

Report of the Supervisory Board of Biofrontera AG for the financial year 2021

Dear shareholders,

With the year 2021, another year of business has passed which again was significantly influenced by the COVID 19 pandemic. We succeeded in further overcoming the pandemic-related restrictions. Revenues from product sales developed very positively, increasing by around 20% overall compared to the previous year. All regional markets contributed to this sales growth, which amounted to around 22% in the USA and around 17% in the European countries (including Germany).

Further progress was also made in the areas of regulatory approval and clinical development. In particular, we received approval for the new BF-RhodoLED® XL red light source for photodynamic therapy (PDT) from the U.S. Food and Drug Administration (FDA). The new PDT lamp can be used to illuminate larger areas, enabling the simultaneous treatment of multiple, distant areas of skin. And we also made further progress in the studies for broader label and applications for Ameluz®.

We would like to thank the employees of the Biofrontera Group for their contribution, which increased the value of Biofrontera AG.

It is worth to mention that the material litigation with DUSA was settled, however associated with substantial settlement payments of \$22.5 million and EUR 8.5 million in legal fees. The settlement payments will be paid by Biofrontera Inc. and will be shared in half by Biofrontera AG internally. The settlement served to end the risks associated with the litigation and the tie up of internal resources with this matter.

By far the most significant development in 2021 was the restructuring of Biofrontera AG through the independence of the previously wholly owned subsidiary Biofrontera Inc., its IPO and the loss of majority stake in Biofrontera Inc. through the shares issued in the IPO, a further placement of shares in Biofrontera Inc. and the exercise of options on shares in Biofrontera Inc. issued in the share placements. Biofrontera AG's stake in Biofrontera Inc. was below 50% at the end of 2021.

As a wholly owned subsidiary of Biofrontera AG, Biofrontera Inc. has built up its sales organization in the USA over the past 5 years at a cost of approximately \$50 million, with the corresponding start-up costs borne by the Biofrontera Group. In addition, Biofrontera Inc. acquired from Maruho Co, Ltd, the second largest shareholder of Biofrontera AG, its subsidiary Cutanea with its products Xepi® and Aktipak® in 2019.

In 2018, the listing of Biofrontera AG shares in the form of ADS on NASDAQ took place. After the introduction of Biofrontera Inc. shares in 2021, the NASDAQ listing of Biofrontera AG has become redundant, it is confusing for investors when two companies list Biofrontera on NASDAQ. For this reason, the Management Board and Supervisory Board have decided to terminate the NASDAQ listing in the first quarter of 2022.

This will also lead to significant cost savings in the future, as not only a major reporting requirement according to NASDAQ rules and the NASDAQ fees will be eliminated, but also the insurance fees for the D&O insurances can be reduced quite significantly. In 2021, Biofrontera AG alone paid an annual premium of almost EUR 1.5 million for its D&O insurance, and Biofrontera Inc. also paid an annual premium of approximately EUR 1.8 million for its own D&O insurance as part of the IPO.

The extensive reduction of these costs by almost 10% of consolidated sales in the current and next financial year will bring Biofrontera AG significantly closer to break-even.

We wish our former fully consolidated subsidiary Biofrontera Inc. great success in the commercialization of Ameluz® in the USA, in which Biofrontera AG would also participate through the agreements concluded with Biofrontera Inc.

Supervision and advice

The Supervisory Board fulfilled the duties assigned to 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. In the reporting year, the Supervisory Board monitored the activities of the Executive Board and discussed forward-looking business decisions and plans with it.

The Executive Board submitted reports to the Supervisory Board on the situation of the Company. The Supervisory Board was kept continuously informed by the Executive Board, both in meetings and outside meetings, about the current development of the Company. 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 meetings. In addition, there was an exchange of information and ideas between the Chairman of the Executive Board and the Chairman of the Supervisory Board. The Supervisory Board was involved in decisions of fundamental importance to the Company in particular.

In the case of management decisions, the Supervisory Board also monitored in particular their legality, regularity and suitability as well as their economic efficiency. Deviations in the course of business from plans were explained to the Supervisory Board by the Executive Board and discussed with it. The extent to which the resolutions, suggestions and recommendations of the Supervisory Board were subsequently taken into account or implemented by the Executive Board in the management of the company was also reviewed.

Where the approval of the Supervisory Board was required for decisions by the Board of Management or where the Board of Management requested approval for certain transactions, the Supervisory Board was provided in advance with information and documents relevant to the decision. A resolution on the approval was then passed after discussion.

Meetings and their main topics of discussion

In performing its duties, the Supervisory Board held eight meetings in the reporting year. With the exception of the Supervisory Board meeting on November 4, 2021, all meetings were held by telephone or video conference due to the COVID 19 pandemic to protect health, but also due to travel restrictions. In addition, it made decisions outside of meetings.

At the meeting on March 1, 2021, the Executive Board reported on the current business situation. In particular, the Executive Board explained the effects of the ongoing COVID 19 pandemic, which had continued to have an adverse impact since the beginning of the fiscal year. In addition, the Executive Board reported on the successful implementation of the capital increase resolved by the Annual General Meeting on May 28, 2020.

At the meeting on March 18/19, 2021, the Executive Board reported on the current business development, in particular on the sales and earnings development and the liquidity situation and provided an updated outlook. In addition, the future financing of the Biofrontera Group was discussed. At the meeting on April 12, 2021, the auditor reported on the timing, structure and results of the audit for the 2020 financial year. After discussion with the Supervisory Board, Biofrontera AG had already communicated that in the future possibilities of raising capital at the regional level of subsidiaries could also be examined, considerations were made with regard to an initial public offering (IPO) of Biofrontera Inc. in the USA. The Supervisory Board therefore requested the Management Board to provide further information in this regard. The conclusion of a D&O insurance policy was also discussed.

At the meeting on April 12, 2021, the auditor reported on the timing, structure and results of the audit for the 2020 financial year. After discussing the 2020 annual financial statements, the consolidated financial statements and the combined management report, the Supervisory Board approved the auditor's reports, raised no objections following the final results of its own review, and approved the annual and consolidated financial statements. It thus followed the recommendation of its Audit Committee, which had previously held a meeting on April 12, 2021 in the presence of the auditor and discussed the 2020 annual financial statements, the consolidated financial statements and the combined management report, as well as the audit reports. The annual financial statements of Biofrontera Aktiengesellschaft for the 2020 financial year were thus approved. The target achievement of the Management Board members with regard to the variable remuneration for the 2020 financial year was discussed. Subsequently, the Management Board gave an overview of the current business development and the intended succession planning for the Management Board was discussed.

At the meeting on July 6, 2021, the Supervisory Board again discussed a possible IPO of Biofrontera Inc. In particular, the legal aspects of whether an S-1 filing in this context was a measure requiring the approval of the Annual General Meeting were discussed, which was rejected on the basis of two expert opinions obtained. The Supervisory Board decided that an IPO of Biofrontera Inc. should be pursued. In addition, the future management structure of Biofrontera Inc. was discussed and resolved.

In the meeting on November 4, 2021, the Management Board reported on the successful IPO together with the IPO of Biofrontera Inc. The Management Board reported on the current business development, in particular on the development of sales and earnings and the liquidity situation, as well as on the status and progress of ongoing development projects. In addition, the budget for 2022 was discussed. In addition, the Supervisory Board focused on preparations for the Annual General Meeting and the status of legal disputes

and their possible settlement. At the meeting, the Supervisory Board also addressed the efficiency of its activities (efficiency review), without consulting an external advisor. In particular, it discussed fundamental issues of cooperation, the frequency of meetings, communication, the nature and scope of reporting to the Supervisory Board, as well as the existing control instruments and the possible need for adjustments. Overall, the Supervisory Board came to the conclusion that the cooperation adequately reflects the tasks of the Supervisory Board and the needs of the Company.

At the meeting on November 26, 2021, the Executive Board reported on a possible settlement of the legal disputes with DUSA Pharmaceuticals, Inc. and the Supervisory Board approved a settlement amount of USD 22.5 million. Furthermore, the allocation of the expected settlement amount and further costs between Biofrontera Inc. and Biofrontera AG was resolved.

At the meeting on December 14, 2021, the Supervisory Board constituted itself following its re-election by the Annual General Meeting of the same date and elected Mr. Wilhelm K.T. Zours as its Chairman and Dr. Jürgen Tielmann as Deputy Chairman. In addition, the Executive Board gave the newly elected members an initial overview of the current situation of the Company.

At the meeting on December 21, 2021, the Supervisory Board discussed the 2022 budget with the Executive Board. In this context, the Executive Board and Supervisory Board discussed in detail the issue of the financial situation and possible risk factors in this respect. In addition, the Supervisory Board also discussed potential candidates for expansion of the Executive Board on the basis of the preliminary work of the members who left the Supervisory Board on December 14, 2021.

Activities outside meetings

Outside of meetings, the Supervisory Board circulated resolutions concerning, among other things, the initial public offering and IPO of Biofrontera Inc., the settlement agreement with DUSA Pharmaceuticals, Inc. and the termination of legal disputes in mediation with Mr. Zours and Deutsche Balaton AG and other companies in which Mr. Zours holds a majority interest.

Committees of the Supervisory Board

In fiscal year 2021 (until December 14, 2021) there was an Audit Committee, a Nominations Committee and a Personnel Committee. The Supervisory Board appointed one Supervisory Board member to chair each committee. According to the Rules of Procedure of the Supervisory Board, the Chairman of the Supervisory Board should also be Chairman of the committees that handle Executive Board contracts and prepare the Supervisory Board meetings. He should not chair the Audit Committee. These requirements were taken into account in the appointments. The committee chairmen report to the Supervisory Board on the work of the committees. The Supervisory Board newly elected on December 14, 2021 formed the Audit Committee and the Personnel Committee in fiscal year 2021.

Audit Committee

The Audit Committee addresses in particular accounting and risk management issues, the necessary independence of the auditor and the granting of the audit mandate to the auditor and monitors the audit of the Company's annual financial statements. In the case of companies within the meaning of Section 264d of the German Commercial Code, i.e. also in the case of Biofrontera Aktiengesellschaft, the proposal of the Supervisory Board for the election of the auditor shall be based on the recommendation of the Audit Committee. In the case of companies that are public interest entities pursuant to Section 316a sentence 2 of the German Commercial Code, at least one member of the Supervisory Board must also have expertise in the areas of accounting and at least one other member of the Supervisory Board must have expertise in the area of auditing. These requirements must also be met by two members of the Audit Committee. The committee met six times in the reporting year, namely with the auditors in preparation for the Supervisory Board's financial statements meeting on April 12, 2021, and subsequently on May 10, June 22, August 19, 2021, November 15, 2021 and December 21, 2021.

The Audit Committee comprised the following members in the reporting year to December 14, 2021: Mr. Jürgen Baumann, Mr. John Borer and Prof. Dr. Franca Ruhwedel. Prof. Dr. Ruhwedel was Chair of the Audit Committee.

Since December 14, 2022, the members of the Audit Committee have been: Prof. Dr. Franca Ruhwedel (Chair), Dr. Helge Lubenow and Mr. Karlheinz Schmelig. Prof. Dr. Franca Ruhwedel resigned from the Supervisory Board effective February 22, 2022. Dr. Jürgen Tielmann replaced her as a member of the Audit Committee. Karlheinz Schmelig has taken over as Chairman of the Audit Committee.

Personnel Committee

The Personnel Committee prepares Supervisory Board decisions on the appointment and dismissal of Executive Board members. As the Supervisory Board as a whole is also responsible for compensation decisions, the Personnel Committee also acts exclusively in a consultative role in this respect. In the reporting year, the committee dealt in particular with the target achievement of the Executive Board members in 2020, the resignation of Mr. Schaffer and Prof. Dr. Lübbert, and the appointment of Mr. Lutter to the Executive Board. At the Supervisory Board meeting on April 12, 2021, target achievement and succession planning were discussed with the full Supervisory Board following internal preliminary consultation. Succession planning for the Executive Board was subsequently discussed with the Supervisory Board after internal preparation on July 6, 2021, November 4, 2021. The Personnel Committee and Supervisory Board elected until December 14, 2021 identified further potential Executive Board candidates with a pharmaceutical background.

The Personnel Committee included the following persons until December 14, 2021: Mr. Jürgen Baumann, Mr. John Borer and Dr. Ulrich Granzer. Mr. Baumann held the position of Chairman. Since December 14, 2021, the members of the committee have been: Dr. Helge Lubenow (Chair), Mr. Wilhelm K.T. Zours and Dr. Heikki Lanckriet.

Nomination Committee

In addition to the Chairman, the Nomination Committee comprises two further members of the Supervisory Board who are to be elected. The role of the Nomination Committee is to propose suitable candidates to the Supervisory Board for its election proposals to the Annual General Meeting. In doing so, the Nomination Committee takes into account the balance and diversity of knowledge, skills and experience of all members of the Supervisory Board and draws up candidate profiles. In addition, the Nomination Committee shall make proposals to the Supervisory Board and communicate the results of a regular assessment of the knowledge, skills and experience of both the individual members and the Supervisory Board as a whole. In fulfilling its tasks, the Nomination Committee may rely on resources of the Company which it considers appropriate and may also involve external consultants to the necessary extent. The Nomination Committee discussed the mediation process with Wilhelm K. T. Zours, Deutsche Balaton AG and other companies affiliated with Deutsche Balaton AG on several occasions and prepared the resolution proposal of the Supervisory Board to the Annual General Meeting on December 14, 2021 for the elections to the Supervisory Board. Possible election proposals were discussed with the Supervisory Board after internal preparation on July 6, 2021 and November 4, 2021.

The members of the Nomination Committee up to December 14, 2021 were: Mr. John Borer, Dr. Ulrich Granzer and Mr. Reinhard Eyring. Dr. Ulrich Granzer was currently Chairman of the Nomination Committee. After December 14, 2021, the Nomination Committee was initially not replaced in fiscal year 2021, as the new Supervisory Board was elected by the Annual General Meeting on December 14, 2021 until the Annual General Meeting that resolves on the ratification of the actions of the Supervisory Board for 2025. The new appointments, which will be identical to those to the Personnel Committee, were resolved on April 20, 2022.

Other committees

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 2021

Name	Supervisory Board attendance in %	Committee attendance in %
Jürgen Baumann (Member until December 14, 2021)	6/6 100%	8/8 100%
John Borer (Member until December 14, 2021)	6/6 100%	10/10 100%
Reinhard Eyring (Member until December 14, 2021)	6/6 100%	2/2 100%
Dr. Ulrich Granzer (Member until December 14, 2021)	6/6 100%	5/5 100%
Prof. Dr. Franca Ruhwedel	8/8 100%	6/6 100%
Kevin Weber (Member until December 14, 2021)	6/6 100%	1)* 1)*
Dr. Heikki Lanckriet (Member since December 14, 2021)	2/2 100%	- -
Dr. Helge Lubenow (Member since December 14, 2021)	2/2 100%	1/1- 100%
Karlheinz Schmelig (Member since December 14, 2021)	2/2 100%	1/1- 100%
Dr. Jörgen Tielmann (Member since December 14, 2021)	2/2 100%	1)* 1)*
Wilhelm K. T. Zours (Member since December 14, 2021)	2/2 100%	- -

1)* No membership of a committee in the reporting year

Annual and consolidated financial statements 2021

Warth & Klein Grant Thornton AG Wirtschaftsprüfungsgesellschaft, Düsseldorf, was appointed auditor and group auditor for the fiscal year 2021 by the Annual General Meeting on December 14, 2021 and subsequently commissioned accordingly by the Supervisory Board. The auditor's independence declaration has been obtained. Warth & Klein Grant Thornton AG Wirtschaftsprüfungsgesellschaft audited the annual and consolidated financial statements of Biofrontera Aktiengesellschaft prepared by the Management Board and the combined management report for the 2021 financial year and issued unconditional audit opinions. The auditor also found that the Management Board has set up an appropriate information and monitoring system, the design and operation of which are suitable for the early identification of developments that could threaten the continued operation 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 29, 2022 in the presence of the auditors. The Audit Committee dealt in particular with the key audit matters described in the respective auditors' report, including the audit procedures performed. At the subsequent Supervisory Board meeting on the same day to approve the financial statements, the documents relating to the financial statements were discussed in the presence of and after the auditors' report. All Supervisory Board members received the financial statement documents and the auditors' reports in good time before the financial statement meeting and discussed these documents. The annual financial statements and consolidated financial statements were also discussed with the Executive Board at the financial statements meeting. 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, main aspects 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.

The Supervisory Board noted and approved the audit reports, the annual financial statements, the consolidated financial statements and the combined management report. After discussing the annual financial statements, the consolidated financial statements and the combined management report, the Supervisory Board approved the 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 Aktiengesellschaft were thus adopted.

The Supervisory Board's report was adopted at the balance sheet meeting on April 29, 2022, as well as the corporate governance statement.

Auditor and responsible auditor

Warth & Klein Grant Thornton AG Wirtschaftsprüfungsgesellschaft, Düsseldorf, has been the auditor for Biofrontera AG and the Group since the 2007 financial year. Mr. Arndt Krüger has been supporting Biofrontera AG in the context of the audit of the financial statements as the auditor responsible for the engagement since the financial year 2021.

Corporate Governance and Declaration of Conformity pursuant to § 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 Declaration on Corporate Governance. Details are also provided there in particular on the objectives of the Supervisory Board with regard to its composition and the status of implementation.

Training 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. For ongoing training and continuing education, the Company provides the members of the Supervisory Board with access to a portal of a third-party provider (Arbeitskreis deutscher Aufsichtsrat e.V. (AdAR)) and bears the costs incurred in this respect. In this context, the members of the Supervisory Board are also offered opportunities to attend congresses and specialist events.

Conflicts of interest

Each member of the Supervisory Board is obliged to act in the interests of the company. They may not pursue personal interests in their decisions or take advantage of business opportunities to which the company is entitled for themselves without a resolution of the Supervisory Board. The Rules of Procedure of the Supervisory Board specify that each member of the Supervisory Board must disclose conflicts of interest to the Supervisory Board. This applies in particular to conflicts of interest that may arise as a result of a consultancy or board position with customers, suppliers, creditors or other business partners. Material and not only temporary conflicts of interest in the person of a member of the Supervisory Board shall lead to the termination of the mandate.

Deutsche Balaton AG, Heidelberg, filed a declaratory lawsuit against Biofrontera AG with the Cologne Regional Court on December 13, 2021. 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. A de-entitlement agreement exists between VV Beteiligungen AG and Deutsche Balaton AG. Since December 14, 2021, Mr. Zours has also been a member of the Supervisory Board of Biofrontera AG and its Chairman. In principle, the lawsuit is based on the fact that Deutsche Balaton AG is of the opinion that the IPO of Biofrontera Inc. would have required the approval of the Annual General Meeting of Biofrontera AG.

The lawsuit was served on Biofrontera AG on February 9, 2022.

The lawsuit is directed against Biofrontera AG, represented by the Management Board and represented by the Supervisory Board. The Supervisory Board then decided, after the lawsuit was served, that a committee consisting of Dr. Helge Lubenow, Mr. Karlheinz Schmelig and Dr. Jörgen Tielmann would be formed to make further decisions in respect of the lawsuit. Mr. Zours has not and will not participate in any discussions or resolutions in relation to the lawsuit. The Supervisory Board has resolved that the Company should defend itself against the lawsuit. In the view of the Supervisory Board, the conflict of interest has thus been adequately

addressed for the time being; moreover, the work of the Supervisory Board and Mr. Zours is not endangered by the conflict of interest. From today's perspective, it cannot be determined that this is a material and not only temporary conflict of interest that would require termination of the mandate.

Changes in the Supervisory Board

At the end of the Annual General Meeting on December 14, 2021, Dr. Ulrich Granzer, Jürgen Baumann, John Borer, Reinhard Eyring and Kevin Weber stepped down from the Supervisory Board due to the ordinary expiry of their terms of office. Dr. Heikki Lanckriet, Dr. Helge Lubenow, Prof. Dr. Franca Ruhwedel, Mr. Karlheinz Schmelig, Dr. Jörgen Tielmann and Mr. Wilhelm K. T. Zours were elected as members of the Supervisory Board by the Annual General Meeting on December 14, 2021 by rotation. Prof. Dr. Ruhwedel then resigned from her position with effect from February 22, 2022. The Supervisory Board would like to thank the departing members of the Supervisory Board for their dedicated commitment to the Biofrontera AG company, in some cases over many years, and regrets in particular the resignation of Prof. Dr. Franca Ruhwedel.

Changes in the Management Board

Effective March 01, 2021, Mr. Ludwig Lutter has been appointed as the new Chief Financial Officer (CFO) of Biofrontera AG. He replaced Mr. Thomas Schaffer, who left the company on February 28, 2021. Prof. Dr. Hermann Lübbert resigned from the Management Board on December 13, 2021. Mr. Lübbert is the founder of Biofrontera AG and has intensively shaped the company. Through his new role at Biofrontera Inc. as Executive Chairman, Prof. Dr. Lübbert will continue to be committed to the commercialization of Ameluz® on the US market, for which we wish him success and a happy hand.

Future

The division of the operational activities of the Biofrontera Group in 2021 into an independent U.S. sales company on the one hand and the (former) parent company Biofrontera AG on the other hand is, in the opinion of the newly elected Supervisory Board, not sustainable value-creating for the Biofrontera AG Group, because of the need for independent functions in both entities. This consequence of the IPO of Biofrontera Inc., which primarily serves to further finance the expansion of sales in the USA, appears to require correction.

The Supervisory Board considers discussions between Biofrontera AG and Biofrontera Inc. on a possible further step of restructuring with the aim of optimally combining the operating businesses to be reasonable, and the Management Board and the Chairman of the Supervisory Board of Biofrontera AG have made initial contacts.

The development of the Biofrontera share price in 2021 was unsatisfactory. The Supervisory Board and the Management Board want to work together in a constructive and results-oriented manner to improve the economic situation of Biofrontera AG and its valuation on the capital market again.

We kindly invite all shareholders to participate in the capital increase resolved by the Annual General Meeting of Biofrontera AG on April 7, 2022.

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

Heidelberg, Germany, April 29, 2022

Wilhelm K. T. Zours
Chairman of the Supervisory Board