016, the Executive Board of the Company resolved to issue a convertible bond, which was fully placed in the amount of EUR 5.0 million in January 2017. The individual bonds bear interest of 6% per annum on their nominal amount from February 1, 2017. Interest is payable semi-annually in arrears on January 1 of each year, for the first time on July 1, 2017. The fair value of the convertible bond was calculated in the initial valuation using an interest rate of 7.6%. The term of the convertible bond 2017/2022 starts on the date of its initial issue ("issue date") and ends on December 31, 2021 and is due for repayment on January 01, 2022.

As in the previous year, no bonds were converted into no-par shares in 2022. The convertible bond 2017/2022 was repaid on time and in full on January 03, 2022.

2015 stock option program

At the AGM on August 28, 2015, the Management Board and Supervisory Board proposed a new share option program for employees to the AGM, which approved the initiative. Accordingly, the Management Board or, to the extent that the beneficiaries are Management Board members, the Supervisory Board, are entitled until August 27, 2020 to issue up to 1,814,984 subscription rights to up to EUR 1,814,984 of the Company's ordinary registered shares, whose exercise is tied to certain targets.

The program has a total nominal value of EUR 1,814,984 and a term of five years from the issue date, in other words, until August 27, 2020. Eligibility for the 2015 share option program was granted to members of the Management Board and employees of the Company as well as to members of management bodies and employees of affiliates of Biofrontera AG. The granting of options is made without any payment being provided in return.

In accordance with the associated conditions, each subscription right that is granted entitles the beneficiary to acquire one new registered no par value unit share in the Company. The exercise price is equal to the arithmetical average (unweighted) of the closing prices on the Frankfurt Stock Exchange in floor trading and in Xetra trading for the Company's shares on the ten trading days prior to the issuing of the share. However, the minimum exercise price shall amount to the proportionate share of the Company's share capital allocated to each individual no par value unit share, pursuant to Section 9 (1) of the German Stock Corporation Act (AktG).

The options granted can only be exercised after expiry of a vesting period. The vesting period is four years from the respective date of issue. A prerequisite for the whole or partial exercising of the options is that the following performance target is achieved:

Exercising the options from a tranche is possible, if at the beginning of the respective exercise period, the price (hereinafter referred to as the "reference price") of a share in Biofrontera Aktiengesellschaft exceeds the exercise price by at least 20%, and a minimum reference price of EUR 5.00 is reached (hereinafter referred to as the "minimum reference price"). The reference price is equal to the arithmetical average (unweighted) of the closing prices on the Frankfurt Stock Exchange in floor trading and Xetra trading for the Company's shares between the 15th and the 5th stock market day (in each case inclusive) before the start of the respective exercise window. The minimum reference price is adjusted in the following cases to align the specified performance target with changed circumstances:

- In the event of a capital increase from company funds being implemented by issuing shares, the minimum reference price is reduced by the same ratio as new shares issued compared to existing shares. If the capital increase is implemented from company funds without issuing new shares (Section 207 (2) Clause 2 of the German Stock Corporation Act [AktG]), the minimum reference price is not changed.

- In the case of a capital reduction, no adjustment of the minimum reference price is implemented, provided that the total number of shares is not changed by the capital reduction, or if the capital reduction is connected to a capital repayment or purchase of treasury shares. In the case of a capital reduction performed by consolidating shares without capital repayment and in the case of increasing the number of shares with no associated change in capital (share split), the minimum reference rate increases in line with the capital reduction or share split.

Other adjustments to the minimum reference price are not implemented.

The exercising of options is limited to the following time periods (hereinafter "exercise windows"), in other words, only declarations of exercising of rights submitted to the Company within an exercise window will be considered:

a) on the 6th and subsequent 20 banking days after the date of the AGM (exclusive),
b) on the 6th and subsequent 20 banking days after the date of submission of the semi-annual or quarterly report or an interim statement by Biofrontera AG (exclusive)
c) in the period between the 15th and 5th banking day prior to the expiration of the option rights of the respective expiration day (exclusively).

After the vesting period, the options can be exercised up until the expiry of six years from the date of issue (exclusive). For the valuation of the employee share options, we have assumed an average holding period of 5 years.

Any claim by the beneficiaries to receive a cash settlement in the event of non-exercise of the options is invalid even in the event of the existence of the above exercise prerequisites. An option may only be exercised if the holder has a current service or

employment contract with the Company or another Company affiliated with the Company or if the holder is a member of the Management Board or the management team of another company affiliated with the Company.

In the event of the exercising of a subscription right, the Company is generally and in specific cases permitted to choose between granting the registered share in exchange for payment of the exercise price, or fulfilling its debt by paying a cash settlement to the holder of the subscription right. The cash settlement per subscription right is equal to the difference between the exercise price per share and the share price on the exercise date, minus due taxes and fees.

As this stock option scheme entails share-based payment transactions in which the terms of the arrangement provide the Company with a choice of settlement, the Company has decided, in accordance with IFRS 2.41 and IFRS 2.43, to recognize the transactions pursuant to the provisions for equity-settled share-based payments (IFRS 2.10-29).

	Tranche 1	Tranche 2	Tranche 3	Tranche 4	Tranche 5	Tranche 6
Number of options issued	425,000	130,500	329,000	300,500	180,000	333,485
End of vesting period	18.04.2016	01.12.2016	28.04.2017	28.11.2017	07.05.2022	14.05.2019
Exercise price	2.49 EUR	3.28 EUR	4.02 EUR	3.33 EUR	5.73 EUR	6.710 EUR
Adjusted exercise price March 2018	2.25 EUR	3.04 EUR	3.78 EUR	3.09 EUR	0	0
End of vesting period	18.04.2020	01.12.2020	28.04.2021	28.11.2021	07.05.2022	14.05.2023
End of exercise window	18.04.2022	01.12.2022	28.04.2023	28.11.2023	07.05.2024	14.05.2025
Fair value per option	1.00 EUR	1.30 EUR	1.56 EUR	1.48 EUR	2.35 EUR	2.55 EUR
Share price volatility	50.59%	49.00%	47.00%	46.00%	47.00%	47.30%
Dividend yield	0%	0%	0%	0%	0%	0%
Share price yield	2.31%	7.00%	7.50%	7.60%	7.60%	7.60%
Risk-based interest rate	5.92%	13.26%	13.94%	14.05%	14.03%	13.35%
Fluctuation rate	12%	12%	12%	12%	9%	9%

The fair value of a stock option under this option program is determined on the basis of a Monte Carlo risk simulation. The pro rata amounts are recognized ratably over the vesting period as personnel expenses and an increase in the capital reserves.

2015 stock option program	December 31, 2022	December 31, 2021
Outstanding at the beginning of the period	693,990	1,021,485
Granted during the period	0	0
Forfeited during the period	231,000	327,495
Exercised during the period	0	0
Expired during the period	124,500	0
Outstanding at the end of the period	338,490	693,990
Exercisable at the end of the period	0	0
Range of exercise prices for outstanding options	2,25-6,710 EUR	2,25-6,710 EUR
Weighted average of remaining contractual life	35 months	44 months
Cost during the period	50 TEUR	142 TEUR

Due to the non-fulfillment of the exercise conditions, no options were exercisable as of December 31, 2022.

Capital reserves

The capital reserves shown on the balance sheet comprise the capital reserve, the reserves from currency translation, the loss carried forward and the result of the period. The consolidated statement of changes in equity provides further information about the development of equity.

In accordance with IAS 32.37, equity procurement costs in connection with capital increases are deducted from the capital reserve in an amount of EUR 64 thousand (previous year: EUR 2,000 thousand) for the year ended December 31, 2022.

Capital management

The Group's equity calculated in accordance with IFRS is managed as capital. The Company's capital management regularly reviews the Group's equity and liquidity position. The objective is to provide adequate financing in line with capital market expectations and to ensure creditworthiness in relation to national and international business partners in order to secure the Group's business operations for at least 12 months. The Company's Management Board ensures that sufficient capital is available to all Group companies in the form of equity and debt, with the aim of achieving Group equity of at least 20% of total assets.

The development of the liquidity of the Group and of Biofrontera AG is used as an important key figure and control parameter. This is monitored on a daily basis and reported to the company's Management Board. In addition, the liquidity status is reviewed in regular target/actual variance analyses and communicated to the Management Board.

The Group's equity calculated in accordance with IFRS is managed as capital. The Company's capital management regularly reviews the Group's equity and liquidity position. The objective is to provide adequate financing in line with capital market expectations and to ensure creditworthiness in relation to national and international business partners in order to secure the Group's business operations for at least 12 months. The Company's Management Board ensures that sufficient capital is available to all Group companies in the form of equity and debt, with the aim of achieving Group equity of at least 20% of total assets.

The development of the liquidity of the Group and of Biofrontera AG is used as an important key figure and control parameter. This is monitored on a daily basis and reported to the company's Management Board. In addition, the liquidity status is reviewed in regular target/actual variance analyses and communicated to the Management Board.

8. Financial liabilities

The repayment of the convertible bond 2017/2022 in the amount of EUR 2,031 thousand was made on schedule by January 03, 2022; the repayment amount was included in current financial debt in the previous year.

in EUR thousands	December 31, 2022	December 31, 2021
Non-current financial liabilities		
Leasing liabilities	1,055	851
Total non-current financial liabilities	**1,055**	**851**
Current financial liabilities		
Leasing liabilities	446	357
Other current liabilities	0	2,092
Total current financial liabilities	**446**	**2,449**

in EUR thousands	December 31, 2022					
	2023	2024	2025	2026	2027	Total
Leasing liabilities						
Principal repayment	446	408	374	273	0	1,501
Interest payment	10	6	3	1	0	20

in EUR thousands	December 31, 2021					
	2022	2023	2024	2025	2026	Total
Convertible bon 2017/2022:						
Principal repayment	2,031	0	0	0	0	2,031
Interest payment	61	0	0	0	0	61
Leasing liabilities						
Principal repayment	358	324	296	221	9	1,208
Interest payment	17	11	6	1	0	35

Leasing liabilities

The carrying amount of current and non-current lease liabilities is EUR 1,501 thousand (previous year: EUR 1,208 thousand). Future lease payments are discounted at the lessor's imputed interest rate or, if this is not available, at the marginal borrowing rate.

For further details, please refer to the section on significant accounting policies.

Development of lease liabilities:

Lease liabilities in EUR thousands	as of 01.01.2022	Additions	Additions Revaluation	Disposals	Principal paymnets	as of 31.12.2022	Leasing payments	Interest expense
Buildings	1016	274	291	0	-307	1	308	11
Cars	130	165	0	0	-117	0	4	121
Others	62	0	0	0	-13	0	14	1
Total	**1208**	**439**	**291**	**0**	**-437**	**2**	**325**	**132**

9. Other financial liabilities

in EUR thousands	December 31, 2022	December 31, 2021
Non-current other financial liabilities		
Liability	0	384
from SAR program	**0**	**384**
Current financial liabilities	**26**	**14**

Trade accounts payable amount to EUR 1,984 thousand as of December 31, 2022 (previous year: EUR 2,735 thousand).

10. Trade payables

As of December 31, 2022, trade payables amount to EUR 1,984 thousand (previous year: EUR 2,735 thousand).

11. Income taxes

Income tax liabilities of EUR 156 thousand (previous year: EUR 0 thousand) relate to corporate income tax liabilities (EUR 83 thousand) and business tax liabilities (EUR 73 thousand) at Biofrontera Pharma GmbH.

12. Other provisions

The development of other provisions of the Biofrontera Group is as follows:

in EUR thousands	December 31, 2021	Utilized	Released	Added	Reclassified	December 31, 2022
Outstanding invoices	510	(868)	(21)	1,566	(1,187)	0
Auditing costs	384	(378)	(6)	215	(215)	0
Provisions for litigation costs	0	0	0	518	0	518
Other provisions	119	(58)	(35)	59	0	85
Total	**1,012**	**(1,304)**	**(61)**	**2,358**	**(1,402)**	**603**

Other provisions relate to various identifiable individual risks and uncertain obligations. The provisions classified as current are expected to result in an outflow of economic benefits within the subsequent financial year.

The obligations for outstanding invoices (EUR 1,187 thousand) and for closing and audit costs (EUR 215 thousand) were reclassified to other liabilities in the financial year 2022.

The companies included in the consolidated financial statements of Biofrontera AG face pending legal proceedings at the time of reporting, the outcome of which either cannot be determined or cannot be predicted due to the uncertainty associated with such legal proceedings. For passive lawsuits, provisions for litigation costs have been recognized in the amount of the expected payments; for active lawsuits, provisions have solely been recognized in the amount of the legal services rendered to date. For further details, please refer to our disclosures on litigation in the Group management report.

13. Other current liabilities

in EUR thousands	December 31, 2022	December 31, 2021
Liabilities from SAR program	304	0
Total other non-current liabilities	**304**	**0**
Accrual for employee bonuses	563	706
Accrual for outstanding vacation	117	112
Accrual for settlement payment	0	4,970
Payroll tax	101	98
Accruals for outstanding invoices	1,187	0
Accruals for financial statement and audit costs	215	0
Other accruals	335	91
Total other current liabilities	**2,518**	**5,977**

Employees entitled to receive stock options whose vesting period has not yet expired are entitled to a severance payment in the event that an affiliated company leaves the Group in accordance with §10 of the option conditions for employee stock options. A liability of EUR 15 thousand (previous year: EUR 33 thousand) is therefore included under other accruals for the settlement of employees of Biofrontera Inc. entitled to receive stock options.

The obligations under the DUSA settlement were reclassified to liabilities to associated companies in the financial year 2022.

Stock Appreciation Rights Program 2019

In April 2019, the Executive Board, with the approval of the Supervisory Board, established a stock appreciation rights plan under which the Company grants virtual options ("stock appreciation rights" or "SARs") entitling the "beneficiary" to receive cash payments in accordance with the specific terms of the SAR plan. However, SARs do not confer any right to subscribe to shares of the Company. SARs may be issued to members of the Management Board of the Company, to members of the management of affiliated companies as well as to employees of the Company and affiliated companies (hereinafter collectively referred to as "beneficiaries"). The exact number of beneficiaries and the number of SARs to be granted to them are determined by the Company's Management Board. To the extent that members of the Management Board are to receive SARs, the Supervisory Board alone is responsible for determining and deciding on the issue of the SARs. In accordance with the SAR Plan, a maximum of 4,000,000 SARs may be issued until March 31, 2024, of which a maximum of 1,600,000 SARs may be granted to members of the Management Board and a maximum of 2,400,000 SARs to other beneficiaries. The SAR Plan sets the dates for the payment of cash in connection with the SARs, unless there are legally binding regulations that conflict with the payout for the beneficiary. In addition, the eligible party must meet certain conditions for the grant of SARs and must enter into a written contract ("SAR Agreement") with the Company prior to exercise and delivery. Finally, SARs are subject to regulations on vesting periods, expiry and forfeiture. In particular, the SARs may be exercised for the first time after a "vesting period" has expired:

d) The vesting period for 15 % of the SARs granted on an issue date is one year after the issue date;
e) The vesting period for an additional 25% of the SARs granted on an issue date is two years after the issue date;
f) The vesting period for an additional 25% of the SARs granted on an issue date is three years after the issue date;
g) The vesting period for the remaining 35% of the SARs granted at an issue date is four years after the issue date.

After expiry of the respective vesting period, SARs may be exercised until six years after the respective issue date, unless mandatory legal provisions stipulate otherwise in individual cases. If the SARs have not been exercised by that date, they expire without replacement. The beneficiary has no claim to payment if the SARs are not exercised on time and no further compensation will be granted.

SARs may only be exercised as long as their holder is in an ongoing employment or service relationship with the Company or with an affiliated company or as a member of the Company's Management Board.

SARs may only be exercised if the reference price at the beginning of the respective exercise window exceeds the issue price by at least 20%. Furthermore, the reference price must be at least as high as the MSCI World Health Care Index TR or a comparable successor index in the time between the last trading day before the issue date and the 5th trading day before the beginning of the respective exercise window.

Upon effective exercise of the SARs, the Company is obligated, subject to certain adjustments, to make a payment (gross) for each SAR exercised as follows: reference rate - base amount = payout amount per SAR (gross).

SAR program 2019	December 31, 2022	December 31, 2021
Outstanding at the beginning of the period	569,205	727,750
Granted during the period	0	429,529
Forfeited during the period	227,701	588,074
Exercised during the period	0	0
Outstanding at the end of the period	341,504	569,205
Exercisable at the end of the period	0	0
Fair value at the end of the period	80 TEUR	102 TEUR
Cost during the period	-22 TEUR	-81 TEUR

The fair value of a stock option under this option program is determined on the basis of a Monte Carlo risk simulation. The pro rata temporis amounts are recognized ratably as personnel expense over the vesting period until the end of the blocking period and are reported under other liabilities (previous year: other financial liabilities).

In the event of an affiliated company leaving the Group, the SAR beneficiaries are entitled to a compensation payment in accordance with §10 of the SAR terms and conditions for the SARs whose vesting period has not yet expired. A liability from SARs of EUR 224 thousand (previous year: EUR 282 thousand) exists for the settlement of employees of Biofrontera Inc. who are eligible for compensation.

14. Reporting on financial instruments

The following tables present the carrying amounts and fair values of the individual financial assets and liabilities for each category of financial instrument in accordance with IFRS 9:

Financial assets

in EUR thousands	Valuation category according to IFRS 9	Fair value as of December 31, 2022	Carrying amount as of December 31, 2022	Fair value as of December 31, 2021	Carrying amount as of December 31, 2021	Hierarchy level
Cash and cash equivalents	AC	6,376	6,376	6,908	6,908	1
Trade receivables	AC	2,035	2,035	1,206	1,206	2
Other financial asstes	AC	878	878	57	57	2
Total		**9,289**	**9,289**	**8,171**	**8,171**	

	Valuation category	Fair value as of	Carrying amount as of	Fair value as of	Carrying amount as of	Hierarchy level
	according to IFRS 9	December 31, 2022	December 31, 2022	December 31, 2021	December 31, 2021	December 31, 2022
Financial liabilities, current	AC	446	446	2,449	2,449	2
Trade payables	AC	1,984	1,984	2,735	2,735	2
Liabilities to associated companies current	AC					
Other financial liabilities	AC	26	26	14	14	2
Financial liabilities, non-current	AC	1,055	1,055	851	851	2
Liabilities to associated companies non-current	AC					2
Total		**8,807**	**8,807**	**11,328**	**11,328**	

Based on the input factors used at the valuation methods fair values are divided into different steps of the fair value hierarchy:

Level 1: Fair value valuations using prices listed on active markets (not adjusted) for identical assets or liabilities.

Level 2: Fair value valuations using inputs for the asset or liability that are either directly observable (as prices) or indirectly observable (derived from prices), but which do not constitute listed prices pursuant to Level 1.

Level 3: Fair value valuations using inputs for the asset or liability that are not based on observable market data (unobservable input data).

No reclassifications were made between the individual levels of the fair value hierarchy during the 2021 financial year. For further details, please refer to the disclosures in the general accounting policies and the notes to the statement of financial position and statement of comprehensive income (Notes 10 and 11).

Expenses, income, losses and gains/losses from financial instruments:

in EUR thousands	Assets AC	Liabilities AC	Total
Income from currency translation	22	187	209
Expenses from currency translation	-186	-397	-582
Total	**-164**	**-209**	**-373**

Net gains and losses generally include currency translation effects as well as impairment losses and reversals. Fair value changes of liabilities measured at fair value are included in interest expense. Interest income and other interest expense are not included in net income.

Principles of risk management

In the ordinary course of business, the Group is exposed to risks that may have an impact on its net assets, financial position and results of operations. The company's risks from financial instruments result primarily from foreign currency-related market price risks. In contrast, credit and default risk is of minor importance.

In general, Biofrontera's market risk consists primarily of foreign currency risk.

- Foreign currency risk: The Biofrontera Group was exposed to foreign currency risks as of the balance sheet date. Risks with regard to the valuation of trade receivables are of minor importance, as the company mainly invoices in Euro.

However, due to the fact that sales with license partners are tied to the prices achievable in the respective market, there is a foreign currency-related market price risk with regard to the Company's sales valued in Euro, primarily for the U.S. market due to the expansion of business in the United States. Trade payables denominated in foreign currencies in these markets have a corresponding offsetting effect. There is also a foreign currency risk in Switzerland, particularly with regard to the production of wages and salaries and due to the fact that the sales of the license partner are tied to the local currency. In addition, there is a foreign currency risk in the United Kingdom for the sales organization based there.

Exchange rate related change in profit 2022

in EUR thousands	USD EUR +10%	CHF EUR +10%	GBP EUR +10%
Profit	-2,264	187	-4

in EUR thousands	USD EUR -10%	CHF EUR -10%	GBP EUR -10%
Profit	2,767	-228	5

- The Company does not enter into any specific currency hedging transactions. Exchange rate fluctuations are recognized in profit or loss.

Credit risk: The Group is exposed to credit risk if counterparties are unable to meet their obligations within the customary payment periods. The maximum default risk is represented in the balance sheet by the carrying amount of the respective financial asset. The development of the receivables portfolio is monitored in order to identify potential default risks at an early stage and to initiate appropriate measures. Biofrontera's financial instruments have a low default risk.

Individual valuation allowances on trade receivables were not recognized in fiscal year 2021 (previous year: EUR 0 thousand). Similarly, due to the very low default rate in the past and the lack of overdue receivables, it was not necessary to recognize portfolio-based allowances. Cash and cash equivalents are invested with banks and insurance companies with adequate deposit protection. All financial assets are due in the short term. As in the previous year, there are no material overdue financial assets.

Liquidity risk refers to the inability to meet existing or future payment obligations as they become due. To ensure the ability to pay at all times and to avoid financial shortages, Biofrontera has established a central cash management system that monitors liquidity requirements in the short, medium and long term. Refinancing for all Group companies is mainly provided by Biofrontera AG.

Liquidity is monitored and managed on the basis of short- and long-term corporate planning. Liquidity risks are identified at an early stage by simulating various scenarios. Current cash and cash equivalents are recorded and monitored on a daily basis.

For information on the (undiscounted) payments from financial debt due in the next few years and other financial liabilities, please refer to the corresponding notes on this balance sheet item. All other financial liabilities are current and are expected to be settled within one year.

Maturity analysis of financial instruments

in EUR thousand	Carrying amount	Maturity				
	31.12.2022	2023	2024	2025	2026	2027
Financial liabilities current	446	446	0	0	0	0
Trade payables	1,984	1,984	0	0	0	0
Liabilities to associated companies current	2,653	2,653	0	0	0	0
Other financial liabilities current	26	26	0	0	0	0
Financial liabilities non-current	1,055	0	408	374	273	0
Liabilities to associated companies non-current	2,642	0	2,642	0	0	0
Total	**8,807**	**5,109**	**3,050**	**374**	**273**	**0**

Notes to the consolidated statement of comprehensive income

15. Sales revenue

	01.01.-31.12.2022			01.01.-31.12.2021		
in EUR thousands	Product revenues	Service revenues	Licensing revenues	Product revenue	Development revenues	Licensing revenues
Germany	4,763	-	-	5,263	-	-
Europe	2,418	-	1,079	1,954	-	1,365
U.S.	-	648	16,487	20,204	-	-
Other regions	-	-	342	-	-	-
Total	**7,181**	**648**	**17,908**	**27,421**	**-**	**1,365**

In the 2022 financial year, license revenues of EUR 16,487 thousand with the former subsidiary Biofrontera Inc., USA, were recognized for the first time; in the previous year, however, the US market sales of Biofrontera Inc. in the amount of EUR 20,204 thousand were still included in product sales. Sales with Biofrontera Inc. account for 67% of the Group's total sales.

In the current fiscal year, no license revenues were received from down payments of license agreements (previous year: EUR 50 thousand).

Provisions for manufacturer rebates amount to 0.17% of total sales in fiscal 2022 (previous year: 0.09%), while provisions for return obligations amount to 0.21% of total sales (previous year: 0.30%).

16. Cost of sales, gross profit

The cost of materials included in the cost of sales amounted to EUR 3,069 thousand in fiscal year (previous year: EUR 2,942 thousand).

The gross profit decreased by EUR 3,892 thousand in the reporting year 2022 to EUR 20,981 thousand compared to EUR 24,873 thousand in the prior-year period.

17. Research and development costs

Research and development costs amounted to EUR 7,128 thousand (previous year: EUR 7,009 thousand). They include costs for clinical trials, but also regulatory expenses, i.e., for the granting, maintenance, and extension of our marketing authorizations. The increase in research and development costs is mainly due to increasing activities in our clinical trials.

18. General administrative costs

General and administrative expenses amounted to EUR 5,906 thousand (previous year: EUR 30,781 thousand) in fiscal year 2022 and thus decreased by a total of EUR 24,875 thousand compared to the previous year. The main reason for this was the cost of the settlement payment to DUSA Pharmaceuticals Inc. that was included in the previous year in the amount of EUR 19,457 thousand (USD 22.5 million) as well as the cost share attributable to the former subsidiary Biofrontera Inc. which left the scope of consolidation

19. Sales and marketing costs

Sales and marketing costs amounted to EUR 6,357 thousand(previous year: EUR 22,423 thousand) in fiscal year 2022. Sales costs include the costs of our own sales force in Germany, Spain, and the United Kingdom, as well as marketing expenses.

20. Interest expenses and income

Interest expense of EUR 163 thousand (previous year: EUR 3,720 thousand) mainly results from interest on arrears in connection with the DUSA settlement payments of EUR 101 thousand (previous year: EUR 0 thousand), interest to be recognized for leases in accordance with IFRS 16 of EUR 15 thousand (previous year: EUR 23 thousand), and interest on a short-term bond issued and repaid in fiscal year 2022 of EUR 34 thousand (previous year: EUR 0 thousand).

Interest income amounts to EUR 1 thousand (previous year: EUR 13 thousand) and results mainly interest income under finance lease agreements amounting to EUR 1 thousand (previous year: EUR 13 thousand).

21. Result from investments

In addition to the update of the carrying amount of the investment in Biofrontera Inc. in the amount of EUR -1,604 thousand, income from investments also includes an impairment loss of EUR 42,568 thousand on the carrying amount of the investment.

22. Other expenses and income

Other expenses and income totaled to a loss of EUR 467 thousand in the reporting period (previous year: profit of EUR 60,001 thousand) and mainly include expenses and income from currency translation amounting to a loss of EUR 677 thousand (previous year: profit of EUR 155 thousand) as well as other income from the recognition of non-cash benefits and the recharging of costs in the amount of 204 TEUR (previous year: 168 TEUR). In the previous year the deconsolidation gain of EUR 59,180 thousand from the withdrawal of Biofrontera Inc. from the Biofrontera Group was reflected here.

23. Income tax

in EUR thousands	December 31, 2022	December 31, 2021*
Deferred taxes	(800)	(2,349)
Actual income taxes	(156)	(47)
Total income taxes	**(956)**	**(2,397)**

* adjusted according to IAS 8 (see Notes)

The deferred tax expense of EUR 800 thousand (previous year: EUR 2,349 thousand) results from the reduction of the tax loss carryforwards of Biofrontera Pharma GmbH; the amount of the tax loss carryforwards was reduced to the expected utilization during the planning period. As in the previous year, there were no tax effects from entries in other comprehensive income after taxes (OCI).

24. Earnings per share (EPS)

Earnings per share are calculated on the basis of the net loss for the year of the Biofrontera Group and the average ordinary shares in circulation in the financial year, in accordance with IAS 33.

	December 31, 2022	December 31, 2021*
Number of weighted ordinary shares in circulation (on average)	57,474,912	55,390,336
Result attributable to owners of the parent in EUR	(44,166,205)	37,746,813
Basic earnings per share in EUR	**(0.77)**	0.68
Number of weighted ordinary shares in circulation (on average)	57,474,912	56,717,385
Result attributable to owners of the parent in EUR	(44,166,205)	37,746,813
Diluted earnings per share in EUR	**(0.77)**	**0.67**

25. Additional information to the consolidated statement of comprehensive income

Other comprehensive income after tax only includes exchange differences from the conversion of foreign currency from our foreign operations into the Group currency.

Depreciation and amortization expense

The amortization of intangible assets and depreciation of tangible assets are included in the following items of the statement of comprehensive income:

in EUR thousands	December 31, 2022	December 31, 2021
Research and development costs	158	56
General administrative costs	433	1,298
Cost of sales	129	133
Sales and marketing	25	1,803
Depreciation and amortization expense	**745**	**3,290**

Personnel costs

in EUR thousands	December 31, 2022	December 31, 2021
Wages and salaries	6,904	16,925
Social security charges	1,123	2,527
Cost for pension schemes	94	263
Total	**8,121**	**19,715**

26. Staff

In 2022 the Biofrontera Group had an average of 100 salaried employees (previous year: 163).

As of December 31, 2022, 110 (previous year: 99) employees were working in the Biofrontera Group and were distributed as follows:

	December 31, 2022	December 31, 2021
Total number of employees	110	99

Full-time	81	76
With academic degree	29	24
By business segments	110	99
Production	12	15
Research and development	9	5
Clinical and regulatory tasks	24	15
Marketing and sales	33	29
Quality management	7	7
Management, business development, finance, HR and administration	25	28
By countries	110	99
Germany	98	88
Spain	9	8
United Kingdom	3	3

Notes to the consolidated cash flow statement

27. Composition and change

The cash flow statement is presented in accordance with IAS 7. The net result is adjusted for the effects of non-cash transactions, accruals or deferrals of past or future operating cash receipts or payments, and items of income and expense attributable to investing or financing activities.

In the consolidated statement of cash flows, cash and cash equivalents include cash on hand and checks as well as bank balances and cash deposits with a maturity of up to three months. Current account liabilities are included in cash and cash equivalents where appropriate.

The change in cash and cash equivalents in the fiscal year amounted to EUR -532 thousand (previous year: EUR -9,638 thousand).

Interest paid amounted to EUR 198 thousand (previous year: EUR 4,861 thousand). Interest payments received amounted to EUR 13 thousand (previous year: EUR 26 thousand).

in EUR thousands	January 1, 2022	Cash effective	Addition/ retirement	Fair value change	December 31, 2022
Convertible bond 2017/2022	2,031	(2,031)	-	-	-
Interest convertible Bond 2017/2022, Convertible Bond 2017/22	61	(61)	-	-	-
Leasing liabilities	1,208	(437)	730	-	1,501
Total financial liabilities	**3,300**	**(2,529)**	**730**	**-**	**1,501**

in EUR thousands	January 1, 2021	Cash effective	Addition/ retirement	Fair value change	December 31, 2021
Convertible bond 2017/2022	2,003	-	28	-	2,031
EIB loan 2017	12,484	(13,596)	1,107	5	-
EIB loan 2019	5,591	(6,143)	536	16	-
Interest convertible Bond 2017/2022, Convertible Bond 2017/22	61	(122)	122	-	61
Interest EIB loan 2017	(8)	(315)	323	-	0
Interest EIB loan 2019	28	(190)	162	-	-
Leasing liabilities	3,715	(624)	(1,883)	-	1,208
Total financial liabilities	**23,874**	**(20,990)**	**395**	**21**	**3,300**

Other explanatory notes

28. Members of the Management Board

The Executive Board in 2022 consisted of Ms. Pilar de la Huerta Martínez (Chief Financial Officer, since September 12, 2022), Mr. Paul Böckmann (from June 09, 2022 to September 30, 2022) and Mr. Ludwig Lutter (Chief Financial Officer, until August 13, 2022).

Management Board compensation

in EUR thousands	December 31, 2022	December 31, 2021
Short-term benefits	542	1,179
Performance-based compensation	-	110
Total compensation	**542**	**1,289**

Further information on individualized compensation of the Management Board can be found in the "Compensation Report" in the Management Report.

The Management Board members held the following supervisory board positions and positions on comparable domestic and foreign boards during the reporting period:

Name	Company	Board	Position
Pilar de la Huerta Martínez	4BaseBio Ltd, UK	Supervisory Board	Member
	Vaxdyn, S.L., Spain	Supervisory Board	Member
	Epidisease S.L., Spain	Supervisory Board	Member
	Atlas S.L:, Spain	Supervisory Board	Member

29. Members of the Supervisory Board

Name	Nationality	Age	Position	Date of first appointment	Term until
Wilhelm K.T. Zours	German	61	Chair	December 14, 2021	2026
CV	Mr. Zours is shareholder and managing director of DELPHI Unternehmensberatung AG as well as chairman of the supervisory boards of Deutsche Balaton AG, Beta Systems Software AG, Strawtec Group AG and SPARTA AG. Since 1985, Mr. Zours has held various management and supervisory board mandates and founding participations in various companies, including Balaton Ungarn Beteiligungen AG, Sparta Beteiligungen AG and Elsö Nemet Ertekpapirkereskedelmi Kft (co-founder of the Budapest Stock Exchange in 1990).				
Dr. Jörgen Tielmann	German	53	Vice Chair	December 14, 2021	2026
CV	Dr. Jörgen Tielmann studied law at the Universities of Tübingen and Göttingen and received a Master of Laws from the University of Manchester. He has been advising companies and entrepreneurs on corporate law since his admission to the bar in Hamburg in 1998 and has been practicing this activity as a partner at Luther since 2006. Dr. Jörgen Tielmann was head of Luther's Stock Corporation, Banking and Capital Markets Law department from 2008 - 2018.				
Dr. Heikki Lanckriet	Belgian	45	Member	December 14, 2021	2026
CV	Dr. Lanckriet is Chairman of the Board and Chief Scientific Officer at 4basebio Plc and CEO & CSO of Expedeon Ltd. Earlier in his career, Dr. Lanckriet was Chief Executive Officer & Chief Scientific Officer at 2invest AG, Principal at Puratos NV and Principal at the University of Cambridge.Dr. Lanckriet holds a Bachelor's and Master's degree in Biochemical Engineering from Ghent University, Belgium and a PhD in Biochemical Engineering from Cambridge University, UK.				
Prof. Dr. Karin Lergenmüller	German	64	Member	August 25, 2022	2026
CV	Prof. Dr. Karin Lergenmüller is Professor of Marketing and General Business Administration at the Rhine-Main University of Applied Sciences, Wiesbaden since 1999. She worked for Deutsche Bank AG after holding positions in the management consulting industry, including at Andersen Consulting and Gemini Consulting. From 1996 to 1998 she was a member of the management of Joas & Comp., Bad Homburg. Since 2000 Prof. Dr. Karin Lergenmüller is Global Equity Investor, specialized in Digital World, Technology companies, NFT's and Crypto.				
Dr. Helge Lubenow	German	54	Member	December 14, 2021	2026
CV	Dr. Helge Lubenow studied biology and received her doctorate in genetics from the University of Cologne and the Max Planck Institute. Following her doctorate, Dr. Lubenow joined the diagnostics company Qiagen in 1997. In the course of her professional career at Qiagen, Dr. Lubenow held various management positions. From 2011 to 2015, Dr. Lubenow led the molecular diagnostics business as Senior Vice President. In 2016, Dr. Lubenow founded her own consulting company, AGOS Consulting. From 2018 to 2019, she was managing director of tesa Labtec GmbH. Since January 2020, Dr. Lubenow has been appointed Managing Director of Proteomedix AG, Zurich, Switzerland.				
Prof. Dr. Franca Ruhwedel	German	50	Member	July 10, 2019	February 22, 2022
CV	Franca Ruhwedel is Professor of Finance & Accounting at the Rhein-Waal University of Applied Sciences in Kamp-Lintfort. At the same time, she has many years of experience as a supervisory board member and member of audit committees. After a banking apprenticeship and studies in Münster, she completed her doctorate in Bochum and then worked in the Mergers & Acquisitions department of the thyssenkrupp Group. She has been a university professor since 2007; her research focuses on the capital market and corporate governance.				
Karlheinz Schmelig	German	57	Member	December 14, 2021	2026
CV	Karlheinz Schmelig is managing partner of Creathor Venture Management GmbH, where he has been responsible for investments in the life sciences sector since 2004. At the beginning of his career, Mr. Schmelig worked for Boehringer Mannheim and later for Roche Diagnostics in Germany and the USA. His responsibilities there included supply chain management, global marketing and business development. Mr. Schmelig holds a Bachelor's degree from the Baden-Wuerttemberg Cooperative State University Mannheim and an MBA from the Kelley School of Business, USA.				

Supervisory Board compensation

in EUR thousands	2022	2021
Wilhelm K.T. Zours	49	2
Dr. Heikki Lanckriet	26	3
Prof. Dr. Karin Lergenmüller	8	n.a.
Dr. Helge Lubenow	31	3
Prof. Dr. Franca Ruhwedel	5	3
Karlheinz Schmelig	31	3
Dr. Jörgen Tielmann	41	3
Gesamt	**191**	**15**

The payments are short-term payments within the meaning of IAS 24.17 (a).

The Supervisory Board members held the following other supervisory board positions and positions on comparable domestic and foreign boards during the reporting period:

Name	Company	Board	Position
Wilhelm K.T. Zours	Deutsche Balaton AG	Supervisory Board	Chair
	Beta Systems Software AG	Supervisory Board	Chair
	SPARTA AG	Supervisory Board	Chair
	YVAL Idiosynkratische Investments SE	Board of Directors	Chair
Dr. Heikki Lanckriet	4basebio UK limited, Cambridge, UK	Board of Directors	Member
	4basebio Discovery Ltd., Cambridge, UK	Board of Directors	Member
	4basebio SLU, Madrid, ES	Board of Directors	Member
	Neophore Ltd., Cambridge, UK	Board of Directors	Member
	I2i capital Ltd., Cambridge, UK	Board of Directors	Member
	Kither Biotech s.r.l., Italy	Board of Directors	Member
	Heqet Therapeutics s.r.l., Italy	Board of Directors	Member
Dr. Helge Lubenow	Epigenomics AG	Supervisory Board	Member
	Human Gesellschaft für Biochemika und Diagnostika mbH	Advisory Board	Member
	Neracare GmbH	Supervisory Board	Member
Prof. Dr. Franca Ruhwedel	NATIONAL-BANK AG, Essen	Supervisory Board	Member
	VTG AG, Hamburg	Supervisory Board	Member
Karlheinz Schmelig	Prostatype Genomics AB, Stockholm, Schweden	Supervisory Board	Member
	CryoTherapeutics S.A., Awans, Belgien	Supervisory Board	Member
	Tacalyx GmbH, Berlin	Advisory Board	Member

30. Related party disclosures

The group of related parties is limited to the group of persons listed in Notes 30 and 31 as well as to the persons and companies listed in Note 10. The group of key management personnel is limited to the Management Board and the Supervisory Board.

Within the framework of the underlying holding structure, Biofrontera AG assumes the administrative and control tasks. Biofrontera AG is also responsible for the financing of the currently still in the loss-making business areas, since as a listed company it has the best access to the capital market. Against the background of the close cooperation between the Group companies, an internal settlement is carried out which is adjusted annually to meet current requirements.

The following relationships exist with Biofrontera Inc.:

in EUR thousands	December 31, 2022	December 31, 2021*
Sales revenues*	17,135	8,602
Other income		
Clinical trial expenses*	436	263
Other expenses*	64	86
Trade receivables	1,344	413
Trade payables	11	302
Payables from DUSA settlement	5,295	4,977

* The income statement items mentioned here have been eliminated in the previous year in the course of consolidation.

Biofrontera Inc. was established to market our products in the USA. Under a license and supply agreement between Biofrontera Pharma GmbH and Biofrontera Bioscience GmbH, both wholly owned subsidiaries of Biofrontera AG, and Biofrontera Inc. the responsibilities between the companies are regulated. The agreement was concluded for a period of 15 years and will be renewed for another 5 years, provided that a sales volume in the USA of more than USD 150 million has been achieved in the preceding 5 years. Under this agreement, Biofrontera Inc. acquires Ameluz® and the PDT lamps BF-RhodoLED® and RhodoLED® XL from Biofrontera AG. Up to annual Ameluz® sales of USD 30 million, Biofrontera Inc. pays 50% of sales as a transfer price. This share decreases in two steps for higher sales, down to 30% for sales in excess of USD 50 million. Biofrontera AG has agreed to maintain FDA approval, to manufacture the products, to provide a pharmacovigilance database and to conduct predefined clinical trials.

Additionally, services that were previously invoiced as part of intercompany billing are now performed and invoiced on the basis of corresponding service agreements with Biofrontera Inc. This relates primarily to services in the areas of pharmacovigilance, quality management, IT and investor relations. In the financial year 2022, Biofrontera entered into a sublease agreement for business premises and a service agreement for accounting services with Bio-FRI GmbH, the German subsidiary of Biofrontera Inc.

The following relationships exist with the Maruho Group:

in EUR thousands	December 31, 2022	December 31, 2021
Revenue from patent transfer	200	0
Revenue from license agreements	141	0
Income from subleases	32	33
Trade receivables	34	0

In April 2020, Biofrontera entered into an exclusive license agreement with Maruho Co, Ltd, Osaka, Japan (Maruho) for the development and commercialization of Ameluz® for all indications in East Asia and Oceania. The agreement has a term of 15 years from the start of sales in the countries covered by the agreement. Under the agreement, Maruho receives exclusive development and marketing rights, including permission to sublicense Ameluz® in Japan, China, Korea, India, Pakistan, Vietnam, the Philippines, Australia, New Zealand, and surrounding countries and islands (territory of applicability). Maruho is entitled, with Biofrontera's consent, to conduct its own research and development under the license agreement. Maruho will grant to Biofrontera a royalty-free and perpetual license to any results of such research and development conducted by Maruho for commercialization outside the Territory. Under the License Agreement, Biofrontera will supply Ameluz® to Maruho at cost plus 25%, while Maruho has an obligation to use commercially reasonable efforts to develop, register and commercialize Ameluz® in all countries in the Applicable Territory. Under the license agreement, Maruho has made a one-time payment of EUR 6 million to Biofrontera AG in the previous year. Further

future payments will be due upon the achievement of certain regulatory and sales milestones. Maruho will also pay royalties of initially 6% of net sales in the countries of the scope, which may increase to 12% depending on sales volumes and will decrease in the event of generic launches in these countries. In the reporting year, revenue from this licensing agreement was recognized for the supply of materials for clinical trials and the recharging of associated costs.

In December 2021, Biofrontera Pharma GmbH and Maruho Ltd. agreed in a license agreement that the patent "Illumination for photodynamic therapy" in Japan will be transferred to Maruho Ltd. The patent transfer and the resulting revenue recognition are expected to take place in 2022. The patent transfer and the resulting revenue recognition in the amount of EUR 200 thousand took place in 2022.

In the financial year 2022, there were no further reportable transactions or relationships with related parties other than those mentioned above and in Note 30 and Note 31.

31. Auditor's fees and services

The total fee invoiced by the auditor for the 2022 financial years consist of:

in EUR thousands	December 31, 2022	December 31, 2021
Auditing services	197	426
[of which for the previous year]	[2]	[24]

The auditing services relate to the mandatory audits of the annual and consolidated financial statements of Biofrontera AG and Biofrontera Pharma GmbH.

32. Subsequent events

Extraordinary shareholders' meeting

At the Extraordinary General Meeting on January 09, 2023, a resolution was passed, on the one hand, on the proposal of the Executive Board and the Supervisory Board, to increase the Company's capital stock by up to EUR 7,089,673.00 million by issuing new shares. This ordinary capital increase is to be carried out by granting subscription rights at a subscription price of EUR 1.05. Secondly, a proposed resolution was submitted to the Annual General Meeting for the creation of authorized capital in the amount of EUR 12.7 million, which is intended to authorize the Board of Management to issue shares either in full or in partial amounts as required until December 2027. Such a contingency resolution provides Biofrontera with some flexibility in raising liquidity in order to be able to react quickly to changing market conditions or market opportunities. Both resolutions, as well as all other resolutions presented by the management, were passed with the required majority. The capital measure is already in the planning phase, but will not be implemented until the second quarter of 2023 due to the prospectus requirement. The proceeds from the capital increase are to be used to pre-finance the costs of the expected increase in orders in the manufacturing area.

Legal issues

Biofrontera has decided not to appeal against the judgment of the Cologne Regional Court on the resolution on the competence of the Annual General Meeting on the IPO of Biofrontera Inc. All former members of the Management Board and Supervisory Board involved in the resolutions have since left the company. These persons have been notified of the dispute in this legal action. As interveners, they are continuing the litigation in the 2nd instance on their own initiative.

Maruho Deutschland GmbH and Biofrontera Inc. have filed actions for avoidance against the resolutions of the extraordinary general meeting, thereof Maruho Deutschland GmbH against the confirmation of the appointment of Prof. Lergenmüller to the Supervisory Board of Biofrontera AG and Biofrontera Inc. against all resolutions of the general meeting. The action for rescission filed by Biofrontera Inc. was withdrawn on April 13, 2023. The withdrawal of the action is part of an out-of-court settlement reached by the Company with, among others, Biofrontera Inc. with effect from April 11, 2023 ("Inc. Agreement April 11, 2023").

The Inc. Agreement April 11, 2023 further provides for the filing of a joint statement with Biofrontera Inc. for the amicable termination of the proceedings filed by the Company in the Court of Chancery. The proceedings were directed against resolutions adopted at the Annual General Meeting of Biofrontera Inc. on December 12, 2022.

For the further content of the Inc. agreement April 11, 2023, we refer to the announcement agreed therein pursuant to § 248a AktG.

No other events occurred after the balance sheet date.

Leverkusen, April 27, 2023

Pilar de la Huerta Martinéz

Chief Financial Officer

Responsibility statement

Responsibility statement pursuant to section 297 (2) sentence 4 HGB and section 315 (1) sentence 5 HGB

We affirm that, to the best of our knowledge and in accordance with the applicable accounting principles, the consolidated financial statements give a true and fair view of the Group assets, financial position and results of operations of the Group and that the combined management and group management report presents the course of business, including the business results and the position of the Biofrontera Group and Biofrontera AG, in such a way that a true and fair view is given and that the main opportunities and risks of the expected future development of the Biofrontera Group and Biofrontera AG are described.

Leverkusen, April 27, 2023

Biofrontera AG

Pilar de la Huerta Martínez
CFO

- **convenience translation –**

AUDITOR'S REPORT OF THE INDEPENDENT AUDITOR

To Biofrontera AG, Leverkusen, Germany

NOTES ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND THE COMBINED MANAGEMENT REPORT

Audit Opinions

We have audited the consolidated financial statements of Biofrontera AG and its subsidiaries (the Group), which comprise the consolidated statement of financial position as of December 31, 2022, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the financial year from January 1, 2022 to December 31, 2022, and the notes to the consolidated financial statements, including a summary of significant accounting policies. We have also audited the combined management report of Biofrontera AG for the financial year from January 1, 2022 to December 31, 2022. The audit procedures described in the section "Corporate Governance Statement of Biofrontera AG pursuant to sec. §§ Sections 289f, 315d of the German Commercial Code (HGB) for the financial year 2022" of the annual report, we have not audited the content of the (Group) corporate governance statement in accordance with German commercial law.

In our opinion, based on the findings of our audit:

- the accompanying consolidated financial statements comply in all material respects with IFRSs as adopted by the EU and the additional requirements of German law pursuant to § 315e (1) HGB and give a true and fair view of the financial position of the Group as of December 31, 2022 and of its financial performance for the fiscal year from January 1, 2022 to December 31, 2022 in accordance with these requirements and
- the accompanying combined management report as a whole provides a suitable view of the Group's position. In all material respects, this combined management report is consistent with the consolidated financial statements, complies with German legal requirements, and suitably presents the opportunities and risks of future development . Our audit opinion on the combined management report does not cover the content of the aforementioned corporate governance statement pursuant to Arts. 289f, 315d HGB.

In accordance with § 322 (3) sentence 1 HGB, we declare that our audit has not led to any reservations concerning the propriety of the consolidated financial statements and the combined management report.

Basis for the audit judgments

We conducted our audit of the consolidated financial statements and the combined management report in accordance with Section 317 HGB and the EU Regulation on Auditors (No. 537/2014; hereinafter "EU-APrVO") and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Our responsibility under those regulations and standards is further described in the section "Auditor's Responsibility for the Audit of the Consolidated Financial Statements and the Combined Management Report" of our auditor's report. We are independent of the Group companies in accordance with European law and German commercial and professional regulations and have fulfilled our other German professional obligations in accordance with these requirements. Furthermore, in accordance with Article 10 (2) (f) EU-APrVO, we declare that we have not performed any prohibited non-audit services as defined in Article 5 (1) EU-APrVO. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and the combined management report.

Particularly important audit matters in the audit of the consolidated financial statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the fiscal year from January 1, 2022 to December 31, 2022. These matters were considered in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon; we do not provide a separate opinion on these matters.

In our view, the following matter was most significant in our audit:

- Valuation of shares in Biofrontera Inc., Woburn, USA

We have structured our presentation of this particular key audit matter as follows:

1. Facts and problem
2. Audit approach and findings
3. Reference to further information

We present this particularly important audit matter below:
Valuation of shares in Biofrontera Inc., Woburn, USA

1. In the consolidated financial statements of BIOFRONTERA AG, the shares in Biofrontera Inc. Woburn, USA, amounting to EUR 8,982 thousand, which thus represent 27.45% of total assets, are reported under the balance sheet item "Financial assets accounted for using the equity method". After application of the equity method, the Company assesses whether there is objective evidence that the net investment in the associate is impaired. In determining whether an impairment exists, management makes assumptions about the future development of Biofrontera Inc. and the present values of future cash flows resulting from this investment. The result of this assessment is highly dependent on management's estimate of future cash flows and the discount rate used, and is therefore subject to considerable uncertainty, which is why this matter is of particular importance in the context of our audit.
2. In order to test this risk appropriately, we critically reviewed management's assumptions and estimates and performed the following audit procedures, among others:
   We have traced the methodical procedure for determining the present value of future cash flows and assessed the determination of the discount rate used.
   We have satisfied ourselves that the assumptions underlying the future cash flows and the discount rates used, taken as a whole, provide an appropriate basis for determining the recoverable amount of this investment.
   Our assessment of the planned future cash flows was based, among other things, on a comparison with general market expectations and management's explanations of the main value drivers of the plans, as well as a comparison of this information with the current budgets from the planning approved by the Supervisory Board.
   Knowing that even relatively small changes in the discount rate can have a material impact on the recoverable amount determined in this way, we considered the parameters used in determining the discount rate and understood the Company's calculation scheme.
   In our opinion, the valuation parameters and assumptions applied by the legal representatives, taking into account the available information, are suitable overall for testing the determination of the recoverable amount.
3. The Company's disclosures on the shares in Biofrontera Inc., Woburn, USA, are included in the notes to the consolidated financial statements in the sections "Information on the Company," "Summary of Significant Accounting Policies" in the subsection "Principles of Consolidation" and in the subsection "Associated Companies," in the section "Notes to the Consolidated Balance Sheet" under "2. Investments Accounted for Using the Equity Method," and in the section "Notes to the Consolidated Statement of Comprehensive Income" in subsection "23. Income from Investments.

Other information

The legal representatives and the Supervisory Board are responsible for the other information. The other information includes:

- Compensation Report in accordance with § 162 AktG,
- all other parts of the annual report, without extensive cross-references to external information, with the exception of the audited consolidated financial statements, the audited combined management report and the auditor's report.

Our audit opinions on the consolidated financial statements and the combined management report do not cover the other information and, accordingly, we do not express an audit opinion or any other form of assurance conclusion thereon.
In connection with our audit, we have a responsibility to read the other information and, in doing so, evaluate whether the other information is

- are materially inconsistent with the consolidated financial statements, the combined management report or our knowledge obtained in the audit, or
- otherwise appear to be materially misrepresented.

If, based on our work performed on the other information obtained before the date of this auditor's report, we conclude that there has been a material misstatement of such other information, we are required to report that fact. We have nothing to report in this regard.

Responsibility of the legal representatives and the Supervisory Board for the consolidated financial statements and the combined management report

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with IFRSs as adopted by the EU and the additional requirements of German law pursuant to Section 315e (1) HGB and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. Furthermore, management is responsible for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error (i.e. manipulation of the accounting system or misstatement of assets).

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern. They are also responsible for disclosing, as applicable, matters related to going concern. Furthermore, they are responsible for preparing the financial statements on a going concern basis unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

In addition, management is responsible for the preparation of the combined management report that as a whole provides a suitable view of the Group's position and is consistent in all material respects with the consolidated financial statements, complies with German legal requirements, and suitably presents the opportunities and risks of future development. Furthermore, management is responsible for the arrangements and measures (systems) that it determines are necessary to enable the preparation of the combined management report in accordance with the applicable German legal requirements and to provide sufficient appropriate evidence for the statements made in the combined management report.

The Supervisory Board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and the combined management report.

Auditor's Responsibility for the Audit of the Consolidated Financial Statements and the Combined Management Report

Our objective is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the combined management report as a whole provides a suitable view of the Group's position and is consistent, in all material respects, with the consolidated financial statements and the audit findings, complies with German legal requirements, and suitably presents the opportunities and risks of future development, and to issue an auditor's report that includes our audit opinions on the consolidated financial statements and the combined management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and the EU-APrVO and in compliance with German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and combined management report.

During the audit, we exercise dutiful judgment and maintain a critical mindset. In addition:

- Identify and assess the risks of material misstatement of the consolidated financial statements and the combined management report due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinion. The risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting a material misstatement resulting from error because fraud may involve collusion, forgery, intentional omissions, misleading representations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of the arrangements and actions relevant to the audit of the combined management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of those systems.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the going concern basis of accounting used by management and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements and the combined management report or, if such disclosures are inadequate, to modify our respective audit opinions. We draw our conclusions based on the audit evidence obtained up to the date of our audit opinion. However, future events or conditions may result in the Group being unable to continue as a going concern.
- we assess the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in such a way that the consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with IFRSs as adopted by the EU, and the additional requirements of German law pursuant to § 315e Abs. 1 HGB.
- obtain sufficient appropriate audit evidence regarding the accounting information of the entities or business activities within the Group to express opinions on the consolidated financial statements and the combined management report. We are responsible for directing, supervising and performing the audit of the consolidated financial statements. We are solely responsible for our audit opinions.
- we assess the consistency of the combined management report with the consolidated financial statements, its legality and the overall presentation of the Group's position in the consolidated financial statements.
- We perform audit procedures on the forward-looking statements made by management in the combined management report. In particular, based on sufficient appropriate audit evidence, we reproduce the significant assumptions made by management regarding the forward-looking statements and evaluate the appropriateness of the information derived from these assumptions. We do not express an independent opinion on the forward-looking statements or on the underlying assumptions. There is a significant unavoidable risk that future events may differ materially from the forward-looking statements.

We discuss with those charged with governance, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We make a declaration to those charged with governance that we have complied with the relevant independence requirements and discuss with them all relationships and other matters that may reasonably be thought to bear on our independence and, where relevant, the actions taken or safeguards implemented to address independence threats.

From the matters we discussed with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure of the matter.

OTHER STATUTORY AND OTHER LEGAL REQUIREMENTS

Report on the Audit of the Electronic Reproductions of the Consolidated Financial Statements and the Combined Management Report Prepared for the Purposes of Disclosure Pursuant to Section 317 (3a) of the German Commercial Code (HGB)

Audit opinion

In accordance with Section 317 (3a) of the German Commercial Code (HGB), we have performed a reasonable assurance audit to determine whether the reproductions of the consolidated financial statements and the combined management report (hereinafter also referred to as "ESEF documents") contained in the file "biofronteraag-2022-12-31-en.zip" provided and prepared for disclosure purposes comply in all material respects with the requirements of Section 328 (1) of the German Commercial Code regarding the electronic reporting format ("ESEF format"). In accordance with German legal requirements, this audit extends only to the conversion of the information in the consolidated financial statements and the combined management report into the ESEF-format and therefore neither to the information contained in these reproductions nor to any other information contained in the aforementioned file.

In our opinion, the reproductions of the consolidated financial statements and the combined management report contained in the above-mentioned file and prepared for disclosure purposes comply, in all material respects, with the electronic reporting format requirements of Section 328 (1) HGB. We have audited the accompanying consolidated financial statements and the accompanying combined management report for the fiscal year from January 1, 2022 to January 31, 2022 in accordance with German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW) and in our opinion set out in the "Report on the audit of the consolidated financial statements and the combined management report" above.

January 1, 2022 to December 31, 2022, we do not express any opinion on the information included in these reproductions or on the other information included in the aforementioned file.

Basis for the audit opinion

We conducted our audit of the reproductions of the consolidated financial statements and the combined management report contained in the above-mentioned provided file in accordance with Section 317 (3a) HGB and IDW Auditing Standard: Audit of Electronic Reproductions of Financial Statements and Management Reports Prepared for Disclosure Purposes in Accordance with Section 317 (3a) HGB (IDW PS 410 (06.2022)). Our responsibility thereafter is further described in the section "Auditor's Responsibility for the Audit of the ESEF Documents". Our auditing practice has complied with the quality assurance system requirements of the IDW Quality Assurance Standard: Requirements for Quality Assurance in the Auditing Practice (IDW QS 1) applied.

Responsibility of the legal representatives and the supervisory board for the ESEF documents

The Company's management is responsible for the preparation of the ESEF documents containing the electronic reproductions of the consolidated financial statements and the combined management report in accordance with section 328 (1) sentence 4 no. 1 HGB and for the award of the consolidated financial statements in accordance with section 328 (1) sentence 4 no. 2 HGB.

Furthermore, management is responsible for such internal control as management determines is necessary to enable the preparation of ESEF documents that are free from material non-compliance, whether due to fraud or error, with the requirements of Section 328 (1) HGB regarding the electronic reporting format.

The Supervisory Board is responsible for overseeing the process of preparing the ESEF documents as part of the financial reporting process.

Auditor's Responsibility for the Audit of the ESEF Documents

Our objective is to obtain reasonable assurance about whether the ESEF documents are free from material non-compliance, whether due to fraud or error, with the requirements of Section 328 (1) HGB. During the audit we exercise professional judgment and maintain a critical attitude. Furthermore

- identify and assess the risks of material non-compliance with the requirements of Section 328 (1) HGB, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinion.
- Obtain an understanding of internal control relevant to the audit of ESEF documents in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of those controls.

- we assess the technical validity of the ESEF documentation, i.e. whether the file provided containing the ESEF documentation complies with the requirements of Delegated Regulation (EU) 2019/815 as amended on the reporting date regarding the technical specification for this file.
- we assess whether the ESEF documentation provides a consistent XHTML representation of the audited consolidated financial statements and the audited combined management report.
- we assess whether the markup of the ESEF documents with inline XBRL technology (iXBRL) in accordance with Articles 4 and 6 of Delegated Regulation (EU) 2019/815, as applicable on the reporting date, provides an adequate and complete machine-readable XBRL copy of the XHTML rendering.

Other information according to Article 10 EU-APrVO

We were elected as auditors of the consolidated financial statements by the Annual General Meeting on August 23, 2022. We were engaged by the Supervisory Board on October 4, 2022. We have served as the auditors of Biofrontera AG, Leverkusen, since fiscal year 2022.

We declare that the audit opinions contained in this audit opinion are consistent with the additional report to the Audit Committee pursuant to Article 11 EU-APrVO (Audit Report).

OTHER MATTERS - USE OF THE AUDIT OPINION

Our audit opinion should always be read in conjunction with the audited consolidated financial statements and the audited combined management report and the audited ESEF documents. The consolidated financial statements and combined management report converted to the ESEF format - including the versions to be entered in the companies register - are merely electronic reproductions of the audited consolidated financial statements and the audited combined management report and do not replace them. In particular, the ESEF opinion and our audit opinion contained therein can only be used in conjunction with the audited ESEF documents provided in electronic form.

AUDITOR IN CHARGE

The auditor responsible for the audit is Dominik Nitsche."

Munich, April 27, 2023

Baker Tilly GmbH & Co KG
Auditing firm
(Düsseldorf)

Weissinger Nitsche
WirtschaftsprüferAccountant