Biofrontera

Deep in dermatology

Biofrontera AG

Annual Report 2021

Content

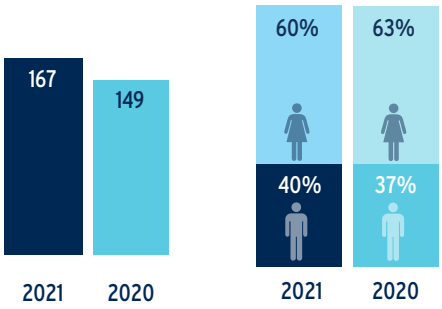
Biofrontera AG Annual Report 2021

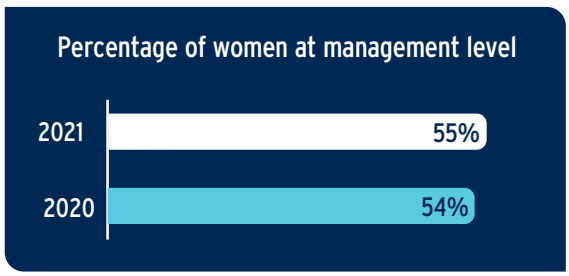
Key figures 2021

	Results and development 2021
Sales revenues	**EUR 28.8 million**
	compared to EUR 30.4 million in 2020
Loss from operations	**EUR -35.3 million**
	compared to EUR -7.6 million in 2020
Loss before income tax	**EUR 35.7 million**
	compared to EUR -12.7 million in 2020

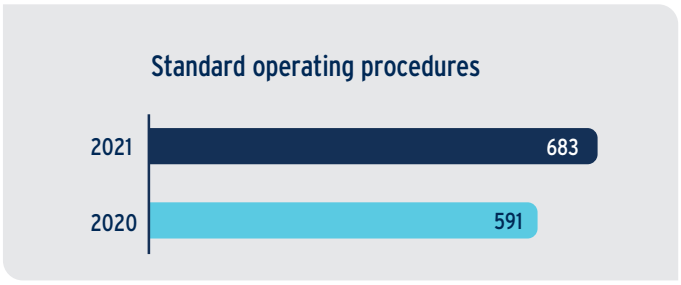
Non-finacial key performance indicators

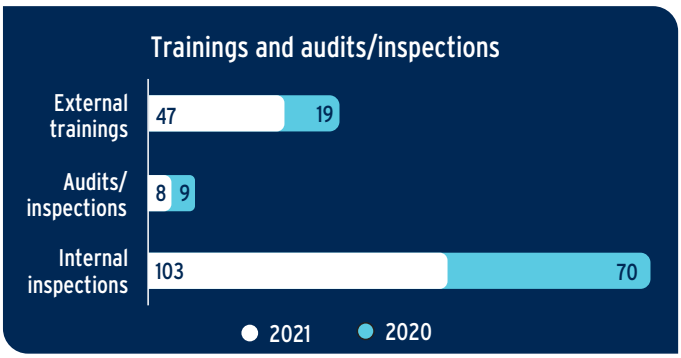
Employees





Quality management





Dear shareholders,

Since March, I have been a part of the highly committed team at Biofrontera that is contributing their hearts and minds to make your company an even greater success story. I have been appointed to the Board of Directors in a company that aims to improve the skin health of so many patients and that has launched a fantastic product that has the potential to become the global standard of care and market leader in the treatment of non-melanoma skin cancer.

With a capital raise successfully completed at the beginning of 2021, Biofrontera AG had a solid financial base on which I was able to build my activities as Chief Financial Officer when I started my position. Also the negative effects of the pandemic became smaller so that Biofrontera was able to recover sales to pre-pandemic levels.

At the same time, it became evident that the pharmaceutical market is becoming an increasingly highly regulated market segment, and that development times and regulatory procedures are becoming more and more difficult to predict. Furthermore, significant capacities were tied up in non-operating activities, such as the ongoing litigations, which limited our capabilities to focus our resources in further growth activities to an extent.

As soon as we noticed a clear growth momentum in the USA in the middle of the year, it we took the opportunity to position our company in such a way to allow us to be able to grow even more aggressively in our largest sales market in the future. The IPO of Biofrontera Inc. was key and the listing on Nasdaq, as one of the most liquid stock exchanges for a US company, was the right place to do so. The successful IPO and the private placement shortly thereafter have shown that this step was the appropriate way to go to be able to develop both companies, Biofrontera Inc. as well as Biofrontera AG, in a rapid and sustainable fashion.

Biofrontera Inc. now has a solid financial base so that it can continue to invest massively in the growth of its commercial activities, both by an expansion of the sales activities as well as by significantly higher marketing investments. The clear and predetermined clinical development schedule will support its market expansion in the mid-term by expanding the therapeutic indications.

We were already able to start the clinical program in the reporting period accordingly, such that three clinical studies are currently ongoing in parallel. For a rather small biopharmaceutical company, this is a remarkable success. The label extension of the existing US approval to include moderate to severe acne also represents a unique milestone for Biofrontera, as this is a completely new therapeutic area. The highly positive feedback from US-dermatologists shows us that Ameluz®-PDT has great potential as a novel treatment approach.

Having focused management attention strongly on developing the US market in recent years, Biofrontera AG will now concentrate entirely on the European market. PDT is still underrepresented in the overall market for Actinic Keratosis treatments. However, with daylight therapy, we have a therapeutic solution to offer this highly effective therapy with the associated reimbursement to an even larger patient population. Ameluz® is the product of choice for actinic keratosis. The efficacy, the preventive nature of the treatment and the excellent medical and cosmetic therapeutic results clearly speak for themselves. We are therefore aiming for dynamic development in the European market as well.

Recently, the stock market seemed to have focused exclusively on potential risks for the Biofrontera Group, unfortunately. The positive sales development in the 2021 financial year, however, was apparently almost completely ignored, as was the future sales potential offered by the expansion of the market share of Ameluz® in Germany and

the other European markets it seems. In addition, we have achieved substantial savings on the cost side as a result of the restructuring, primarily through the IPO of Biofrontera Inc. and are, thus, even better positioned to focus on the EU market and additional markets.

On the other hand, Biofrontera Inc. can expand its market through significantly higher investments, which were only made possible by the capital raises, from which Biofrontera AG will in turn benefit directly through increasing licensing income.

As a result of the changes brought about in this 2021 financial year, we feel very well positioned to take advantage of the further opportunities resulting from these changes for Biofrontera AG. I would like to thank our former as well as our current Supervisory Board for the professional and constructive cooperation, our employees in the Group for their passion and daily commitment, and you, our shareholders, for your trust and support.

We at Biofrontera AG look forward to an exciting 2022 and beyond.

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. Jörgen 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. Jörgen 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 meetings/ attendance	attendance in %	Committee meetings/ attendance	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

Corporate Governance Statement of Biofrontera AG pursuant to Sections 289f, 315d HGB for the financial year 2021

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 2021, 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) on the Company's website at www.biofrontera.com in the section "Investors", subsection "Corporate Governance" with the corresponding labels.

Highlights 2021

- Capital raise in February 2021 with gross proceeds of approximately EUR 24.7 million.
- Change in the composition of the Management Board with Ludwig Lutter as the new Chief Financial Officer of Biofrontera AG.
- Licensing and supply agreement signed with Medac Gesellschaft für klinische Spezialpräparate mbH for the commercialization of Ameluz® in Poland.
- FDA-approval of the new red-light lamp RhodoLED® XL.
- Successful IPO of Biofrontera Inc. on the US Nasdaq stock exchange.
- Early repayment of the European Investment Bank (EIB) loan.
- Consensus reached in the mediation process with Deutsche Balaton Group on the candidates for the designated Supervisory Board of Biofrontera AG and the termination of all legal proceedings between both parties.
- Out of court settlement with DUSA Pharmaceuticals, Inc.
- Notification of grant and subsequent receipt of two U.S. patents a) on an innovative, pain-reducing illumination protocol for photodynamic therapy (PDT), and b) for the new RhodoLED® XL and PDT treatment protocol
- Start of patient recruitment for a) a safety study on the use of three tubes of Ameluz® in PDT treatment, as well as b) a phase IIb study on the treatment of acne with Ameluz®.

Key figures in accordance with IFRS

	01.01.-31.12.2021		01.01.-31.12.2020	
Results of operations				
Sales revenue	28,787	100.00%	30,346	100.00%
Gross profit on sales	24,873	86.41%	26,810	88.35%
Profit/loss on operations	(35,341)	(122.77)%	(7,611)	(25.08)%
EBITDA	27,950	97.09%	(4,696)	(15.47)%
EBIT	24,661	85.67%	(10,029)	(33.05)%
Profit/loss before income tax	35,683	123.96%	(12,697)	(41.84)%
Profit/loss for the period	33,857	117.61%	(13,023)	(42.92)%

in EUR thousands	December 31, 2021	December 31, 2020
Net assets		
Total assets	76,699	56,391
Non-current assets	62,322	30,264
Cash and cash equivalents	6,908	16,546
Other current assets	7,469	9,580
Non-current liabilities	17,467	8,286
Current liabilities	1,235	40,730
Equity	57,997	7,375

	December 31, 2021	December 31, 2020
Number of employees	99	149
	0	0
Biofrontera Shares	0	0
Number of shares outstanding	56,717,385	47,747,515
Share price (Xetra closing price in EUR)	1.00	3.00

Consolidated management and group management report for the fiscal year 2021

Basis of the Biofrontera Group

Group structure

As of December 31, 2021, 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.

The IPO of Biofrontera Inc., headquartered in Woburn, Massachusetts, USA, at the end of October 2021 resulted in changes to the Group structure due to the associated dilution of the AG's shareholding. Biofrontera AG's stake in Biofrontera Inc. in the amount of 8 million shares corresponded to an ownership share of approximately 69% after the IPO. After the further issuance of shares as well as the exercise of warrants, the shareholding decreased to approximately 47% by December 29, 2021. The control criteria of IFRS 10 are therefore no longer met, so that Biofrontera Inc. is no longer considered a subsidiary of Biofrontera AG. Accordingly, deconsolidation took effect as of December 31, 2021; the investment in Biofrontera Inc. as of the reporting date is reported under "Investments in associated companies" using the at-equity method.

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 separation, Biofrontera Inc. is now the licensee responsible for marketing Ameluz® and the RhodoLED® lamp series in the USA. The licensing of Xepi® as part of the acquisition of Cutanea Life Sciences, Inc. in March 2019 was carried out directly via Biofrontera Inc. so that Xepi® will no longer be part of the Biofrontera Group's product portfolio in the future.

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 Biofrontera Inc. under a license and supply agreement with Biofrontera Pharma GmbH and Biofrontera Bioscience GmbH, both wholly owned subsidiaries of Biofrontera AG. Xepi® is provided to Biofrontera Inc. directly by the licensor Ferrer Internacional S.A.

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, 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. Activities are currently focused on the continued sales growth of our products and the development of further market potential through label extensions of 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. Ameluz® has been available in the UK for several years, but has only been actively promoted by Biofrontera's own sales force since May 2018. 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. Upon its IPO at the end of October 2021, Biofrontera Inc. became an independent company. 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 in excess of 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.

The overall advantages of Ameluz® in terms of efficacy, handling, user-friendliness and skin rejuvenation as well as the high healing and comparatively low recurrence rates of PDT in the treatment of actinic keratoses lead to the expectation that this treatment option will attract even more attention from dermatologists in the years to come. Contributing to this is also the label extension to include basal cell carcinoma in 2017.

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. The results of the follow-up phase of the clinical comparison study on daylight-PDT with Ameluz® and Metvix® were included in the product information (SmPC) in March 2020. It is expected that the significantly superior efficacy compared to Metvix® one year after treatment will further enhance the market positioning of Ameluz®.

In March 2020, the European Commission granted a label extension for Ameluz® to cover the treatment of mild and moderate actinic keratoses by photodynamic therapy with Ameluz® not only on the head, but also on the extremities and trunk/neck. The extension of the approval by the European Commission followed a positive vote by the European Medicines Agency EMA and is based on the results of a Phase III study involving 50 patients. The patients were treated with Ameluz® on one randomized side of the body and placebo on the other side. If lesions remained on both sides of the body, PDT was repeated three months later. The results for the primary regulatory endpoint show that Ameluz® was highly significantly superior ($p<0.0001$) to placebo based on a mean total lesion

clearance rate of 86% versus 33%. The high superiority of Ameluz® was also demonstrated for all secondary parameters studied. In this study, the average lesion recurrence rate 12 months after Ameluz® treatment was 14.1% compared to 27.4% after placebo. These results in treating AK on all areas of the body further confirm the excellent efficacy of PDT with Ameluz®. The Company expects that this label extension will also further strengthen the market position of Ameluz® in Europe.

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®. In order to meet the strict requirements of the FDA for the production of a Class III medical device, production of the lamp was transferred to Biofrontera Pharma GmbH in 2016 as part of the FDA approval process and is now 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. The approval was granted in accordance with FDA specifications as a combination approval together with the flagship 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 may also help to protect the drug Ameluz® in the U.S. market due to the s 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.

Xepi®

Through the acquisition of Cutanea Life Sciences, Inc. in March 2019, Biofrontera Inc. became the licensee of Xepi® and has since been marketing the drug, which has been approved by the FDA and launched on the US market, in the USA. Until the end of the year, Xepi® was still part of Biofrontera AG's product portfolio.

Xepi® (ozenoxacin cream, 1%) contains a non-fluorinated quinolone that not only inhibits bacterial growth but also kills the bacteria directly. This results in an unusually rapid and sustained efficacy of the drug. It is the first new topical antibiotic to enter the American market in 10 years. The approved indication is impetigo, a common skin infection. Xepi® has an excellent safety profile that even allows for use on infants from the age of two months. To date, no antibiotic resistance to Xepi® is known and it has been specifically approved by the FDA for the treatment of certain antibiotic-resistant bacteria.

The drug Xepi® in-licensed by Biofrontera Inc. is protected by two patent families in the USA and other countries. With regard to the USA, patent protection applies to the composition of Xepi® until January 29, 2032 and for the approved treatment of impetigo until December 15, 2029. Thus, approval of generic drugs is not expected before 2032.

Belixos®

Belixos® is a modern active cosmetic product specially developed for irritated and sensitive skin. Biofrontera's patented biocolloid technology, which optimizes epidermal penetration, makes the products unique: pure herbal biocolloids combine with medicinal plant extracts to form an extraordinary combination of active ingredients with a proven depth effect.

Belixos® products are manufactured according to stringent quality and environmental regulations. They are free of paraffins, parabens, ethyl alcohol, animal products, dyes and fragrances that may have negative dermatological effects. Its skin compatibility was certified as "very good" by the independent "Dermatest" Institute. Belixos® is obtainable in selected pharmacies, dermatological institutes and from the online retailer Amazon.

Sales and marketing

USA

In the USA, Ameluz® was launched by Biofrontera in October 2016. The distribution of Ameluz® in the USA is handled by Biofrontera Inc., which was founded in March 2015. The IPO of Biofrontera Inc., headquartered in Woburn, Massachusetts, USA, at the end of October 2021 has resulted in changes to the Group structure due to the associated dilution of the AG shareholding: On December 29, 2021, Biofrontera AG announced the reduction of its shareholding in Biofrontera Inc. under 50%. The control criteria of IFRS 10 are therefore no longer met, so that Biofrontera Inc. is no longer considered a subsidiary of Biofrontera AG. Since the IPO of Biofrontera Inc., the latter has been the licensee responsible for marketing Ameluz® and the RhodoLED® lamp series in the USA. Since its launch, we have sold Ameluz® worth almost EUR 80 million in the United States, thus establishing the product in the market.

Germany and Europe

With its central European approval, Ameluz® can be sold and distributed in all EU countries as well as in Norway, Iceland and Liechtenstein. In many European countries, however, the price and reimbursement status have to be determined before market launch, which can be a lengthy process. This process involves reference pricing and re-imports, that might result in low prices in individual EU countries, which in return can have a negative impact on the entire EU market. This is one of the reasons why the drug is only available in certain EU countries. In these countries the drug is available at pharmacy retail prices ranging from EUR 150 to approximately EUR 220 per 2g tube. In Spain, the price was reduced by decree of the Ministry in 2020, against which the company successfully filed an administrative appeal. Since April 1, 2022, the price in Spain has returned to EUR 150 per tube.

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 down payment and the regional partners buy Ameluz® from Biofrontera at a price that is linked to their own sales price. Depending on the market conditions of a country, Biofrontera's share of the sales price varies somewhat, but averages 50% of net sales. Overall, however, marketing through Biofrontera's own sales force has proven to be much more successful in recent years, so that sales to distribution partners now only account for a small percentage of total sales.

In December 2020, the Biofrontera Group was able to cover sales in Scandinavia through an exclusive license and supply agreement for the marketing of Ameluz® and BF-RhodoLED® 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.

In July 2021, Biofrontera announced that it had signed a license and supply agreement with Medac Gesellschaft für klinische Spezialpräparate mbH, for the commercialization of Ameluz® and BF-RhodoLED® in Poland. The commencement of product commercialization in Poland is expected in 2022.

Other regions

In April 2020, Biofrontera signed an exclusive license and supply 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 distribution in the countries covered by the agreement. More information on the license and supply agreement can be found in Biofrontera AG's Annual Report 2020.

Market overview

Actinic keratosis

Non-melanoma skin cancer and its precursor actinic keratosis (AK) is the main market for our 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 single largest European sales market. In Germany, around 1.7 million people annually are treated by dermatologists for AK, which represents around 2 to 3% of the total population. However, the number of people suffering from the disease is probably higher. In 2021, a total of 851,143 prescriptions were issued for the treatment of AK (previous year: 814,410). Self-applied topicals such as prescription creams and gels containing active ingredients were used most widely, taking a market share of 93.3%, followed by PDT (the combination of a surface-applied medication with light therapy) at 6.7% (previous year: 92.9% and 7.1%, respectively). The overall AK market increased 4% in 2021 primarily due to the market launch of an additional topical drug. PDT treatments did not continue to grow (-2%), but this is mainly attributable to the loss of sales of PDT competitor drug.

Although the total number of cryotherapy or simple curettage treatments for actinic keratosis in Europe is not publicly accessible, we assume that only a small number of patients with actinic keratosis are treated with cryotherapy or simple curettage treatments.

In Germany, the largest European market for Ameluz®, the market share for PDT drugs segment was approximately 64% in 2021 compared to approximately 62% in 2020. The continued uptake of daylight PDT has allowed Ameluz® to continue to prove itself as a strong leader in the PDT market compared to competing products. We estimate that daylight PDT will continue to capture additional market share previously reserved for self-applied topical creams. This is mainly due to the fact that daylight PDT is reimbursable by statutory health insurers, which has multiplied the number of patients who in principle have access to treatment with Ameluz®. Due to the still ongoing Corona restrictions, the Ameluz® market share in Germany was only able to grow by around 1% in the reporting year compared to 2020.

Actinic keratosis has been recognized as an occupational disease by the Federal Ministry of Labor and Social Affairs in Germany since 2013. As a result of such recognition, occupational insurance associations in Germany must cover, for the duration of the

patients' lives, the treatment costs of patients who have worked predominantly outdoors for extended periods of time and who meet Biofrontera AG Annual Report 2020 6 certain other criteria. In Germany since March 2016, photodynamic therapy has been included as an approved treatment option for occupational actinic keratosis, which means it can be reimbursed by the government.

Market overview and competitive situation in the USA

The USA is the most important pharmaceutical market in the world and also Biofrontera's largest sales market. According to the Skin Cancer Foundation, approximately 58 million people in the US are affected by actinic keratosis. In 2021, an estimated 13.2 million AK treatments were performed in the U.S., representing a total addressable market of approximately $4 billion for Ameluz with its current FDA-approved indication. The U.S. market for the treatment of actinic keratosis differs significantly from the European market. In the U.S., cryotherapy represents the most common AK treatment. Our internal market research puts cryotherapy treatment at approximately 11.4 million in 2021, representing an 86.4% market share. Thus, there have been no major shifts from 2020, where the market share was 86.3%. Topical drugs for the treatment of AK had a market share of about 11.8% in 2021 (2020: 11.9%), followed by PDT drugs at about 1.8%, also unchanged from the previous year.

The overall AK market grew by 4% compared to 2020, but still has not reached pre-pandemic levels, still registering a 12.2% decline compared to 2019. Rising infection rates with the Corona virus towards the end of the year and the official recommendation by the American Academy of Dermatology to have patients diagnosed and treated remotely whenever possible again led to significant declines in patient numbers and widespread, albeit temporary, physician office closures.

In the PDT preparations segment, we were able to further expand our market share and increase our own sales, with the result that the share of Ameluz® PDT now stands at 25.6%, compared with around 24.5% in the previous year. Considering that our sales of Ameluz® tubes increased by 23% year on year, the market share estimate of just under 26%, which is based on publicly available figures, may represent too low a market share. The slight but steady increase in market share nevertheless clearly shows that, despite the Corona crisis, we have been able to improve our market positioning compared with the competitor product PDT.

Our goal is to leverage this growth momentum and make Ameluz® the leading PDT product for the treatment of AK in the US.

We also believe that PDT has clear advantages over cryotherapy, which currently still dominates the market. Therefore, the ability to take market share from cryotherapy is an important focus of our commercial efforts. In particular, the treatment of more than 15 lesions using cryotherapy holds great potential to expand the PDT market. Revising treatment guidelines so that the pressure is increased towards field-based therapy as opposed to single-lesion therapy could lay the foundation for sustained market expansion.

Market overview for topical antibiotics in the USA

As described in the section "Products," through the acquisition of Cutanea Life Sciences, Inc. in March 2019, Biofrontera Inc. became the licensee of Xepi® and has since been marketing the FDA-approved drug launched in the U.S. market. The IPO of Biofrontera Inc., headquartered in Woburn, Massachusetts, USA, at the end of October 2021 has resulted in changes to the Group structure due to the associated dilution of the AG shareholding: On December 29, 2021, Biofrontera AG announced the reduction of its shareholding in Biofrontera Inc. under 50%. The control criteria of IFRS 10 are therefore no longer met, so that Biofrontera Inc. is no longer considered a subsidiary of Biofrontera AG and thus, Xepi® will no longer be part of the Biofrontera AG's product portfolio.

The approved indication is impetigo, a common skin infection primarily in children. Xepi® has an excellent safety profile, even allowing its use in infants as young as two months of age. To date, there is no known antibiotic resistance to Xepi® and it has been specifically approved by the FDA for the treatment of certain antibiotic-resistant bacteria.

Personnel matters

Management Board

As of December 31, 2021, the Management Board consisted of Ludwig Lutter (CFO).

Name	Nationality	Age	Position	Date of first appointment	Term
Ludwig Lutter	German	55	CFO	March 01, 2021	February 29, 2024
Prof. Dr. Hermann Lübbert*	German	65	Chairman and CEO	2000	December 13, 2021
Thomas Schaffer*	German	58	CFO	2013	February 28, 2021

* Thomas Schaffer resigned from his position as Chief Financial Officer (CFO) effective February 28, 2021. Effective March 1, 2021, Ludwig Lutter was appointed as the new Chief Financial Officer (CFO) of Biofrontera AG. Prof. Dr. Hermann Lübbert resigned as Chief Executive Officer (CEO) effective December 13, 2021.

Employees

As of December 31, 2021 the Biofrontera Group had 99 employees (previous year: 149) who were distributed as follows:

	December 31, 2021	December 31, 2020
Total number of employees	99	149
Full-time	76	127
With academic degree	24	22
By business segments	99	149
Production	15	16
Research and development	5	5
Clinical and regulatory tasks	15	16
Marketing and sales	29	60
Quality management	7	7
Management, business development, finance, HR and administration	28	45
By countries	99	149
Germany	88	81
USA	0	56
Spain	8	9
United Kingdom	3	3

Due to the IPO of Biofrontera Inc., headquartered in Woburn, Massachusetts, USA, at the end of October 2021, changes have occurred in the Group structure as a result of the associated dilution of the AG shareholding. On December 29, 2021, Biofrontera AG announced the reduction of its shareholding in Biofrontera Inc. below 50%. After legal review, Biofrontera Inc. is thus no longer considered a subsidiary of Biofrontera AG in accordance with IFRS 10. As of the reporting date of December 31, 2021, the employees of the former US subsidiary are therefore no longer listed.

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.

Supervisory Board

In 2021, the Supervisory Board comprised the following members as representatives of the shareholders:

Name	Nationality	Age	Position	Date of first appointment	Term
Dr. Ulrich Granzer	Germna	60	Chairman	May 12, 2006	2021
Jürgen Baumann	German	66	Vice Chair	May 24, 2007	2021
John Borer	USA	63	Member	May 31, 2016	2021
Reinhard Eyring	German	62	Member	February 7, 2018	2021
Prof. Dr. Franca Ruhwedel	German	48	Member	July 10, 2019	2021
Kevin Weber	USA	63	Member	May 31, 2016	2021

At the Annual General Meeting on December 14, 2021, the Supervisory Board of Biofrontera AG was appointed as follows:

Name	Nationality	Age	Position	Date of first appointment	Term
Wilhelm K. T. Zours	German	60	Chairman	December 14, 2021	2026
Dr. Jörgen Tielmann	German	66	Vice Chair	December 14, 2021	2026
Dr. Heikki Lanckriet	Belgian	63	Member	December 14, 2021	2026
Dr. Helge Lubenow	German	62	Member	December 14, 2021	2026
Prof. Dr. Franca Ruhwedel	German	48	Member	December 14, 2021	February 22, 2022 (resignation from mandate)
Karlheinz Schmelig	German	63	Member	December 14, 2021	2026

Research and development projects

All research and development activities of the Biofrontera Group regarding the nanoemulsion and Ameluz® are carried out by Biofrontera Bioscience GmbH, which is responsible for clinical studies as well as for the granting, maintenance and expansion of our approvals. Responsibility for the project management of all development activities is assumed internally; individual tasks such as data management and statistics are partially or completely outsourced. The development of the new red-light lamp RhodoLED® XL was the responsibility of Biofrontera Pharma GmbH. All our ongoing clinical studies are carried out in the USA. Research and development costs for both Ameluz®, the approved drug, and the other research and development projects, with the exception of the further development of the new RhodoLED® XL red light lamp, are recognized as expenses in the period in which they are incurred. In the reporting period, 20 people were employed in research and development as well as regulatory affairs (previous year: 21).

The following studies were completed or newly started during the reporting period:

Development and FDA-approval of the RhodoLED® XL

The future use of the RhodoLED® XL will allow the application of Ameluz® on larger areas as well as the simultaneous illumination of several interspersed lesions. Furthermore, the RhodoLED® XL will offer a significantly improved user experience with highly customizable settings. Combined with a modern and high-quality design, we expect strong customer acceptance, especially in the USA, and consequently an increase in PDT in general and thus in Ameluz® sales. Following submission of the application for approval to the FDA in the first half of the year, the Group received US approval for the new RhodoLED® XL red light lamp in October 2021. As with the predecessor model BF-RhodoLED®, this was granted in accordance with FDA requirements as a combination approval with Ameluz®.

Phase I safety study and pharmacokinetics study with Ameluz®-PDT

In December 2021, the Biofrontera Group commenced patient enrollment for its Phase I safety study to evaluate the safety and tolerability of PDT for the treatment of mild-to-severe AK on the face and scalp using three tubes of Ameluz® together with the new RhodoLED® XL lamp. The non-randomized, open-label, multicenter study evaluates the safety and tolerability of Ameluz® in the treatment of AK located on the face and scalp with PDT together with the new RhodoLED® XL lamp. The study includes 100 patients with mild to severe AK. Each patient will receive the content of three tubes of Ameluz® for a field-directed treatment of AK. A total of eight clinical sites are participating in the study.

The Phase I study follows a maximal-usage pharmacokinetics (PK) clinical study that was completed in October 2020 and the results were submitted to the FDA in early 2021. After consultation with the FDA in June 2021, the regulatory agency requested another safety study focusing on short-term side effects before the product information can be amended to include the concurrent use of up to three tubes of Ameluz®.

Phase II trial for the treatment of moderate to severe acne

In December 2021, patient recruitment began 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 (Ameluz®-PDT).

The multicenter, randomized, double blind phase II study with four arms uses conventional Ameluz®-PDT and includes 126 adult patients suffering from moderate to severe acne, which will be treated with Ameluz®-PDT or placebo. Efficacy and safety of Ameluz®-PDT will be tested with respect to incubation periods of one and three hours compared to placebo. The primary endpoint of the study is the absolute change in the number of inflammatory lesions and an improvement in acne severity scoring. 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 sites are participating in the study.

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

To further increase the growth potential in the US market in the medium term, the Company is currently conducting a clinical trial in the USA for the treatment of superficial basal cell carcinoma (sBCC) with Ameluz® in combination with our BF-RhodoLED® lamp. Patient recruitment has been ongoing since September 2018. To date, more than 70% of the planned 186 patients have been enrolled in the study. Due to the demanding study protocol, patient recruitment has been very time-consuming and was additionally slowed down by the pandemic last year but has recently picked up again. Following successful FDA approval, Ameluz® would be the on

Patent development

The Company maintains five 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

Patents have been issued for our nanoemulsion technology in Europe (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. A corresponding patent application has been filed and is pending in the United States.

On November 12, 2019, protection for the 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 nanoemulsion technology patent family, which continues until December 2027, although the corresponding patent application in the USA is still

pending. This patent has not yet been and possibly may never be granted in the USA and thus will not provide patent protection for Ameluz® in this market. However, we believe that the risk presented by future generic competition is mitigated by specific challenges in developing generic topical dermatological products. As part of Biofrontera's patent strategy to further protect Ameluz®, patent applications have been submitted for photodynamic therapy itself as well as our red-light lamp (see below).

Red-light lamp for photodynamic therapy

An international patent application titled "Illumination for photodynamic therapy" (PCT/EP2019/064642) was filed with the EPO (European Patent Office) on June 5, 2019. All countries that were members of the PCT (Patent Cooperation Treaty) on the filing date were designated in the application. On November 17, 2020, the national phase was initiated in the USA. In addition, a continuation-in-part application was filed in the USA on April 19, 2021, for which the notice of allowance was issued by the USPTO on November 12, 2021. The formal patent grant was received at the beginning of February 2022. This protection runs until June 5, 2039. In addition, the national phase of the original application was initiated in Australia, China, Europe (excluding extension & validation states), Hong Kong, Japan, New Zealand and Singapore.

Another new 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, for which a continuation-in-part application was also filed in the USA on March 29, 2021. For this continuation-in-part application, the notice of allowance was issued by the USPTO on November 10, 2021. The formal patent was granted at the beginning of February 2022 and is valid until October 15, 2040. Furthermore, an international application (PCT/EP2021/078045) was filed with the EPO on October 11, 2021.

In order 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 as a continuation-in-part application of the previously mentioned patent on October 19, 2021.

Photodynamic therapy

An international patent application "Photodynamic therapy comprising two light exposures at different wavelengths" was filed with the EPO 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, and examination requests were made in each case.

Migraine prophylaxis BF-1

An international patent application regarding anti-migraine compounds and their use was submitted to the EPO. Patents were granted to the Group in Europe (nationalized for Germany, Spain, France, United Kingdom, Italy) and in the United States. The Company has decided not to renew the patents in Europe, resulting in protection expiring on January 31, 2022.

Xepi®

The drug product Xepi®, in-licensed by Biofrontera, is protected by two patent families in the USA as well as other countries. As far as the USA is concerned, patent protection exists for the active ingredient molecule ozenoxacin contained in Xepi® until November 09, 2023, for the composition of Xepi® until January 29, 2032, and for the treatment of impetigo, for which it is approved, until December 15, 2029.

Patent transfers under the license agreement with Maruho Co., Ltd.

Limited to use under the existing license agreement with our partner Maruho Co., Ltd. the patent assignment of the following patents in Japan has been initiated:

- Nanoemulsion
- Illumination for photodynamic therapy
- Photodynamic therapy comprising two light exposures at different wavelengths.

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

Until and including 2020, the key financial performance indicators for the Group's operating performance were revenue and liquidity as well as the result from operating activities.

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.

Starting in fiscal year 2021, EBITDA and EBIT were introduced as key performance indicators in our reporting. Both have become established internationally as key performance indicators and will replace the previously reported result from operating activities.

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 expenditure on training and professional development as well as the number of training activities. Personnel costs are always assessed in line with the salary levels customary in the industry.

Management report for the 2021 fiscal year

Business performance

On the back of a significant upturn in business towards the middle of 2021, Biofrontera AG achieved encouraging revenue growth from product sales of 20%. The company was able to overcome the Corona-related constraints on business growth for the most part over the course of the year, so that both the sales teams and the employees in the subsidiaries were less affected by the pandemic containment measures. Despite this relief, the impact was still felt in the summer months, and with the emergence of the

Omicron variant in December and the resulting infection outbreak, restrictions on office visits returned significantly towards the end of the financial year.

Biofrontera generated total sales of EUR 28.8 million in the period from January 1 to December 31, 2021, compared to EUR 30.4 million in 2020, a decrease of about 5%. However, total revenue in the prior-year period included a one-time payment of EUR 6.0 million received by the company under a licensing agreement. Revenues from product sales alone amounted to EUR 28.7 million in 2021, representing an increase of around 20% for the reporting year compared to the prior-year period.

Commercialization of Ameluz® in the USA

In Biofrontera's largest market, USA, sales of around EUR 20.2 million were generated in the reporting period, an increase of 22% compared to the pandemic year 2020, which had set the company back significantly in terms of sales. In 2021, however, new sales momentum was created in the U.S., with marketing gradually picking up over the reporting year. A strong second and third quarter in 2021 compensated for the decline in sales in the first three months, which were far more affected by the pandemic. In the fourth quarter, sales of EUR 7.9 million were still higher than in the fourth quarter of 2020 but could not reach the pre-pandemic 2019 level. In addition to the emergence of the Omicron variant as a driver of a new wave of infection, Biofrontera Inc. had not scheduled a price increase for Ameluz at the end of the year. In the previous years' year-end quarters, this was an additional sales driver, along with seasonal sales strength.

The USA remains the largest sales market for Ameluz®, with more than 70% of total sales generated there in 2021.

Xepi®, the second product in the Biofrontera Inc. portfolio, could only be promoted to a limited extent during the past fiscal year, due to a delay in product delivery. The time was used to work on the product positioning and to prepare a new campaign. However, Xepi will not be of any importance to Biofrontera AG in the future, as it is a product in the portfolio of Biofrontera Inc. and the revenues generated will not be transferred to Biofrontera AG.

Initial Public Offering of Biofrontera Inc.

The third quarter of 2021 was also characterized by preparations for the initial public offering (IPO) of Biofrontera Inc. in the USA. On October 29, the IPO went ahead and the resulting access to one of the largest capital markets now secures Biofrontera Inc. the opportunity for further financing independent of Biofrontera AG, within the framework of the more growth-oriented U.S. corporate law. As the past has shown, similar financing opportunities cannot be created by Biofrontera AG, which is restricted in many respects by the German capital market and corporate law framework. Biofrontera AG continues to hold its shares in Biofrontera Inc. which, however, have become valuable through the IPO and may be sold if financing is required. At the end of December 2021, the exercise of previously issued Biofrontera Inc. warrants increased the total number of Biofrontera Inc. shares outstanding. As a result, on December 29, 2021, Biofrontera AG's stake in Biofrontera Inc. of 8,000,000 shares now corresponds to approximately 47% of the current outstanding shares. As a result, Biofrontera Inc. is no longer considered a subsidiary of Biofrontera AG in accordance with IFRS 10.

Irrespective of the ownership structure of Biofrontera Inc., Biofrontera AG benefits directly from the growing Ameluz® sales in the USA. Under a license and supply agreement, Biofrontera AG will receive up to 50% of Ameluz® sales in the form of a transfer price. This percentage applies to annual sales of up to $30 million and decreases to 40% between annual sales of $30 million and $50 million and to 30% above this level. The sliding scale considers Biofrontera Inc.'s sales and marketing costs, which increase with higher sales. At the same time as introducing the sliding scale into the license and supply agreement between the German companies and Biofrontera Inc., Biofrontera AG and its German subsidiaries are, contrary to previous agreements, only obligated to conduct a clearly defined clinical trial program. For the time being, Biofrontera Inc. is not entitled to any share in the results of further developments by the German Biofrontera Group and would have to acquire a license for these. Therefore, with growing sales, the costs associated with sales and marketing in the USA will increase in the German Biofrontera companies significantly less than the sales and marketing costs of Biofrontera Inc. which is why the staggering of the transfer price is justified.

Litigation

On November 29, 2021, Biofrontera AG and its wholly owned German subsidiaries and Biofrontera Inc. entered into an out-of-court settlement with DUSA Pharmaceuticals, Inc. ("DUSA"). The settlement was reached on the basis that Biofrontera Inc. and the

Company and its defendant subsidiaries agreed to pay DUSA USD 22.5 million in settlement of potential claims. In addition, claims were mutually waived. One half of the settlement amount was due upon execution of the agreement, and thereafter one quarter on each of the first and second anniversaries of the execution of the agreement. Of this amount, 50% will be borne by the Company and 50% by Biofrontera Inc. Due to its comfortable financial position, Biofrontera Inc. has assumed payment of the entire 1st installment of USD 11.25 million, leaving Biofrontera AG with a liability of approximately USD 5.63 million to Biofrontera Inc. as of the balance sheet date.

In November 2021, the Company announced in the mediation process with Mr. Zours and Deutsche Balaton AG to have found a solution for the settlement of legal disputes and further differences. The mediation agreement does not include a review of the background to the IPO of Biofrontera Inc. in the USA. In the run-up to the Annual General Meeting in December 2021, Deutsche Balaton had already attempted to force a resolution of the Annual General Meeting on the IPO and the IPO of Biofrontera Inc. by means of legal proceedings pursuant to Section 122 of the German Stock Corporation Act (AktG). In its decision of December 2, 2021, the Cologne Local Court rejected this claim and confirmed the Company's approach. Deutsche Balaton AG then filed a corresponding declaratory action with the Cologne Regional Court on December 13, 2021, the day before the Annual General Meeting, of which the Company only learned by court service on February 9, 2022. The content of the action is again the legal review and determination of so-called unwritten jurisdiction of the Annual General Meeting.

Further information on the legal disputes can be found in the opportunities and risks report.

Early and full repayment of the European Investment Bank (EIB) loan

In November 2021, the Company terminated the loan of nominally EUR 15 million granted by the EIB in full, including interest and other fees, ahead of schedule (see ad hoc announcement dated November 3, 2021) and repaid the loan before the end of the financial year 2021. The total volume of the payment to the EIB amounted to around EUR 20 million, with the early repayment reducing future expenses for interest and other fees.

Change in the composition of the Management Board

On February 2, 2021, the Company announced a change in the composition of the Company's Management Board. Effective March 1, 2021, Mr. Ludwig Lutter was appointed as the new Chief Financial Officer (CFO) of Biofrontera AG. He took over from Thomas Schaffer and is responsible for Finance, Administration, Controlling and Human Resources within the Company. Thomas Schaffer left the Company on February 28, 2021, to devote himself to new personal endeavors outside the Company. The change in the finance department was a result of the succession planning by the Supervisory Board and the Management Board already announced in summer 2020.

On November 10,2021, the Company announced that Prof. Dr. Lübbert would be exercising the termination and resignation option and has requested the Supervisory Board to release him from his duties at Biofrontera AG and the German subsidiaries as soon as possible. On December 2, 2021, the Supervisory Board and Prof. Dr. Lübbert agreed that Prof. Dr. Lübbert would resign from the Executive Board of Biofrontera AG and from the management of the German subsidiaries as of December13, 2021. Since then, he has been serving as Executive Chairman of Biofrontera Inc.

Change in the composition of the Supervisory Board

On December 14, 2021, the Company announced the results of the election to the new Supervisory Board at the Annual General Meeting held on December 14, 2021. As reported by the Company on November 19, 2021, agreement was reached on the Supervisory Board candidates for election, as part of the mediation process between the Deutsche Balaton Group and the then incumbent Supervisory Board of Biofrontera AG.

The five new members, Dr. Heikki Lanckriet, Dr. Helge Lubenow, Karlheimz Schmelig, Dr. Jörgen Tielmann and Wilhelm K. T. Zours, were elected to the Supervisory Board by the Company's Annual General Meeting on December 14, 2021, replacing the departing members Dr. Ulrich Granzer, Jürgen Baumann, Dr. John Borer, Reinhard Eyring and Kevin Weber. Prof. Dr. Franca Ruhwedel was re-elected to the Supervisory Board. At its constituting meeting on December 14, 2021, the Supervisory Board elected Wilhelm K. T. Zours as its Chairman and Dr. Jörgen Tielmann as Vice Chairman of the Supervisory Board. Prof. Dr. Franca Ruhwedel resigned her seat on the Supervisory Board on February 22, 2022. At the time this report was prepared, the Supervisory Board therefore consisted of five members.

Effects of the COVID-19 pandemic

Following the challenges resulting from the COVID 19 pandemic, Biofrontera Group was able to look back on a significant business recovery at mid-year with revenue growth from product sales of 20%. The Company also experienced a sales recovery in our key market, the USA, from mid-March onwards.

The coronavirus crisis led to a declining number of treatments and thus to strong sales declines in our most important sales market, the USA, especially in the comparative year 2020. On March 20, 2020, shortly after the pandemic spread of the virus became known, the Company announced that it would take comprehensive cost-cutting and cost-control measures on a precautionary basis.

Due to the COVID-19 crisis, the challenging business environment in 2020 has impacted the valuation of some of the Company's assets and liabilities. The reduced sales of Xepi® led to a reassessment of the medium-term business and earnings prospects for Xepi® as well as the liability to Maruho in the first quarter of 2020 and thus to an impairment of the Xepi® license.

Evaluation of the business performance of the Biofrontera Group

Comparison of actual and forecast business performance

Due to the coronavirus pandemic and the resulting planning uncertainty, the company's ability to forecast in 2021 continued to be impaired. Nevertheless, the Biofrontera Group generated revenues of around EUR 29 million in the 2021 financial year, thus meeting the revenue forecast of EUR 25 to 32 million.

Group EBITDA amounted to EUR 28.0 million in the financial year. However, this figure includes significant special and one-off effects from the settlement with DUSA Pharmaceuticals Inc. already announced in December and from the deconsolidation of Biofrontera Inc. totaling EUR minus 39.7 million. EBITDA for 2021 adjusted for these special and one-off effects amounted to EUR minus 11.8 million. Taking into account these special effects, adjusted EBIT for the financial year accordingly amounts to EUR minus 15.1 million. Both figures are thus within the forecast range of EUR minus 11 to minus 14 million for EBITDA and EUR minus 13 to minus 16 million for EBIT.

Evaluation of the business performance by the Management Board

After initial pandemic-related start-up difficulties, business performance was positive overall in the first quarter. As expected, sales and thus business activity continued to be heavily dependent on the infection situation and the related relaxation of regulatory containment measures in our sales markets, particularly in the USA. During the course of the year, there was a clear rebound in business in the USA, although the Omikron wave was noticeable in the sales development towards the end of the year.

Group EBITDA improved to EUR 27,950 thousand in the financial year 2021 (previous year: EUR -4,696 thousand). This includes the special effects from the settlement with DUSA (EUR minus 19,457 thousand) and from the deconsolidation of Biofrontera Inc. (EUR 59,180 thousand) and from the receipt of the down payment from Maruho in 2020 (EUR 6,000 thousand). Adjusted for these effects, the development of EBITDA is as follows:

in EUR thousands	2021	2020
EBITDA	27,950	(4,696)
One-off effects	(39,723)	(6,000)
Adjusted EBITDA	(11,772)	(10,696)
Ammortizatiion and depreciation	(3,290)	(5,333)
One-off effects	0	2,001
Adjusted EBITDA (loss)	(15,062)	(14,028)

Depreciation and amortization in fiscal year 2021 was lower at EUR 3,290 thousand than in the previous year at EUR 5,333 thousand, resulting from the impairment loss due to the Xepi® impairment (EUR 2,001 thousand) included in the previous year's figure.

Accordingly, EBIT in the reporting year amounts to EUR 24,661 thousand compared to a loss of EUR 10,029 thousand in the previous year.

Biofrontera reports consolidated earnings before income taxes of EUR 35,683 thousand (previous year: loss of EUR 12,697 thousand). In the separate financial statements of Biofrontera AG, a net loss of EUR 4,130 thousand is reported, compared to a loss of EUR 3,196 thousand in the previous year.

Due to the capital measure resolved in May 2020 and implemented in February 2021, the Group was in a solid 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.

In addition, the company has prematurely terminated the loan of nominally EUR 15 million granted by the EIB in full, including interest and fees, and repaid this before the end of the 2021 financial year. The total volume of the payment to be made to the EIB amounted to around EUR 20 million.

With the FDA approval of the new RhodoLED® XL lamp in October 2021 and the performance or start of several clinical studies, the company was also able to report encouraging progress on the regulatory and clinical side. In addition, the patent strategy was strengthened with the receipt of two U.S. patents (see section "Patent Development").

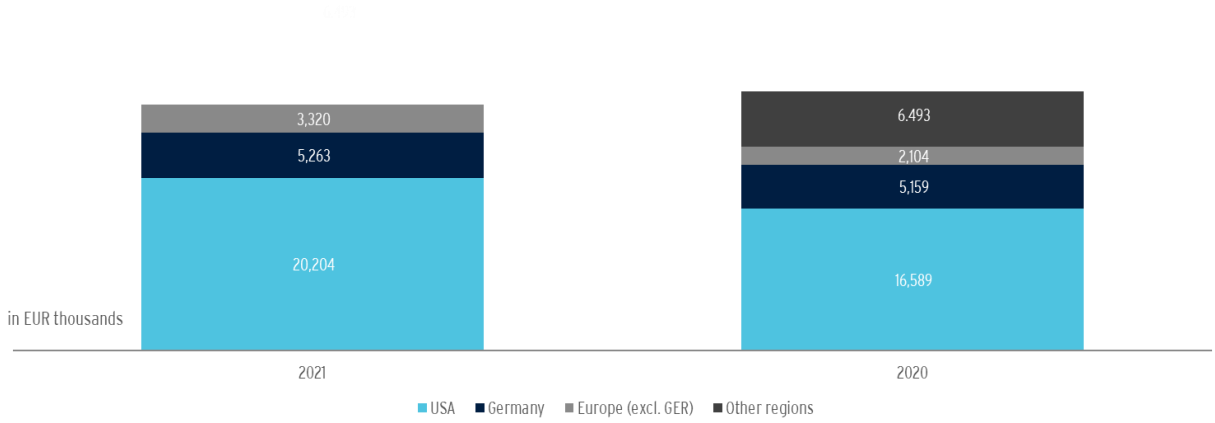
Biofrontera Group financial position and performance

Results of operations of the Biofrontera Group

The results of operations as of December 31, 2021 are as follows:

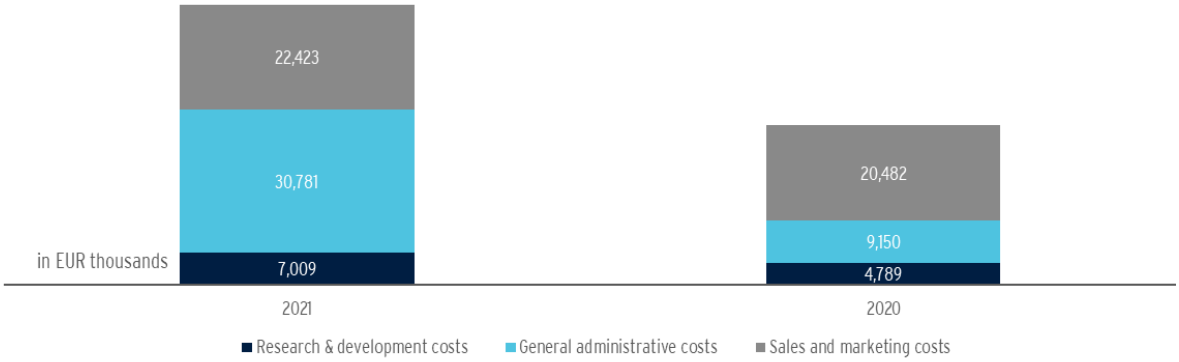
	2021	2020
Sales revenue	28,787	30,346
Gross profit on sales	24,873	26,810
Research and development costs	(7,009)	(4,789)
General administrative costs	(30,781)	(9,150)
Sales and marketing costs	(22,423)	(20,482)
Loss from operations	**(35,341)**	**(7,611)**
Other expenses and income	60,001	(2,418)
EBITDA		
EBIT	**24,661**	**-10,029**
Financial result	11,022	-2,668
Loss before income tax	**35,683**	**-12,697**
Loss after income tax	**33,857**	**-13,023**

Sales revenue



The Biofrontera Group generated total sales of EUR 28,787 thousand in the reporting year 2021, a decrease of 5% compared to the previous year's figure (previous year: EUR 30,346 thousand), whereby the previous year's sales included a one-time payment of EUR 6,000 thousand, which the company received as part of a licensing agreement. Revenues from product sales improved by 20% year-on-year to EUR 28,737 thousand (previous year: EUR 23,852 thousand). This includes sales of EUR 89 thousand with the product Xepi® (previous year: EUR 279 thousand).

Sales in Germany improved by 2% year-on-year to EUR 5,263 thousand (previous year: EUR 5,159 thousand). In other European countries, product sales increased by a total of 55% to EUR 3,270 thousand (previous year: EUR 2,104 thousand). There were no sales from other regions in the fiscal year (previous year: EUR 6,493 thousand); the previous year's figure included sales from a down payment as part of a license payment in the amount of EUR 6,000 thousand.



Gross profit on sale

Gross profit decreased by EUR 1,937 thousand in the reporting year 2021 to EUR 24,873 thousand compared to EUR 26,810 thousand in the prior-year period. The gross margin decreased from 88% in 2020 to 86% in fiscal year 2021. This is mainly due to the revenues from licenses (one-time payment) of EUR 6,000 thousand included in the prior-year figure, which are not offset by any directly attributable cost of sales.

Research and development costs

Research and development costs increased by 46% to EUR 7,009 thousand in the reporting period compared to EUR 4,789 thousand in the previous year, mainly due to increased clinical research activities. In addition to clinical trial costs, 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 30,781 thousand in fiscal year 2021 (previous year: EUR 9,150 thousand) and thus increased by a total of EUR 21,631 thousand compared to the previous year. This was mainly due to the costs for the settlement payment in connection with the out-of-court settlement of the legal dispute with DUSA Pharmaceuticals Inc. in the amount of EUR 19,457 thousand (USD 22.5 million).

Sales and marketing costs

Sales and marketing expenses amounted to EUR 22,423 thousand in fiscal year 2021, an increase of EUR 1,941 thousand compared with the previous year (EUR 20,482 thousand), mainly due to the cost-cutting measures implemented in the previous year as a result of the COVID 19 pandemic. 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

In the 2021 financial year, EBITDA and EBIT were introduced as management-relevant indicators in reporting. Both have become established internationally as target figures and replace the previously reported figure of profit from operating activities.

The Group's EBITDA includes earnings before interest, taxes, depreciation of property, plant and equipment and amortization of intangible assets and improved by EUR 32,646 thousand to EUR 27,950 thousand in fiscal year 2021 compared with the prior-year period (EUR minus 4,696 thousand). However, this figure includes special or one-off effects from the settlement with DUSA Pharmaceuticals Inc. already communicated in December and from the deconsolidation of Biofrontera Inc. totaling EUR minus 39.7 million. EBITDA for 2021 adjusted for these special or one-time effects amounted to EUR minus 11,772 thousand and thus decreased by EUR minus 1,077 thousand compared to the likewise adjusted EBITDA of the previous year of EUR minus 10,696 thousand. The main reason for this is the partial reversal of the cost-cutting measures introduced in 2020 due to the COVID 19 pandemic.

EBIT includes earnings before interest and taxes and improved year-on-year to EUR 24,661 thousand (prior-year period: EUR -10,029 thousand). Taking into account the above-mentioned special effects and the impairment loss recognized in 2020 for the Xepi license, adjusted EBIT for the fiscal year was accordingly EUR minus 15,062 thousand, a decrease of EUR minus 1,034 thousand compared to EUR minus 14,028 thousand in the previous year..

Financial result

In addition to the interest result, the financial result totaling EUR 11,022 thousand (previous year: loss of EUR 2,668 thousand) mainly includes income from the fair value change in the carrying amount of the investment in Biofrontera Inc. amounting to EUR 14,729 thousand (previous year: EUR 0 thousand).

The interest result amounts to a loss of EUR 3,707 thousand (previous year: loss of EUR 2,668 thousand) and mainly includes interest expenses for the EIB loan (EUR 2,128 thousand, previous year: EUR 1,765 thousand) and the fair value change of the purchase price liability for Cutanea in the amount of EUR 1,396 thousand (previous year: EUR 750 thousand).

Other income and expenses

Other expenses and income totaled EUR 60,001 thousand in the reporting period (previous year: loss of EUR 2,418 thousand) and mainly include the deconsolidation gain of EUR 58,773 thousand from the withdrawal of Biofrontera Inc. from the Group. In addition, expenses and income from currency translation amounting to EUR 160 thousand (previous year: loss of EUR 3,601 thousand) are reflected here.

Income taxes

This item includes actual income taxes of EUR 47 thousand (prior-year period: income of EUR 56 thousand), as well as deferred tax expenses of EUR 1,778 thousand (previous year: EUR 269 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, 2021 is as follows. Due to the effects from the deconsolidation of Biofrontera Inc. included in the financial year, comparability with the previous year is only possible to a limited extent. Please refer to our presentation of the pro forma balance sheet in the notes.

in EUR thousands	December 31, 2021	December 31, 2020
Non-current assets	62,322	30,264
Current financial assets	8,171	20,579
Other current assets	6,206	5,547
Total assets	**76,699**	**56,391**
Equity	57,997	7,375
Non-current liabilities	1,235	40,730
Current financial liabilities	10,478	2,852
Other current liabilities	6,990	5,434
Total equity and liabilities	**76,699**	**56,391**

Non-current assets

Non-current assets as of December 31, 2021, totaling EUR 62,322 thousand (previous year: EUR 30,264 thousand) include recognized deferred tax assets on tax loss carryforwards at Biofrontera Pharma GmbH in the amount of EUR 5,747 thousand (previous year: EUR 7,525 thousand), property, plant and equipment in the amount of EUR 2,281 thousand (previous year: EUR 5,051 thousand), and intangible assets (EUR 1,139 thousand; previous year: EUR 17,689 thousand). In the previous year, this included the acquired Xepi® license in the amount of EUR 16,720 thousand, which was not recognized in the financial year due to the deconsolidation of Biofrontera Inc. In addition, the investment in Biofrontera Inc. valued at equity is reported here at EUR 53,154 thousand (previous year: EUR 0 thousand).

Current financial assets

Current financial assets totaled EUR 8,171 thousand as of December 31, 2021 (previous year: EUR 20,579 thousand). This includes cash and cash equivalents of EUR 6,908 thousand (previous year: EUR 16,546 thousand), trade receivables of EUR 793 thousand (previous year: EUR 3,501 thousand), and other current financial assets of EUR 57 thousand (previous year: EUR 531 thousand).

Other current assets

Other current assets mainly contain inventories. This increased to EUR 4,814 thousand (previous year: EUR 4,673 thousand) due to higher inventories of raw materials and supplies as a result of the initial stocking of an additional contract manufacturer. In the reporting year, impairment losses of EUR 172 thousand (previous year: EUR 414 thousand) were recognized on inventories

Equity

In accordance with IFRS, the Group reported equity of EUR 57,997 thousand (previous year: EUR 7,375 thousand). The equity ratio improved from 13% to 76%, due to the repayment of the EIB loan and the disposal of the purchase price liability to Maruho in the course of the deconsolidation of Biofrontera Inc.

Non-current liabilities

Non-current liabilities include financial liabilities (EUR 851 thousand; previous year: EUR 22,736 thousand) and other non-current financial liabilities (EUR 384 thousand; previous year: EUR 17,994 thousand). In addition to liabilities under the SAR program (EUR 384 thousand; previous year: EUR 183 thousand), this item also includes the purchase price liability for Cutanea Life Sciences, Inc. (EUR 0 thousand; previous year: EUR 17,811 thousand).

Non-current financial liabilities include liabilities from leases to be reported in accordance with IFRS 16 in the amount of EUR 851 thousand (previous year: EUR 2,657 thousand), as well as the loan from the EIB, including the performance component, totaling EUR 0 thousand (previous year: EUR 18,076 thousand). The unconverted shares of the convertible bond 2017/2022 in the amount of EUR 2,003 thousand reported in this item in the previous year were reclassified to current financial liabilities.

Current financial liabilities

Current financial liabilities include in particular trade accounts payable of EUR 2,735 thousand (previous year: EUR 1,623 thousand) and liabilities to associated companies of EUR 5,279 thousand (previous year: EUR 0 thousand) as well as current financial liabilities of EUR 2,449 thousand (previous year: EUR 1,139 thousand).

Current financial liabilities mainly include current liabilities from leases under IFRS 16 amounting to EUR 357 thousand (previous year: EUR 1,057 thousand) and the unconverted portions of the 2017/2022 convertible bond amounting to EUR 2,031 thousand (previous year: EUR 2,003 thousand).

Other current liabilities

Other current liabilities amounted to EUR 6,990 thousand (previous year: EUR 5,434 thousand) and include in particular accruals of EUR 1,012 thousand (previous year: EUR 3,042 thousand) and other accruals of EUR 5,840 thousand (previous year: EUR 2,392 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	2021	2020
Cash flow from operating activities	30,439	(2,849)
Cash flow from operating activities	(42,259)	2,873
Cash flow from financing activities	2,182	5,948
Cash and cash equivalents	6,908	16,546
Non-current financial liabilities	851	22,736
Current financial debt	2,449	1,139
Net liquidity	3,609	(7,328)

Net cash flow from operating activities of EUR 30,439 thousand (previous year: minus EUR 2,849 thousand) increased mainly due to the improved earnings before taxes of EUR 35,683 thousand (previous year: minus EUR 12,697 thousand).

Net cash used in investing activities decreased from EUR 2,873 thousand to minus EUR 42,259 thousand in fiscal year 2021 and, in addition to investments in property, plant and equipment and intangible assets of EUR 629 thousand (previous year: EUR 774 thousand), primarily includes the effect of the deconsolidation of Biofrontera Inc. in the amount of minus EUR 41,630 thousand (previous year: EUR 0 thousand). The previous year's figure includes, at EUR 3,547 thousand, the start-up costs of Maruho incurred as part of the acquisition of Cutanea.

Net cash flow from financing activities amounted to EUR 2,182 thousand (previous year: EUR 5,948 thousand) and mainly includes the proceeds from the capital increase carried out in February and the cash outflows from the repayment of the EIB loan.

The convertible bond 2017/2022 in the amount of EUR 2,031 thousand (previous year: EUR 2,003 thousand) matures in 2022.

Cash and cash equivalents

Cash and cash equivalents in the Group amount to EUR 6,908 thousand as of December 31, 2021 (previous year: EUR 16,546 thousand).

From today's perspective, both the Group and Biofrontera AG have sufficient liquidity and short-term liquid funds available 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 April 7, 2022, a level of cash and cash equivalents of EUR 6.9 million in the Group as of December 31, 2021, and the ownership of 8 million liquid shares in Biofrontera Inc. with a stock market value of around USD 30 million. If, contrary to expectations, the resolved capital increase cannot be implemented, the Company will secure interim financing either through borrowing or a partial sale of Biofrontera Inc. shares. Although the Company expects lower sales and marketing costs in the future due to the deconsolidation of Biofrontera Inc. and an overall improving earnings development in 2022, liquidity at year-end 2022 is nevertheless expected to be below the level at year-end 2021, as the first installment of the liability from the DUSA settlement has to be settled.

Biofrontera AG financial position and performance

Results of operations of Biofrontera AG

in EUR thousands	2021	2020
Sales revenue	3,698	4,220
Other operating income	12,362	1,409
Personnel costs	(3,325)	(3,008)
Depreciation and amortization	(28)	(23)
Other operating expenses	(16,647)	(8,142)
Other interest and similar income	1,748	3,943
Interest and similar expenses	(1,937)	(1,594)
Other taxes	(1)	(1)
Net loss	**(4,130)**	**(3,196)**

The sales reported in the separate financial statements under German commercial law include income from intragroup services. Other operating income mainly relates to the intra-Group recharging of expenses from the settlement payment to DUSA.

Personnel expenses were lower in the previous year due to the temporary introduction of short-time working for all employees in 2020 in the wake of the COVID 19 pandemic.

Other operating expenses increased in particular due to the EUR 9,428 thousand increase in costs for legal advice to EUR 10,499 thousand, primarily as a result of the termination of the legal dispute with DUSA Pharmaceuticals, Inc. through an out-of-court settlement. Likewise, financing costs increased to EUR 2,385 thousand (previous year: EUR 749 thousand) due to the capital increase carried out in February 2021. Expenses for insurance also increased by EUR 737 thousand to EUR 1,234 thousand. In contrast, expenses from currency translation fell sharply by EUR 33 thousand (previous year: EUR 3,636 thousand) due to the discontinuation of the loan granted to the former subsidiary Biofrontera Inc.

The decrease in interest and similar income is mainly explained by the discontinuation of the loan granted to the then subsidiary Biofrontera Inc. Interest expenses increased in particular due to interest payments on the loan provided by the EIB.

The net loss for the year amounts to minus EUR 4,130 thousand (previous year: minus EUR 3,196 thousand).

Net assets of Biofrontera AG

in EUR thousands	December 31, 2021	December 31, 2020
Non-current assets	70,689	70,690
Receivables due from affiliated companies	72,126	59,000
Cash and cash balances with banks	6,516	9,201
Other assets	1,052	187
Total assets	**150,383**	**139,078**
Equity	135,879	115,200
Provisions	5,866	3,572
Bonds	2,031	2,031
Liabilities to banks	0	17,722
Other liabilities	6,607	553
Total equity and liabilities	**150,383**	**139,078**

Non-current assets relate almost exclusively to shares in affiliated companies and associated companies.

Cash and cash equivalents decreased from EUR 9, 210 thousand in the previous year to EUR 6, 516 thousand in 2021. 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 135,879 thousand as of December 31, 2021 (previous year: EUR 115,200 thousand). In particular, the capital increase in February 2021 increased equity by EUR 20,679 thousand.

Provisions mainly include settlement payments of EUR 4,970 thousand (previous year: EUR 0 thousand), while provisions for litigation costs have ceased to exist (previous year: EUR 1,979 thousand). Provisions for the performance component of the EIB loan also ceased to exist (previous year: EUR 768 thousand) due to early termination and full repayment.

The bonds include the convertible bond 2017/22. The liabilities to banks are omitted completely due to the early termination and full repayment.

Assessment of the financial position of Biofrontera AG and the Group

In the individual financial statements of Biofrontera AG, liquidity amounts to EUR 6,516 thousand compared to EUR 9,201 thousand in the previous year, the main influencing factors in the 2021 financial year for this were the capital increase carried out in February with gross issue proceeds of EUR 24,667 thousand and, counteracting this, the repayment of the EIB loan in the amount of EUR 19,958 thousand. The Group's liquidity decreased by EUR 9,638 thousand to EUR 6,908 thousand in fiscal year 2021. In addition to the factors already mentioned, the deconsolidation of Biofrontera Inc. was the main factor here.

From today's perspective, both the Group and Biofrontera AG have sufficient liquidity and short-term liquid funds available 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 April 7, 2022, a level of cash and cash equivalents of EUR 6.9 million in the Group as of December 31, 2021, and the ownership of 8 million liquid shares in Biofrontera Inc. with a stock market value of around USD 30 million. If, contrary to expectations, the resolved capital increase cannot be implemented, the Company will secure interim financing either through borrowing or a partial sale of Biofrontera Inc. shares. Although the Company expects lower sales and marketing costs in the future due to the deconsolidation of Biofrontera Inc. and an overall improving earnings development in 2022, liquidity at year-end 2022 is nevertheless expected to be below the level at year-end 2021, as the first installment of the liability from the DUSA settlement has to be settled.

Outlook and forecast

General conditions

We expect the global economy to continue to grow robustly in 2022 despite the coronavirus, although the speed of recovery is likely to vary from region to region. In this regard, the recovery of the economy will continue to depend heavily on the course of the pandemic and the measures taken by governments to contain it.

The German government's (Federal Ministry for Economic Affairs and Energy) Annual Economic Report 2022, published on January 26, 2022, indicates a 2.7% decline in German gross domestic product (GDP) in 2021, due to the impact of the COVID-19 pandemic. To date, the German federal government has assumed a recovery in economic activity in 2022 with an increase in GDP of 3.6%. In this context, the federal government assumes that the German economy will not experience a significant economic recovery until later in the year due to the course of the pandemic.

According to a January 22, 2022 publication by the U.S. Bureau of Economic Analysis (BEA)[1], U.S. gross domestic product increased by 5.7% in 2021. In its economic forecast, which covers the period from 2021 to 2031, the Congressional Budget Office (CBO) assumes that the positive economic development that has begun will continue. For 2022, the CBO[2] expects GDP to increase by 2.4%.

Guidance

The Biofrontera Group provides the following outlook for the full year 2022, which reflects the Group's assessment of the pace of further recovery from the pandemic. We expect that due to the progressing immunization of the population, the pandemic will slowly subside in our key sales markets, so that growth momentum should build momentum in the second half of 2022.

Forecast of key performance indicators relevant to management

The Group expects sales of EUR 24 to 27 million in fiscal 2022. Sales by our own sales teams as well as our licensing partners in the U.S. and Europe, and thus business activity, are highly dependent on further regional recovery from the pandemic and the effects resulting from the Ukraine crisis.

In the USA in particular, the main sales market for our flagship product Ameluz® , we expect to see a noticeable increase in momentum and a rise in demand over the course of the year. As a result of the pandemic experience, we expect personal patient visits to doctors to increase again. This should lead to more prescriptions and higher demand for treatments performed in a doctor's office. To the extent that potential pandemic-related travel restrictions and mobility limitations, as well as bans on office visits, limit our licensing partner's sales team, these may now be partially offset by virtual interactions with physicians. We also expect that the FDA approval of the new RhodoLED® XL lamp in October 2021, together with far-reaching marketing measures to support sales by our U.S. license partner, will lead to increased growth momentum in the U.S. market.

In Germany, the most important European sales market, the company expects the continued steady expansion of the PDT market by gaining market share. Daylight PDT approved in Europe is also expected to be a growth driver in 2022. In Europe, we expect growing sales in Scandinavia from our new licensing partner Galenica AB, as well as initial sales from the licensing and supply agreement with Medac Gesellschaft für klinische Spezialpräparate mbH in Poland starting in the second half of the year.

However, as mentioned at the outset, sales growth is heavily dependent on the further recovery from the pandemic and the Ukraine crisis. This still results in uncertainty with regard to the sales revenue that can be achieved in the current year.

As described in the section "Internal Control," EBITDA and EBIT have been introduced as management-relevant indicators in reporting from 2021. Both have become established internationally as target figures and have replaced the previously reported key figure of profit from operating activities.

Group EBITDA includes earnings before interest, taxes, depreciation of property, plant and equipment and amortization of intangible assets. EBIT includes earnings before interest and taxes. These 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.

[1] Source: https://www.bea.gov/news/2022/gross-domestic-product-fourth-quarter-and-year-2021-advance-estimate

[2] Source: https://www.cbo.gov/publication/56970

Based on the above assumptions, Biofrontera AG expects EBITDA to be close to break-even in 2022 and negative EBIT to be in the low single-digit million range. If the markets continue to recover, the Company further expects to generate further revenue increases as well as positive EBITDA and EBIT in the low single-digit million range from 2023 onwards.

From today's perspective, both the Group and Biofrontera AG have sufficient liquidity and short-term liquid funds available 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 April 7, 2022, a level of cash and cash equivalents of EUR 6.9 million in the Group as of December 31, 2021, and the ownership of 8 million liquid shares in Biofrontera Inc. with a stock market value of around USD 30 million. If, contrary to expectations, the resolved capital increase cannot be implemented, the Company will secure interim financing either through borrowing or a partial sale of Biofrontera Inc. shares. Although the Company expects lower sales and marketing costs in the future due to the deconsolidation of Biofrontera Inc. and an overall improving earnings development in 2022, liquidity at year-end 2022 is nevertheless expected to be below the level at year-end 2021, as the first installment of the liability from the DUSA settlement has to be settled.

For the separate financial statements of Biofrontera AG, we continue to expect a loss, which is likely to be at the level of the previous year.

Forecast of further key figures

In order to continue to adequately push and support the company's growth, Biofrontera expects a slight increase in the number of employees in 2022. Staff appointments and replacements have been delayed due to the pandemic-related cost reduction measures and are now being implemented. We expect annual training and development expenses and the number of training sessions to increase in 2022 compared to 2021 due to the slight increase in headcount as well as necessary relaxations of cost-cutting measures.

The maintenance and further development of our approvals is essential for securing and strengthening Biofrontera's market position and is reflected in our quality management, among other things. Thus, among other things, the number of external and internal audits represent important non-financial control parameters for the company. We expect the number of audits to be higher in 2022 compared to the number in 2021.

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, over 70% of the planned 186 patients have been enrolled in the study. The company expects patient enrollment to be completed by the end of 2022.

In order to ensure reimbursement of multiple tubes for the treatment of larger body regions in the USA in the future, Biofrontera has been conducting a Phase I safety study since December 2021, following consultation with the FDA, to evaluate the safety and tolerability of PDT for the treatment of mild to severe actinic keratosis on the face and scalp with the simultaneous use of three tubes of Ameluz® together with the new RhodoLED® XL lamp. The product information currently specifies only one tube of Ameluz® per treatment. The company expects to be able to complete patient recruitment by the end of 2022.

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. The company also expects patient recruitment to be completed by the end of 2022.

In the course of the approval extension for Ameluz® in the EU, which took place in March 2020, Biofrontera has also consulted with the US Food and Drug Administration (FDA) about a corresponding approval extension for Ameluz® for the treatment of AK on the extremities and trunk/neck. Patient recruitment for the phase III trial is scheduled to begin in 2022.

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 Chairman of the Executive 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.

External influences and global risks

The increasing integration of the global economy due to globalization and digitalization can exert a negative influence on the achievement of Biofrontera's targets in the context of macroeconomic developments. Furthermore, 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 Biofrontera.

The ongoing COVID 19 pandemic may have further negative effects on the Biofrontera Group's business operations. The maintenance of business processes may be impaired by, among other things, the ordering of (regional) regulatory measures that do not allow full business operations or by employees of the Biofrontera Group or of relevant suppliers becoming infected with COVID-19. However, the Executive Board currently expects to be able to counteract these potential effects by taking appropriate measures.

To this end, the company had already taken appropriate measures immediately after the start of the pandemic to counter these risks and safeguard business operations through comprehensive cost reductions, contingency planning to maintain central processes, and activities to protect employees. These could be implemented again if required.

For further risks in connection with the ongoing pandemic, please refer to the comments in the section on "Liquidity, profitability and capital market access".

Although the war in Ukraine that broke out at the end of February currently has no direct impact on Biofrontera, as the company is not active in either Ukraine or Russia. However, there are negative indirect factors influencing the company's performance, such as price increases in procurement markets and further impairment of supply chains that have already been impacted in the context of the COVID 19 pandemic. There is also the possibility of further escalations and the resulting beyond-regional economic risks.

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 the company's current loss situation and uncertainties regarding future business development, or from not being able to exploit market potential in line with Biofrontera's business strategy due to insufficient liquidity.

Biofrontera offsets 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 liquidity planning across the Group in order to enable us to take timely measures to achieve our goals, if necessary.

The Biofrontera Group might not be able to meet existing or future payment obligations due to insufficient availability of cash and cash equivalents. To date, the Group has been able to meet its payment obligations at all times. Through the injection of equity or debt capital, Biofrontera has so far always succeeded in providing the financing necessary for its business operations. Due to the capital measures carried out in the past, and especially due to the capital measure executed in February 2021, the company has had sufficient liquidity available throughout the reporting period. Following the initial public offering (IPO) of Biofrontera Inc. in the USA and the current investment of Biofrontera AG with 8,000,000 shares in Biofrontera Inc., the Group also has additional liquidity potential available in the possible sale of the shares. The main objectives of the Biofrontera Inc. IPO included raising additional capital to finance the growth of its business, creating a public market for its shares and facilitating future access to the capital market.

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 considerable fines, as well as other financial disadvantages, could cause harm to the Company's reputation and ultimately have a negative impact on our business success or our access to the capital markets.

In the lawsuit filed by DUSA Pharmaceuticals, Inc. (DUSA) filed in March 2018 in the District Court of Massachusetts against Biofrontera Group, further proceedings were referred to decision by a jury in October 2020. The lawsuit included alleged infringement of DUSA patents No. 9,723,991 and No. 8,216,289 through the sale of BF-RhodoLED® in the U.S., claims regarding unauthorized use of alleged trade secrets, and tortious interference with contractual relations and deceptive and unfair trade practices. In these proceedings, DUSA had asserted claims for damages in an unassessable amount. An out-of-court settlement was reached with DUSA on November 29, 2021, before the start of proceedings. The settlement was reached on the basis of the following key points: The Company as well as its defendant subsidiaries have agreed to pay DUSA an amount of USD 22.5 million in settlement of potential claims. Additionally, claims are mutually waived. One half of the settlement amount is due after the conclusion of the settlement agreement, thereafter one quarter on each of the first and second anniversaries after the conclusion of the settlement agreement. Of this amount, 50% will be assumed internally by the Company and 50% by Biofrontera Inc.

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. If our products are marketed successfully, the resulting profits can be deployed for sustainable ongoing investment in research and development activities. Due to the long time gap between the patent application and the launch of a product, Biofrontera generally has only a few years to earn a suitable income from its intellectual work. If a patent expires or cannot be successfully defended, increased competition is usually to be expected. A lack of patents can jeopardize the market position of the Company's products and facilitate the market entry of competitors. In order to avoid these risks, Biofrontera's patent portfolio is continuously reviewed and its patent strategy adjusted. Further information on individual patents can be found in the section on patent and trademark development.

Moreover, third-party claims regarding Biofrontera's potential infringement of patents or other protective rights may hinder or completely prevent the development or manufacturing of certain products and may obligate us to pay damages or royalties to third parties. Our patent department regularly reviews the current patent situation, in cooperation with the relevant operational departments, and monitors possible patent infringement attempts, so that it can take suitable legal steps if necessary.

On November 12, 2019, protection for the patent family, describing the combination of nanoemulsions with aminolaevulinic acid hydrochloride, the active ingredient in Ameluz®, expired. However, Ameluz® continues to be protected by the nanoemulsion technology patent family, which also continues until December 2027, although the corresponding patent application in the USA is still pending. This patent has not yet been and may never be granted in the US and thus would not provide patent protection for Ameluz® in this market. However, we believe that the risk presented by future generic competition is mitigated by specific challenges in developing generic topical 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 "Patent development". Further information on patent litigation is provided separately in the "Litigation" section.

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

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.

Overall opportunity and risk situation at Biofrontera

The Management Board of Biofrontera believes that the current COVID-19 crisis is still significantly impacting Biofrontera AG's forecasting ability at this point in time. We currently assume that the general conditions will continue to normalize in the financial year 2022.

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

- Since March 2020, the Company has been directly affected by the global COVID-19 crisis. The Company has taken immediate steps to safeguard its business processes through comprehensive cost reductions, emergency plans to maintain central processes and measures to protect its employees.

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

  However, without the capital increase resolved on April 07, 2022 and including the obligations from the settlement with DUSA Pharmaceuticals Inc. the current liquidity position is not sufficient until the operating break-even is reached. For this purpose, the Company is considering several alternative financing measures at its disposal. The additional capital requirements can be met through the resolved capital increase, the sale of shares held in Biofrontera Inc. or through an external provision of debt capital.

- 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 litigation, which has preoccupied the company for the last few years, Biofrontera considers itself excellently positioned. The out-of-court settlement with DUSA Pharmaceuticals, Inc. ("DUSA") eliminated potential future litigation costs and any unquantifiable claims for damages. In addition, as part of the mediation process, Biofrontera AG, on the one hand, and Mr. Zours and the companies of the Deutsche Balaton Group, on the other hand, agreed to terminate all lawsuits pending between them at that time by withdrawing their claims.

Litigation

DUSA v. Biofrontera

On November 29, 2021, Biofrontera AG and its wholly owned German subsidiaries and Biofrontera Inc. entered into an out-of-court settlement with DUSA Pharmaceuticals, Inc. ("DUSA").

The Company and its defendant subsidiaries and Biofrontera Inc. were sued in the U.S. by DUSA alleging patent infringement, unauthorized use of alleged trade secrets, tortious interference with contractual relations and alleged deceptive and unfair trade practices. DUSA has asserted claims for significant damages in this action.

The settlement was reached on the basis that Biofrontera Inc. and the Company and its defendant subsidiaries agreed to pay DUSA USD 22.5 million in settlement of potential claims. In addition, claims were mutually waived. One half of the settlement amount was due upon execution of the agreement, and thereafter one quarter on each of the first and second anniversaries of the execution of the agreement. Of the settlement amount, 50% will be borne by the Company and 50% by Biofrontera Inc.

Biofrontera v. Deutsche Balaton et. al.

An action for annulment and rescission was brought by Deutsche Balaton AG, Heidelberg, as plaintiff, against resolutions of the Annual General Meeting of Biofrontera AG held on May 24, 2017. The action was most recently pending before the Cologne Higher Regional Court under file number 18 U 182/17.

As plaintiff, Deutsche Balaton AG filed an action for rescission and nullity against resolutions of the Annual General Meeting of Biofrontera AG held on July 11, 2018. In addition, positive action for a declaratory judgment was filed. The action was last pending before the Regional Court of Cologne under file number 82 O 91/18.

DELPHI Unternehmensberatung AG, Heidelberg, as plaintiff, filed an action for rescission and nullity against resolutions of the Annual General Meeting of Biofrontera AG on July 10, 2019. In addition, positive action for a declaratory judgment was filed. The action was last pending before the Cologne Regional Court under file number 82 O 75/19.

ABC Beteiligungen AG, Heidelberg, as plaintiff, filed an action for rescission and annulment against resolutions of the Company's Annual General Meeting on May 28, 2020. In addition, positive action for a declaratory judgment was filed. The action was last pending before the Cologne Regional Court under file number 82 O 53/20.

On June 11, 2018, Biofrontera AG as plaintiff had filed suit (Case 1:18-cv-05237-LAP) in the United States District Court for the Southern District of New York against Mr. Wilhelm Konrad Thomas Zours, Deutsche Balaton AG, Delphi Unternehmensberatung AG, VV Beteiligungen AG, Heidelberg, ABC Beteiligungen AG and Deutsche Balaton Biotech AG, Heidelberg (U.S. action), alleging violations of U.S. securities laws and other regulations.

Biofrontera AG, on the one hand, and Deutsche Balaton AG, Delphi Unternehmensberatung AG, VV Beteiligungen AG and ABC Beteiligungen AG, on the other hand, have each agreed as plaintiffs in an out-of-court settlement dated November 19, 2021, to withdraw the aforementioned lawsuits filed by them.

In November 2021, the Company announced that it had found a solution for the settlement of the aforementioned legal disputes and other differences in the mediation proceedings with Mr. Zours and the Deutsche Balaton Group. With the conclusion of the mediation agreement, all of the aforementioned legal disputes have been settled through the out-of-court settlement of November 19, 2021. The mediation agreement does not include a review of the background to the IPO of Biofrontera Inc. in the USA. On December 13, 2021, the day before the Annual General Meeting, Deutsche Balaton AG then filed a corresponding action for a declaratory judgment with the Cologne Regional Court, of which the Company only learned by court service on February 9, 2022. The content of the action is again the legal examination and determination of the so-called unwritten competence of the Annual General Meeting.

Biofrontera v. Automattic Inc.

Biofrontera AG has applied for and obtained various preliminary injunctions against Automattic Inc, San Francisco, USA, at the Hamburg Regional Court. These legal proceedings could be terminated in the appellate instance before the Hanseatic Higher Regional Court by settlement in 2021.

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.

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 2021

The total compensation for members of the Management Board in the 2021 financial year and the total number of stock options issued to members of the Management Board at December 31, 2021 are as follows:

	Ludwig Lutter		Prof. Dr. Hermann Lübbert		Thomas Schaffer	
	CEO		CFO		CFO	
Term	March 01, 2021	incubent	February 01, 1998	December 13, 2021	June 01, 2013	February 28, 2021
in EUR thousands (unless otherwise inidcated)	2021	2020	2021	2020	2021	2020
Fixed component of compensation	231	0	372	322	46	244
Compensation in kind	11	0	7	9	2	13
Severance pay	0	0	0	0	210	0
Total fixed compensation	242	0	379	331	258	257
Short-term incentive (variable, STI)	0	0	177	0	123	0
Long-term incentive (variable, LTI), thereof from						
Stock options (maturity May 13, 2025)						
Fair value of options granted	0	0	0	0	0	0
Income from exercising stock options	0	0	0	86	0	54
Stock Appreciation Rights (SARs) (maturity May 3, 2030)						
Fair value of SARs	45	0	65	290	0	218
Income from exercising SARs	0	0	0	0	0	0
Total LTI	45	0	65	376	0	272
Total performance-based compensation	45	0	242	376	123	272
Total compensation	287	0	621	707	381	529
Number of stock options (Dec 31)	0	0	70,000	164,495	0	100,000
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)	132,353	0	30,000	200,000	83,327	150,000
Number of SARs granted	132,353	0	191,176	200,000	0	150,000
Fair value when granted	45	0	65	290	0	218

The non-performance-related compensation component amounts to 84% of total compensation for Mr. Lutter and 61% for Prof. Dr. Lübbert (previous year: 47%). The non-performance-related compensation of Mr. Schaffer amounts to 68% (prior year: 49%).

The maximum compensation of the Management Board members from the non-performance-related and the one-year performance-related compensation (bonus) amounts to EUR 780 thousand for Prof. Dr. Lübbert and EUR 540 thousand for Ludwig Lutter. 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 2020 target agreement provided for the following: Sales amount (40%), Profit after tax (15%), Achievement of break-even in Q4-2020 (15%), Approval FDA for acne study (10%), Completion of PK study (10%), Conclusion of a contract with a new Ameluz® manufacturer (10%) are mutually agreed at the end of each fiscal year for the following fiscal year in a target agreement.

The aforementioned performance criteria set for 2020 were achieved at a rate of 93.35%, resulting in a bonus payment of 93,350.00 for Prof. Hermann Lübbert and 65,345.00 for Mr. Thomas Schaffer) in fiscal 2021.

The benchmark for target achievement for revenue and earnings after tax was revenue and earnings after tax, respectively, according to the consolidated statement of comprehensive income for 2020 as approved by the Supervisory Board; for break-even in Q4-2020, target achievement was defined as positive operating result according to the unaudited consolidated statement of comprehensive income for Q4 2020. Approval of the acne study by the FDA was deemed to have been achieved upon submission and deadline extension without objections by the FDA for implementation. Closure of the database for the PK study was considered finalized. Finalized is considered the contract with a new manufacturer of Ameluz with signature of both parties.

In addition, Prof. Lübbert and Mr. Schaffer received a special bonus for successfully completed financing measures (amounting to 83,500 euros for Prof. Lübbert and 58,000 euros for Thomas Schaffer). Here, the cash inflow from financing activities in accordance with the consolidated cash flow statement for 2020 adopted by the Supervisory Board formed the benchmark for the achievement of the target.

In order to further increase the long-term incentive effect of the variable compensation and thus its focus on sustainable corporate development, the members of the Management Board have undertaken to hold ordinary shares in the Company as private assets for stock options granted under the 2015 stock option program, thus entering into a personal commitment, for a period of three years beginning one month after the issue date of the options ("blocked shares"). The amount of the personal commitment differs in detail for the respective Management Board members. If restricted shares are sold prematurely, which must be reported to the Chairman of the Supervisory Board without delay, the Company may demand the retransfer of a corresponding number of stock options free of charge within one month of notification of the sale, whereby the options granted last are always to be retransferred (last in first out). A retransfer is not possible if the Management Board member can demonstrate that the sale of the restricted shares was necessary to meet urgent financial obligations. The range of exercise prices for outstanding options is between EUR 2.237 and EUR 6.695, the range of fair value of outstanding options is between EUR 1.00 and EUR 2.55. The exercise price of the options is between EUR 1.00 and EUR 2.55. The exercise price of the options is between EUR 2.237 and EUR 6.695. After expiry of the respective vesting period, the option rights may be exercised until the end of six years after the respective issue date (exclusive).

As a long-term performance component, the Management Board member will be granted stock appreciation rights ("SARs") as part of the service contract, starting with the 2020 financial year (long-term incentive, "LTI"). An annual target amount of 150% of the STI target amount ("LTI target amount") has been agreed. 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. SARs for which vesting conditions otherwise apply cannot be exercised if and to the extent that the gross proceeds from all exercised SARs granted to the Management Board Chairman would exceed the Management Board member's gross fixed compensation actually received since the first grant of SARs by more than 300% without this limit.

To the extent that terms and conditions of the SAR program provide for a personal investment, it is agreed, in derogation of any SAR terms and conditions, that the personal investment must necessarily be made within six months of the exercise date in the amount of 25% of the payout amount (gross) and that the acquired shares in the Company may not be sold for at least four years after the granting of the SARs.

To further increase the long-term incentive effect of the variable compensation and thus its focus on sustainable corporate development, the Management Board member undertakes to acquire up to 100,000 shares in the Company and to hold them until the end of this service agreement (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 target achievement bonus granted to him for the previous fiscal year.

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 December 14, 2021 and reads:

" § 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) The members of the Supervisory Board shall additionally receive the following compensation for serving on committees of the Supervisory Board:

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 2021

The total compensation of the members of the Supervisory Board in fiscal year 2021 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 %
Dr. Ulrich Granzer (Supervisory Board: chair) ** ***	38	73	2	4	12	23	52	100
Jürgen Baumann (Supervisory Board: vice chair; Personnel Committee: chair)* **	29	59	7	14	13	26	49	100
John Borer* ** ***	19	55	5	14	11	32	35	100
Reinhard Eyring ***	19	63	0	0	11	37	30	100
Prof. Dr. Franca Ruhwedel (Audit Committee: Chair)*	19	41	6	13	22	47	47	100
Kevin Weber	19	70	0	0	8	30	27	100
Gesamt	**143**	**0**	**20**	**0**	**77**	0	**240**	0

* Member Audit Committee

** Member Personnel Committee

*** Member Nominating Committee (unremunerated)

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) **	2	100	0	0	0	0	2	100
Dr. Jörgen Tielmann (Supervisory Board: Vice Chair)	1	40	0	0	2	60	3	100
Dr. Heikki Lanckriet**	1	40	0	0	2	60	3	100
Dr. Helge Lubenow (Personnel Committee: Chair)* **	1	40	0	0	2	60	3	100
Prof. Dr. Franca Ruhwedel (Audit Committee: Chair)*	1	39	0	0	2	61	3	100
Karlheinz Schmelig*	1	40	0	0	2	60	3	100
Gesamt	**7**	**0**	**0**	**0**	**8**	**0**	**15**	**0**

* Member Audit Committee

** Member Personnel Committee

Vertical comparison

	Change 2021 vs. 2020
Compensation of Management Board members	
Prof. Dr. Herman Lübbert	68%
Thomas Schaffer	48%
Ludwig Lutter*	-
Compensation Supervisory Board members	
Dr. Ulrich Granzer	48%
Jürgen Baumann	114%
John Borer	132%
Reinhard Eyring	58%
Prof. Dr. Franca Ruhwedel	122%
Kevin Weber	81%
Wilhelm K.T. Zours*	-
Dr. Heikki Lanckriet*	-
Dr. Helge Lubenow*	-
Prof. Dr. Franca Ruhwedel*	-
Karlheinz Schmelig*	-
Dr. Jörgen Tielmann*	-
Average compensation of employees	
Employees in Europe	**8%****

*First payment in reporting year

**Corona-related short-time working in base year 2020

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.

Takeover information

Trading platforms

Biofrontera shares are traded under ticker symbol B8F and ISIN DE0006046113 in the Prime Standard segment of the Frankfurt Stock Exchange and on all other German stock exchanges. In the USA, shares of Biofrontera AG are traded as American Depositary Shares (ADS) on the U.S. Nasdaq Stock Exchange under the ticker symbol BFRA. One ADS securitizes the right to two ordinary shares of Biofrontera AG.

Shareholder structure

The detailed presentation of the positions held by the shareholders as of December 31, 2021 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, 2021 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.

Consolidated financial statements as of December 31, 2021

Consolidated balance sheet as of December 31, 2021

Assets

in EUR thousands		December 31, 2021	December 31, 2020
Non-current assets			
Tangible assets	(1)	2,281	5,051
Intangible assets	(1)	1,139	17,689
Deferred tax	(9)	5,747	7,525
Investments accounted for using the equity method	(2)	53,154	0
Total non-current assets		**62,322**	**30,264**
Current assets			
Financial assets			
Trade receivables	(4)	793	3,501
Receivables from associated companies	(33)	413	0
Other financial assets	(5)	57	531
Cash and cash equivalents	(8)	6,908	16,546
Total financial assets		8,171	20,579
Other assets			
Inventories	(3)	4,814	4,673
Income tax	(7)	0	5
Other assets	(6)	1,392	869
Total other assets		6,206	5,547
Total current assets		**14,377**	**26,126**
Total assets		**76,699**	**56,391**

Equity and liabilities

in EUR thousands		December 31 , 2021	December 31 , 2020
Equity	(10)		
Subscribed capital		56,717	47,748
Capital reserve		137,332	123,493
Capital reserve from foreign currency conversion adjustments		0	1,866
Loss carried forward		(169,909)	(152,709)
Loss for the period		33,857	(13,023)
Total equity		**57,997**	**7,375**
Non-current liabilities			
Financial debt	(11)	851	22,736
Other financial liabilities	(12)	384	17,994
Total non-current liabilities		**1,235**	**40,730**
Current liabilities			
Financial liabilities			
Trade payables	(13)	2,735	1,623
Liabilities to associated companies	(33)	5,279	0
Current financial debt	(11)	2,449	1,139
Other financial liabilities	(12)	14	90
Total financial liabilities		**10,478**	**2,852**
Other liabilities			
Income Tax	(7)	0	0
Other provisions	(14)	1,012	3,042
Other liabilities	(15)	5,977	2,392
Total other liabilities		6,990	5,434
Total current liabilities		**17,467**	**8,286**
Total equity and liabilities		**76,699**	**56,391**

Consolidated statement of comprehensive income for the fiscal year 2021

in EUR thousands		01.01.-31.12.2021	01.01.-31.12.2020
Sales revenue	(17)	28,787	30,346
Cost of sales	(18)	-3,913	-3,536
Gross profit from sales	**(18)**	**24,873**	**26,810**
Operating expenses			
Research and development costs	(19)	-7,009	-4,789
General administrative costs	(20)	-30,781	-9,150
Sales costs	(21)	-22,423	-20,482
Result from operations		**-35,341**	**-7,611**
Depreciation and amortization	(27)	3,290	5,333
Other Expenses	(24)	-214	-3,836
Other Income	(24)	60,215	1,417
EBITDA		**27,950**	**-4,696**
Depriciation and amortization	(27)	-3,290	-5,333
EBIT		**24,661**	**-10,029**
Effective interest expenses	(22)	-28	-546
Interest expenses	(22)	-3,692	-2,534
Interest Income	(22)	13	411
Income from investments accounted for using the equity method	(23)	14,729	0
Profit/loss before income tax		**35,683**	**-12,697**
Income tax	(25)	-1,826	-326
Profit/loss for the period		**33,857**	**-13,023**
		-4,461	
		38,318	-13,023
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	2,155
Total profit/loss for the period		**31,991**	**-10,868**
Basic earnings per share in EUR	(26)	0.69	-0.24
Diluted earnings per share in EUR	(26)	0.68	-0.24

Consolidated statement of changes in equity for the fiscal year 2021

		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, 2020		**44,849,365**	**44,849**	**118,103**	**-289**	**-152,709**	**9,954**
Loss for the period		0	0	0	0	-13,023	-13,023
Foreign currency conversion		0	0	0	2,155	0	2,155
Total loss for the period		**0**	**0**	**0**	**44,849**	**44,849**	**-10,868**
Conversion from convertible bond 2017/2022		2,638,150	2,638	5,179	0	0	7,817
Conversion of stock options from the stock option program		260,000	260	325	0	0	585
Cost of equity procurement		0	0	-407	0	0	-407
Increase in capital reserve from the stock option program		0	0	293	0	0	293
Balance as of December 31, 2020	**(10)**	**47,747,515**	**47,748**	**123,493**	**1,866**	**-165,732**	**7,375**

		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, 2020	**(10)**	**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
Foreign currency conversion		0	0	0	-1,866	0	-1,866
Total loss for the period		**0**	**0**	**0**	**-1,866**	**33,857**	**31,991**
Conversion from convertible bond 2020/2021		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
Balance as of December 31, 2021	**(10)**	**56,717,385**	**56,717**	**137,332**	**0**	**-136,052**	**57,997**

Consolidated cash flow statement for the fiscal year 2021

in EUR thousands		01.01.-31.12.2021	01.01.-31.12.2020
Cashflows from operations			
Loss before income tax		35,683	-12,697
Adjustments to reconcile loss before income tax to cash flow into operations			
Income tax		-1,826	-57
Financial result		-11,022	2,669
Depreciation		3,290	5,333
Other non-current provisions		0	0
Losses from disposal of assets		3	-85
Non-cash (income) and expenses		259	3,771
Changes in operating assets and liabilities			
Trade receivables		-788	1,514
Other assets and income tax assets		-683	871
Inventories		-5,938	-1,023
Trade payables		8,250	-2,573
Provisions		-1,735	-563
Other liabilities		4,946	-9
Net cash flow used in operational activities		**30,439**	**-2,849**
Cash flow from investment activities			
Purchase of intangible and tangible assets		-629	-774
Business combination (incl. cash and start-up costs)		0	3,547
Loss of control over subsidiaries		-41,630	0
Proceeds from sale of intangible and tangible assets		0	100
Net cash flow from investment activities		**-42,259**	**2,873**
Cashflows from financing activities			
Proceeds from the issue of shares		24,667	7,914
Costs of equity procurement		-2,000	-406
Proceeds from draw down of EIB loan		-15,000	0
Proceeds from exercise of employee stock options		0	585
Leasing payments		-624	-1,363
Interest paid		-4,861	-782
Net cash flows provided by financing activities		**2,182**	**5,948**
Net increase/(decrease) in cash and cash equivalents		-9,638	5,972
Changes from exchange rate differences		0	-545
Cash and cash equivalents at the beginning of the period		16,546	11,119
Cash and cash equivalents at the end of the period	**(30)**	**6,908**	**16,546**

Notes to the consolidated financial statements as of December 31, 2021

Information about the Company

Biofrontera AG (www.biofrontera.com), 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, as well as the Spanish branch Biofrontera Pharma GmbH sucursal en España with registered offices in Cornellá de Llobregat and Biofrontera Inc. headquartered in Woburn, Massachusetts, USA, research, develop and market dermatological products.

The IPO of Biofrontera Inc., headquartered in Woburn, Massachusetts, USA, at the end of October 2021 has resulted in changes to the Group structure due to the associated dilution of the AG shareholding. Biofrontera AG's stake in Biofrontera Inc. in the amount of 8 million shares corresponded to an ownership share of approximately 69% after the IPO. After the further issuance of shares as well as the exercise of warrants, the shareholding decreased to approximately 47% by December 29, 2021. The control criteria of IFRS 10 are therefore no longer met, so that Biofrontera Inc. is no longer considered a subsidiary of Biofrontera AG. Accordingly, the company was deconsolidated, with December 31, 2021 selected as the date of deconsolidation for reasons of materiality. The time lag between the actual loss of control and deconsolidation has no material impact on the consolidated financial statements. The investment in Biofrontera Inc. as of the reporting date is reported under investments in associates using the equity method.

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 the company's management and corporate management 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, 2021 to December 31, 2021 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, 2021 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, 2021 were authorized for issue and forwarding to the Supervisory Board by the Executive Board on April 29, 2022.

Changes in accounting standards

The accounting policies applied are consistent with those used as of December 31, 2020, 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 2021.

Standard	Description	Mandatory application	Expected effects
Amendment to IFRS 4 and IFRS 9	"Insurance contracts" : postponement of the application of IFRS 9	January 1, 2021	No effects
Amendment to IFRS 4,7,9,16 and IAS 39	IFRS 9 "Financial instruments", IFRS 4 "insurance contracts" IFRS 7 "Financial instruments: Disclosures", IFRS 16 "Leases", IAS 39 "Financial instruments: Recognition and measurement" Interest rate benchmark reform (phase 2)	January 1, 2021	No effects
Amendment to IFRS 16	"Leases"	April 1, 2021	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
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
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" Classification of liabilities as current or non-current; 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

* Adoption by the EU still pending

Basis of consolidation

The consolidated financial statements as of December 31, 2020 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 companies listed below have been included in the consolidated financial statements. The shareholdings are unchanged from the previous year:

1. Biofrontera Bioscience GmbH, Leverkusen, with a direct shareholding of 100%.

2. Biofrontera Pharma GmbH, Leverkusen, Germany, in which the company holds a direct interest of 100%.

3. Biofrontera Development GmbH, Leverkusen, with a direct investment of 100%.

4. Biofrontera Neuroscience GmbH, Leverkusen, with a direct shareholding of 100%.

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, 2021, prepared in accordance with uniform principles. The consolidated financial statements as of December 31, 2021 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, as have intercompany profits and losses.

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 Inc. has been managed as an independent company. The IPO then took place on October 29, and the associated access to one of the largest capital markets now ensures Biofrontera Inc. the opportunity for further financing independent of Biofrontera AG against the backdrop of the more growth-oriented US corporate law. As the past has shown, similar financing opportunities cannot be created by Biofrontera AG, which is restricted in many respects by the German capital market and corporate law framework. Biofrontera AG's investment in Biofrontera Inc. in the amount of 8 million shares corresponded to an ownership share of approximately 69% after the IPO. After the further issuance of shares as well as the exercise of warrants, the shareholding decreased to approximately 47% by December 29, 2021, and also amounted to 47% as of the balance sheet date. The control criteria of IFRS 10 are therefore no longer met, so that Biofrontera Inc. is no longer considered a subsidiary of Biofrontera AG. Accordingly, deconsolidation took place in the financial year. The investment in Biofrontera Inc. as of the reporting date is reported under investments in associates using the equity method.

The basis for the deconsolidation was the balance sheet of Biofrontera Inc. prepared in accordance with IFRS as of December 31, 2021. As part of the deconsolidation, all assets and liabilities as well as the equity of Biofrontera Inc. were removed from the consolidated balance sheet. The resulting deconsolidation gain amounted to EUR 59,180 thousand and also includes the reversal of the equity component "Reserve from currency translation" in the amount of EUR 1,866 thousand.

Due to the deconsolidation date of December 31, 2021, the consolidated statement of comprehensive income includes all remaining expenses and income of Biofrontera Inc. after consolidation of expenses and income; the share of profit or loss attributable to the minority shareholders of Biofrontera Inc. amounts to EUR -4,461 thousand and is reported in the consolidated statement of comprehensive income for 2021.

The consolidated statement of financial position that would have resulted from the continued full consolidation of Biofrontera Inc. is as follows:

Assets

in EUR thousands	December 31, 2021	December 31, 2020
Non-current assets		
Tangible assets	*3,943*	*5,051*
Intangible assets	*17,370*	*17,689*
Deferred tax	*5,747*	*7,525*
Investments accounted for using the equity method	*0*	*0*
Total non-current assets	***27,060***	***30,264***
Current assets		
Financial assets		
Trade receivables	*7,436*	*3,501*
Receivables from associated companies	*0*	*0*
Other financial assets	*292*	*531*
Cash and cash equivalents	*28,769*	*16,546*
Total financial assets	*36,497*	*20,579*
Other assets		
Inventories	*5,705*	*4,673*
Income tax	*0*	*5*
Other assets	*2,246*	*869*
Total other assets	*7,951*	*5,547*
Total current assets	***44,448***	***26,126***
Total assets	***71,507***	***56,391***

Equity and liabilities

in EUR thousands		December 31 , 2021	December 31 , 2020
Equity			
Subscribed capital		56,725	47,748
of which attributable to non-controlling interests	8		
of which attributable to the owners of the parent company	56,717		
Capital reserve		174,339	123,493
of which attributable to non-controlling interests	37,006		
of which attributable to the owners of the parent company	137,333		
Capital reserve from foreign currency conversion adjustments		1,757	1,866
Loss carried forward		-165,732	-152,709
Loss for the period		-40,042	-13,023
of which attributable to non-controlling interests	(4,461)		
of which attributable to the owners of the parent company	(35,581)		
Total equity		**27,047**	**7,375**
Non-current liabilities			
Financial debt		1,869	22,736
Other financial liabilities		25,940	17,994
Total non-current liabilities		**27,809**	**40,730**
Current liabilities			
Financial liabilities			
Trade payables		3,968	1,623
Payables to associated companies		0	0
Current financial debt		2,938	1,139
Other financial liabilities		64	90
Total financial liabilities		6,970	2,852
Other liabilities			
Income Tax		0	0
Other provisions		1,670	3,042
Other liabilities		8,012	2,392
Total other liabilities		9,681	5,434
Total current liabilities		**16,651**	**8,286**
Total equity and liabilities		**71,507**	**56,391**

This presentation is intended solely to enhance comparability and does not represent the actual consolidated balance sheet of the Biofrontera Group.

Translation of amounts in foreign currencies

The consolidated financial statements as of December 31, 2021 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 is the local currency of the respective country in which this company is domiciled, assets and liabilities that are recognized in foreign currency in the balance sheets of the foreign economically independent subsidiaries are translated into euros at the respective closing rate (2021: 1.1318 USD/EUR, prior year: 1.2230 USD/EUR). Revenue and expense items are translated at the average foreign currency exchange rates (2021: 1.1830 USD/EUR, previous year: 1.1410 USD/EUR) during the underlying period. The difference resulting from the valuation of equity at the historical exchange rate and the closing rate was recognized as a change in equity within other components of equity with no effect on profit or loss until the deconsolidation of Biofrontera Inc. in fiscal year 2021 (2021: EUR 0 thousand, previous year: EUR 2,155 thousand); as part of the deconsolidation, this item was reversed through profit or loss.

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. Gains and losses resulting from such translation are recognized in profit or loss in the amount of EUR 160 thousand (previous year: EUR -3,601 thousand).

Application of estimates

The preparation of the consolidated financial statements as of December 31, 2021 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 financial instruments

  In connection with the measurement of liabilities arising from the stock appreciation 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 did not occur in fiscal year 2021.

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, unchanged from the accounting treatment under IAS 17.

Intangible assets

Purchased software is recognized at cost and amortized on a straight-line basis over a useful life of 3 years.

Acquired intangible assets consist of purchased licenses and other rights. They are carried at cost less accumulated amortization. These intangible assets are capitalized and generally amortized on a straight-line basis over their estimated useful lives of between 4 and 12 years.

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.

Impairment of assets

The Company 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. A possible impairment of assets held for use is determined by comparing its carrying amount with the future cash flows expected to be generated by the asset. Biofrontera measures an 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 as well as bank balances with a term of up to three months at the time of acquisition and short-term investments. These are measured at amortized cost.

Non-financial assets

Non-financial assets are recognized at 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. BF-RhodoLED® held in the company's own inventory for sales activities are carried at a fixed value.

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.

Convertible bonds

The convertible bond is a compound financial instrument which must be divided into the liability (bond) and equity (conversion right) components on initial recognition. The liability component (bond) must be recognized at its fair value at the inception of the contract. The fair value is determined by discounting the contractually agreed future payments at a market interest rate for a comparable bond without conversion rights. In this context, the issuer's default risk must also be taken into account. The equity component (conversion right) is to be determined as the difference between the issue proceeds and the present value of the liability (equity derivative, residual value method).

In subsequent accounting for the convertible bond, a distinction is made as follows: The liability component is subsequently measured at amortized cost using the effective interest method. The equity component is not subject to subsequent measurement.

Non-financial liabilities

Non-financial liabilities are recognized at the repayment amount.

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. Obligations arising from cash-settled share-based payment transactions are recognized as a liability and measured at fair value at the balance sheet date. 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 United States, Ameluz® is reimbursed as a "buy and bill drug" and is therefore sold directly to physicians.

Xepi® is sold directly to specialty pharmacies in the USA. Sales are recognized net of sales deductions when power of disposal and control is transferred to the customer. Sales deductions include expected returns, rebates and incentives such as payments under patient assistance programs. These allowances are estimated at the time of sale based on the amounts incurred or expected to be collected on the related sales.

Revenue is recognized on a point-in-time basis as products are shipped to the respective customers.

License revenues received by Biofrontera as down payments for the conclusion of license agreements granting customers a right of use are recognized on a point-in-time basis.

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 for Ameluz® 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 in fiscal year 2021, impairment losses of EUR 0 thousand (previous year: EUR 2,001 thousand) were recognized on intangible assets. The impairment losses on intangible assets in the previous year were included in selling expenses.

The expense for short-term leases and those of low value amounts to EUR 151 thousand (previous year: EUR 374 thousand). The income from a sublease agreement amounts to EUR 33 thousand (previous year: EUR 33 thousand). The rights of use reported under property, plant and equipment relate to rights of use from leases accounted for in accordance with IFRS 16.

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 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	0
Intangible assets under development	916	0	156	0	0	-1,073	0	0	0	0	0	0	0	0	916
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**

Statement of changes in non-current assets for 2020

in EUR thousands	Purchase and production cost												
	01.01. 2020	Currency translation	Additions	Change of consolidation group	Disposals	31.12.2020	01.01. 2020	Currency translation	Additions	Disposals	31.12.2020	31.12.2020	01.01. 2020
Tangible assets and leases													
Operating and business equipment	3,647	-46	548	#REF!	-191	3,958	-2,492	18	-275	176	-2,574	1,385	1154,62
Right-of-use leasing properties	3,560	0	653	#REF!	0	4,213	-505	0	-722	0	-1,227	2,986	3055,15
Right-of-use leasing tangible assets	1,612	0	166	#REF!	0	1,778	-592	0	-505	0	-1,098	681	1019,83
Tangible assets and leases	**8,819**	**-46**	**1,367**	**#REF!**	**-191**	**9,949**	**-3,590**	**18**	**-1,503**	**176**	**-4,898**	**5,051**	**5229,6**
Intangible assets													
Software and licenses	206	-2	25	#REF!	-1	227	-190	2	-14	1	-201	27	16,51
Right-of-use-assets	24,474	-2,138	0	#REF!	0	22,336	-2,356	582	-3,815	0	-5,590	16,746	22117,13
Intangible asset under development	716	0	201	#REF!	0	916	0	0	0	0	0	916	715,79
Intangible assets	**25,396**	**-2,140**	**226**	**#REF!**	**-1**	**23,480**	**-2,546**	**583**	**-3,830**	**1**	**-5,791**	**17,689**	**22849,43**
Total	**34,215**	**-2,186**	**1,593**	**#REF!**	**-192**	**33,429**	**-6,136**	**601**	**-5,333**	**178**	**-10,689**	**22,740**	**28079,03**

1. Financial assets

Financial assets include the carrying amount of the investment in Biofrontera Inc. measured at fair value of EUR 53,154 thousand (previous year: EUR 0 thousand). The income from the increase in the carrying amount of the investment amounts to EUR 14,729 thousand in the financial year 2021 (previous year: EUR 0 thousand) and is recognized in the financial result.

2. Inventories

in EUR thousands	December 31, 2021	December 31, 2020
Raw materials	2,861	1,557
Unfinished goods	315	390
Finished goods and products	1,638	2,727
Total	**4,814**	**4,673**

In the reporting year, impairment losses of EUR 42 thousand (previous year: EUR 414 thousand) were recognized on finished goods.

Finished goods and merchandise include PDT lamps provided to physicians for a fee as part of a 6-month evaluation phase (Biofrontera Inc.: EUR 0 thousand; previous year: EUR 145 thousand).

3. Trade receivables

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

Allowances for doubtful accounts were made in the amount of EUR 0 thousand (previous year: EUR 36 thousand (Biofrontera Inc.)). As in the previous year, there were no overdue, unimpaired receivables as of the balance sheet date.

Of the receivables, EUR 0 thousand (previous year: EUR 100 thousand (Biofrontera Inc.)) relate to finance leases of PDT lamps.

4. Other financial assets

Other financial assets mainly comprise security deposits, primarily for rented premises, credit cards and leased vehicles (EUR 23 thousand; previous year: EUR 267 thousand), as well as advance payments for studies (EUR 0 thousand; previous year: EUR 220 thousand) and services (EUR 19 thousand; previous year: EUR 30 thousand). As in the previous year, there was no impairment in the year under review.

5. Other assets

Other assets mainly comprise prepaid expenses (EUR 1,060 thousand; previous year: EUR 817 thousand) and VAT receivables of EUR 316 thousand (previous year: EUR 43 thousand). As in the previous year, no impairment losses were recognized in the reporting year.

6. Income tax

Income tax reimbursement claims result from the withheld capital gains tax plus solidarity surcharge (EUR 0 thousand; previous year: EUR 5 thousand). As in the previous year, there are no income tax liabilities.

7. 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 6,908 thousand (previous year: EUR 16,546 thousand).

8. Deferred income tax

Deferred tax assets amount to EUR 5,747 thousand (previous year: EUR 7,525 thousand) and relate exclusively to Biofrontera Pharma GmbH.

The reduction in deferred tax assets in the amount of EUR 1,778 thousand (previous year: EUR 269 thousand) results from the reduction in the recognizable tax loss carryforwards of Biofrontera Pharma GmbH, whereby the amount of the recognizable tax loss carryforwards was reduced to the expected utilization during the planning period.

Biofrontera Pharma GmbH generated profits in the past two financial years 2019 and 2020 and, despite the negative tax result in 2021, it can be assumed that Biofrontera Pharma GmbH will continue to generate positive results in the future and thus utilize its tax loss carryforwards.

Although Biofrontera AG generated a profit this year due to the special effect from the deconsolidation of EUR 59,170 thousand, tax losses are still expected to be incurred in the coming years according to the planning calculation; therefore, no capitalization of the tax loss carryforwards will be made for Biofrontera AG. Deferred taxes on loss carryforwards at Biofrontera AG amounting to EUR 0 thousand (previous year: EUR 74 thousand) were capitalized to the extent that these are offset by deferred tax liabilities in the same amount.

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, 2021		December 31, 2020	
	Loss carried forward	Deferred tax assets	Loss carried forward	Deferred tax assets
Corporation tax including Solidarity Surcharge	152,367	24,112	134,606	21,301
Business tax	134,909	11,805	118,599	10,377
U.S. corporation tax	0	0	32,172	8,365
Total		**35,917**		**40,043**

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

in EUR thousands	December 31, 2021		December 31, 2020	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Loss carried forward	6,006		7,824	0
Non-current assets	0	0	0	0
- Intangible assets	0	(259)	789	(656)
- Tangible assets				
Current assets				
- Receivables and other assets	0	0	15	0
	0	0	0	0
Non-current and current financial liabilities	0	0	812	0
Current liabilities				
- Liabilities and other	288	0	0	(279)
Total	6,294	(547)	9,440	(1,915)
Netting of deferred tax assets and liabilities	(547)	547	(1,915)	1,915
As recognized on balance sheet	**5,747**		**7,525**	**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 29,911 thousand (previous year: EUR 32,220 thousand) and deferred tax assets of EUR 1,687 thousand (previous year: EUR 1,812 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, 2021	December 31, 2020
Consolidated loss before tax	20,957	(12,697)
Expected income tax reimbursement	**(5,150)**	**3,120**
Differences arising from different tax rates	260	146
	0	0
Tax increases due to non-deductible expenses	468	(982)
	0	0
Changes in unrecognized deferred tax assets	0	0
- from active temporary differences	124	188
- from loss carryforwards	(5,971)	(2,627)
	0	0
Tax-free income (badwill)	8,455	0
Other effects	(12)	(170)
Income taxes per statement of comprehensive income	**(1,826)**	**(326)**

9. Equity

Share capital

The fully paid-in share capital of the parent company, Biofrontera AG, amounted to EUR 56,717,385.00 as of December 31, 2021. It consisted of 56,717,385 registered shares with a nominal value of EUR 1.00 each. On December 31, 2020, the share capital had amounted to EUR 47,747,515.00.

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.

The share capital was held as follows on December 31, 2021:

	December 31, 2021	December 31, 2020
Maruho Deutschland 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 os subsidiaries listed below are attributed to Mr. Zours: • DELPHI Unternehmensberatung AG • VV Beteiligungen AG • Deutsche Balaton AG • Deutsche Balaton Biotech AG • Prisma Equity AG	16,990,199	14,218,773

- Sparta AG
- ABC Beteiligungen AG
- AEE Ahaus-Enscheder AG
- MARNA Beteiligungen AG
- Youbisheng Green Paper AG
- Strawtec Group AG

Free float	26,327,221	20,128,777
Total	**56,717,385**	**47,747,515**

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, 2021. 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, 2021, 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, 2021 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 Company's Management Board approved the issue of a convertible bond, which was placed in full in an amount of EUR 5.0 million in January 2017. The individual bonds will bear interest of 6% per year from February 1, 2017 on their nominal amount. The 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 on the basis of an interest rate of 7.6% in the initial valuation. The term of the 2017/2022 convertible bond begins on the day of its initial issue ("issue date") and ends on December 31, 2021 and is due for repayment on January 01, 2022.

As of December 31, 2020, bonds in a nominal amount of EUR 2,030,800 were converted into the Company's shares. In 2020, no bonds were converted (previous year: nominal amount EUR 564,500; 118,841 shares).

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, 2021	December 31, 2020
Outstanding at the beginning of the period	1,021,485	1,496,985
Granted during the period	0	0
Forfeited during the period	327,495	215,500
Exercised during the period	0	260,000
Expired during the period	0	0
Outstanding at the end of the period	693,990	1,021,485
Exercisable at the end of the period	0	0
Range of exercise prices for outstanding options	2,25-6,708 EUR	2,25-6,708 EUR
Weighted average of remaining contractual life	35 months	44 months
Cost during the period	142 TEUR	293 TEUR

Due to the non-fulfillment of the exercise conditions, no options were exercisable as of December 31, 2021.

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 407 thousand (previous year: EUR 2 thousand) for the year ended December 31, 2020.

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.

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10. Financial liabilities

In November 2021, the Company prematurely terminated the loan of nominally EUR 15 million granted by the EIB in full, including interest and other charges (see ad hoc announcement dated November 3, 2021), and repaid the loan before the end of the financial year 2021. The total volume of the payment to be made to the EIB amounted to around EUR 20 million, the early repayment reducing future expenses for interest and other charges.

The repayment of the convertible bond 2017/2022 in the amount of EUR 2,031 due on January 3, 2022 is reported under current financial debt in fiscal year 2021 and was included in non-current financial debt in the amount of EUR 2,003 thousand in the previous year.

in EUR thousands	December 31, 2021	December 31, 2020
Non-current financial liabilities		
Convertible bond 2017/2022	0	2,003
EIB loan 2017	0	12,484
EIB loan 2019	0	5,591
Leasing liabilities	851	2,657
Total non-current financial liabilities	**851**	**22,736**
Current financial liabilities		
Leasing liabilities	357	1,057
Other current liabilities	2,092	82
Total current financial liabilities	**2,449**	**1,139**

in EUR thousands	December 31, 2021					
	2022	2023	2024	2025	2026	Total
Convertible bond 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

in EUR thousands	December 31, 2020					
	2021	2022	2023	2024	2025	Total
Convertible bon 2017/2022:						
Principal repayment		2,031				2,031
Interest payment	122	61				183
EIB loan 2017						
Principal repayment		10,000				10,000
Interest payment	461	4,354				4,815
EIB loan 2019						
Principal repayment				5,000		5,000
Interest payment	204	214	227	1,874		2,519
Leasing liabilities						
Principal repayment	1,138	577	603	630	459	3,407
Interest payment	148	85	59	33	6	331

Leasing liabilities

The carrying amount of current and non-current lease liabilities is EUR 1,208 thousand (previous year: EUR 3,715 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.

11. Other financial liabilities

in EUR thousands	December 31, 2021	December 31, 2020
Non-current other financial liabilities		
Purchase price liability (earn-out and start-up costs)	0	17,811
Liability	384	183
from SAR program	**384**	**17,994**
Current financial liabilities	**14**	**90**

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, 2021	December 31, 2020
Outstanding at the beginning of the period	727,750	0
Granted during the period	429,529	755,750
Forfeited during the period	588,074	28,000
Exercised during the period	0	0
Outstanding at the end of the period	569,205	727,750
Exercisable at the end of the period	0	0
Fair value at the end of the period	102 TEUR	183 TEUR
Cost during the period	-81 TEUR	183 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 financial liabilities.

12. Trade payables

As of December 31, 2021, trade payables amount to EUR 2,735 thousand (previous year: EUR 1,623 thousand).

13. Other provisions

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

in EUR thousands	December 31, 2020	Utilized	Released	Added	change of consolidation group	December 31, 2021
Outstanding invoices	311	(295)	(2)	496	0	510
Auditing costs	501	(361)	0	383	(140)	383
Provisions for litigation costs	1,940	(1,940)	0	0	0	0
Other provisions	290	(104)	(4)	92	(155)	119
Total	**3,042**	**(2,700)**	**(6)**	**971**	**(295)**	**1,012**

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.

At the time of reporting, the companies included in the consolidated financial statements of Biofrontera AG are exposed to pending legal proceedings, the outcome of which either cannot be determined or cannot be predicted due to the uncertainty associated with such legal proceedings. No claims are initially being asserted against Biofrontera from the declaratory action that would have to be recognized as liabilities. No provisions have been recognized for the costs of defending the action, as the Company expects to win the litigation.

14. Other current liabilities

in EUR thousands	December 31, 2021	December 31, 2020
Accrual for employee bonuses	706	1,350
Accrual for outstanding vacation	112	372
Payroll tax	98	395
Wages and salaries	0	196
Social security	0	38
Other	91	41
Total	**5,977**	**2,392**

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 33 thousand is therefore included under other accruals for the settlement of employees of Biofrontera Inc. entitled to receive stock options.

15. Reporting on financial instruments

The financial assets and liabilities can be broken down into measurement categories with the following carrying amounts and net gains and losses:

Financial assets

in EUR thousands	Fair value as of December 31, 2021	Carrying amount as of December 31, 2021	Fair value as of December 31, 2020	Carrying amount as of December 31, 2020	Net gains or (losses) December 31, 2021	Net gains or (losses) December 31, 2020
Category: Held						
Cash and cash equivalents	6,908	6,908	16,546	16,546	82	(125)
Trade receivables	1,206	1,206	3,501	3,501	1	(53)
Other financial asstes	57	57	531	531	-	-
Total	**8,171**	**8,171**	**20,579**	**20,579**	**-**	**(178)**

	Fair value as of December 31, 2021	Carrying amount as of December 31, 2021	Fair value as of December 31, 2020	Carrying amount as of December 31, 2020	Net gains or (losses) December 31, 2021	Net gains or (losses) December 31, 2020
financial liabilities at amortized cost						
Financial liabilities, current	2,449	2,449	1,139	1,139	0	0
Trade payables	8,014	8,014	1,623	1,623	(10)	53
Other financial liabilities	14	14	90	90	(1)	
Financial liabilities, non-current	851	851	21,561	21,561		
Total	**11,328**	**11,328**	**24,413**	**24,413**	**(11)**	**53**
Financial liabilities at fair value through profit or loss						
Financial liabilities, non-current			1,174	1,174	(1,282)	288
Other financial liabilities, non-current	384	384	17,994	17,994	(21)	(750)
Total	**384**	**384**	**19,169**	**19,169**	**(1,303)**	**(462)**

Under other operating expenses, Biofrontera reports value adjustments to trade receivables and miscellaneous financial obligations allocable to the "held" category.

The net gains and losses generally include currency translation effects as well as impairments and write-ups. Fair value changes of liabilities recognized at fair value are included in interest expense. Interest income is not included in net income.

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).

Biofrontera has level 3 financial instruments. In previous years, these mainly related to the performance component of the EIB loans included in non-current financial liabilities (EUR 0 thousand, previous year: EUR 1,174 thousand) and the purchase price liability arising in 2019 from the acquisition of Cutanea (EUR 0 thousand, previous year: EUR 17,811 thousand). In the current year, liabilities from the SAR program in the amount of EUR 384 thousand (previous year: EUR 183 thousand) remain in this item. 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). The gains and losses included in the statement of net income are presented in interest income and interest expense.

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.

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

- Foreign currency risk: As of the balance sheet date, the Biofrontera Group was exposed to foreign currency risks, in particular as a result of the intercompany loan granted to the subsidiary Biofrontera Inc. Trade receivables arise to a greater extent than in the past due to the business expansion in the USA and are regularly reviewed with regard to a potential default risk. Trade payables denominated in foreign currencies are insignificant. The Company does not enter into any specific currency hedging transactions. Exchange rate fluctuations are recognized in profit or loss.

The Group incurs a credit risk if transaction partners are unable to meet their obligations within the ordinary payment periods. The maximum default risk on the balance sheet is represented by the book value of the respective financial asset. The development of receivables is monitored in order to identify possible default risks at an early stage and initiate appropriate measures. Biofrontera's financial instruments bear minimal risk of default. No specific bad debt allowances were recognized on trade receivables in fiscal year 2020 (previous year: EUR 43 thousand). Cash and cash equivalents assets 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.

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.

Notes to the consolidated statement of comprehensive income

16. Sales revenue

	01.01.-31.12.2021			01.01.-31.12.2020		
in EUR thousands	Product revenues	Development revenues	Licensing revenues	Product revenue	Development revenues	Licensing revenues
Germany	5,263	-	-	5,159	-	-
Europe	3,270	-	50	2,104	-	-
U.S.	20,204	-	-	16,589	-	-
Other regions	-	-	-	-	493	6,000
Total	**28,737**	**-**	**50**	**23,852**	**493**	**6,000**

Revenues from other regions in the previous year include EUR 6,000 thousand in license revenues received from Maruho from a down payment under the license agreement; in the current fiscal year, license revenues of EUR 50 thousand were received from down payments of license agreements.

Revenues from product sales in the United States include revenues from finance and operating leases of BF-RhodoLED® lamps.

In fiscal year 2021, we generated revenues from operating leases in the amount of EUR 39 thousand (previous year: EUR 75 thousand). We generated revenues of EUR 16 thousand from finance leases (previous year: EUR 91 thousand).

17. Cost of sales, gross profit

The cost of materials included in the cost of sales amounted to EUR 2,942 thousand in fiscal year 2021 (previous year: EUR 2,927 thousand).

The gross profit decreased by EUR 1,937 thousand in the reporting year 2021 to EUR 24,873 thousand compared to EUR 26,810 thousand in the prior-year period.

18. Research and development costs

Research and development costs amounted to EUR 7,009 thousand (previous year: EUR 4,789 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.

19. General administrative costs

General and administrative expenses amounted to EUR 30,781 thousand (previous year: EUR 9,150 thousand) in fiscal year 2021 and thus increased by a total of EUR 21,631 thousand compared to the previous year. The main reason for this was the cost of the settlement payment in connection with the out-of-court settlement of the legal dispute with DUSA Pharmaceuticals Inc. in the amount of EUR 19,457 thousand (USD 22.5 million).

20. Sales and marketing costs

Selling expenses amounted to EUR 22,423 thousand (previous year: EUR 20,482 thousand) in fiscal year 2021. Selling expenses include the costs of our own sales force in Germany, Spain, the United Kingdom, and the United States, marketing expenses, and amortization of the Xepi® license in the amount of EUR 1,758 thousand (previous year: EUR 3,802 thousand).

21. Interest expenses and income

in EUR thousands	2021 Effective interest expenses	2021 Interest expenses	2020 Effective interest expenses	2020 Interest expenses
Convertible bond 2017/2022	28	122	26	122
EIB loan 2017	-	1,436	269	975
EIB loan 2019	-	713	33	488
Purchase price liability (earn-out and start-up costs)	-	1,396	-	750
Leasing	-	23	-	179
Other	-	2	218	20
Total	**28**	**3,692**	**546**	**2,534**

Interest income amounts to EUR 13 thousand (previous year: EUR 411 thousand) and results mainly from the fair value measurement of the performance component of the EIB loan at EUR 0 thousand (previous year: EUR 288 thousand) and from interest income under finance lease agreements amounting to EUR 14 thousand (previous year: EUR 25 thousand).

22. Result from investments

The result from investments exclusively contains income from the fair value change in the carrying amount of the investment in Biofrontera Inc. amounting to EUR 14,729 thousand (previous year: EUR 0 thousand).

23. Other expenses and income

Other expenses and income totaled EUR 60,001 thousand in the reporting period (previous year: loss of EUR 2,418 thousand) and mainly include the deconsolidation gain of EUR 59,180 thousand from the withdrawal of Biofrontera Inc. from the Group. In addition, expenses and income from currency translation amounting to EUR 155 thousand (previous year: loss of EUR 3,601 thousand) are reflected here.

24. Income tax

in EUR thousands	December 31, 2021	December 31, 2020
Deferred taxes	(1,778)	(269)
Actual income taxes	(47)	(56)
Total income taxes	**(1,825)**	**(326)**

The deferred tax expense of EUR 1,778 thousand (previous year: EUR 269 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).

25. 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, 2021	December 31, 2020
Number of weighted ordinary shares in circulation (on average)	55,390,336	54,179,685
Result attributable to owners of the parent in EUR	38,317,708	(13,023,031)
Basic earnings per share in EUR	**0.69**	(0)
Number of weighted ordinary shares in circulation (on average)	56,717,385	54,179,685
Result attributable to owners of the parent in EUR	38,317,708	(13,023,031)
Diluted earnings per share in EUR	**0.68**	**(0.24)**

As part of the capital increase in February 2021, Biofrontera issued 8,969,870 new ordinary shares with subscription rights from January 1, 2020. After registration of the capital increase in the commercial register, the number of shares outstanding increased to 56,717,385. The capital increase has therefore been included in the calculation of the weighted average number of ordinary shares outstanding.

26. Additional information to the consolidated statement of comprehensive income

Other comprehensive income 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, 2021	December 31, 2020
Research and development costs	56	37
General administrative costs	1,298	1,352
Cost of sales	133	91
Sales and marketing	1,803	3,854
Depreciation and amortization expense	**3,290**	**5,333**

Personnel costs

in EUR thousands	December 31, 2021	December 31, 2020
Wages and salaries	16,925	14,067
Social security charges	2,527	2,016
Cost for pension schemes	263	257
Total	**19,715**	**16,340**

27. Staff

In 2021 the Biofrontera Group had an average of 99 salaried employees (previous year: 149).

28. Other information

In the United States, the BF-RhodoLED® lamps are also offered under lease agreements. In the first six months, these contracts are accounted for as operating leases. After six months, the customer has the option to either return or purchase the lamp. The agreed purchase price can then be paid in full immediately or over a period of a further 24 months. If payment is made over a further 24 months, the contracts are accounted for as financing leases. In fiscal year 2021, we generated income of EUR 39 thousand from operating leases (previous year: EUR 75 thousand). We generated income of EUR 16 thousand from finance leases (previous year: EUR 91 thousand).

Notes to the consolidated cash flow statement

29. 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 -9,637 thousand (previous year: EUR 5,972 thousand). The outflow of cash and cash equivalents due to the deconsolidation of Biofrontera Inc. as of December 31, 2021 amounted to EUR 21,861 thousand, which included the proceeds from the IPO in the fourth quarter of 2021 with gross issue proceeds of approximately USD 33 million. In total, Biofrontera lost control over non-current assets in the amount of EUR 17,892 thousand, current assets (excluding cash) in the amount of EUR 13,894 thousand, non-current liabilities in the amount of EUR 26,575 thousand and current liabilities in the amount of EUR 4,877 thousand.

Interest paid amounted to EUR 4,861 thousand (previous year: EUR 782 thousand). Taxes paid amounted to EUR -47 thousand (previous year: EUR 57 thousand). Interest payments received amounted to EUR 13 thousand (previous year: EUR 26 thousand).

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	-	-
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**

in EUR thousands	January 1, 2020	Cash effective	Addition/ retirement	Fair value change	December 31, 2020
Convertible bond 2017/2022	1,977	-	26	-	2,003
EIB loan 2017	11,845	-	879	(240)	12,484
EIB loan 2019	5,301	-	338	(48)	5,591
Interest convertible Bond 2017/2022, Convertible Bond 2017/22	61	(122)	122	-	61
Interest EIB loan 2017	84	(456)	365	-	(8)
Interest EIB loan 2019	29	(184)	183	-	28
Leasing liabilities	4,025	(1,363)	1,053	-	3,715
Total financial liabilities	**23,322**	**(2,125)**	**2,965**	**(288)**	**23,874**

Other explanatory notes

30. Members of the Management Board

The Management Board in 2021 consisted of Prof. Dr. Hermann Lübbert, biologist, (Chairman, until December 13, 2021), Mr. Ludwig Lutter, MBA, (Chief Financial Officer, since March 01, 2021) and Mr. Thomas Schaffer, businessman, (Chief Financial Officer, until February 28, 2021).

Management Board compensation

in EUR thousands	December 31, 2021	December 31, 2020
Short-term benefits	1,179	662
Performance-based compensation	110	508
Total compensation	**1,289**	**1,170**

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
Thomas Schaffer	Industrial Tracking Systems AG, Fürstenfeldbruck	Supervisory Board	Chair
Hermann Lübbert	Biofrontera Incorporated, Woburn, USA	Supervisory Board	Chair

31. Members of the Supervisory Board

Name	Nationality	Age	Position	Date of first appointment	Term until
Dr. Ulrich Granzer	German	60	Chair	May 12, 2016	2021
Curriculum vitae	Dr. Ulrich Granzer, Supervisory Board Chairman, is a founder and owner of Granzer Regulatory Consulting & Services and has been a Supervisory Board member since 2006. Previously, he was Head of Regulatory Affairs at Glaxo, and VP Global Regulatory Centers BASF Pharma and VP Global Regulatory Affairs at Bayer Pharma. He is a proven expert in the drug approval area. He studied pharmaceutical at Phlilips University Marburg before receiving his doctorate from Tübingen University.				
Jürgen Baumann	German	66	Vice Chair	May 24, 2007	2021
Curriculum vitae	Mr. Jürgen Baumann, Deputy Supervisory Board Chairman, is an independent management consultant. He has held various management positions, including on the Management Board of Schwarz Pharma AG, where he was responsible for sales and marketing in Europe. Mr. Baumann studied economic sciences at Wuppertal University.				
John Borer	U.S.	63	Member	May 31, 2016	2021
Curriculum vitae	Dr. John Borer is Senior Managing Director and Head of Investment Banking at The Benchmark Company, LLC. He was previously CEO and Head of Investment Banking at Rodman & Renshaw and held management positions at Pacific Business Credit as well as at Barclays American Business Credit. His law doctorate was awarded by the Loyola Law School in Los Angeles.				
Reinhard Eyring	German	62	Member	February 7, 2018	2021
Curriculum vitae	Reinhard Eyring is a partner and Head of Germany at Ashurst LLP. He studied law at the University of Freiburg/Breisgau. Prior to joining Ashurst in 2000, Mr. Eyring was a partner at another internationally active law firm. From 2008 until 2015 he was a member of Ashurst's international board. He has had seats on the supervisory board of various German companies.				
Prof. Dr. Franca Ruhwedel	German	48	Member	July 10, 2019	2021
Curriculum vitae	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.				
Kevin Weber	USA	63	Member	May 31, 2016	2021
Curriculum vitae	Mr. Kevin Weber is a principal at Skysis, LLC. He was previously CEO at Paraffin International Inc., and has extensive experience in pharmaceutical marketing as well as worldwide commercialization strategies. He previously held senior roles at Depomed, Hyperion Therapeutics and Medicis Pharmaceuticals.He holds a degree in management and marketing from Western Michigan University.				

Name	Nationality	Age	Position	Date of first appointment	Term until
Wilhelm K.T. Zours	German	60	Chair	December 14, 2021	2026
Lebenslauf	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	52	Vice Chair	December 14, 2021	2026
Lebenslauf	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	44	Member	December 14, 2021	2026
Lebenslauf	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.				
Dr. Helge Lubenow	German	53	Member	December 14, 2021	2026
Lebenslauf	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	49	Member	July 10, 2019	2026
Lebenslauf	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.				
Karl-Heinz Schmelig	German	56	Member	December 14, 2021	2026
Lebenslauf	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	2021	2020
Dr. Ulrich Granzer	52	35
Jürgen Baumann	49	23
John Borer	35	15
Reinhard Eyring	30	19
Prof. Dr. Franca Ruhwedel	47	21
Kevin Weber	27	15
Total	**240**	**128**

in EUR thousands	2021	2020
Wilhelm K.T. Zours	2	0
Dr. Heikki Lanckriet	3	0
Dr. Helge Lubenow	3	0
Prof. Dr. Franca Ruhwedel	3	0
Karlheinz Schmelig	3	0
Dr. Jörgen Tielmann	3	0
Gesamt	**15**	**0**

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
Reinhard Eyring	DESTAG Deutsche Steinindustrie AG	Supervisory Board	Chair
John Borer	Biofrontera Inc.	Board of Directors	Member
Prof. Dr. Franca Ruhwedel	NATIONAL-BANK AG, Essen	Supervisory Board	Member
	VTG AG, Hamburg	Supervisory Board	Member

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
	Evorion Biotechnologies GmbH	Supervisory Board	Member
	Tesa Labtec GmbH	Advisory Board	Member
Prof. Dr. Franca Ruhwedel	NATIONAL-BANK AG, Essen	Supervisory Board	Member
	VTG AG, Hamburg	Supervisory Board	Member
Karl-Heinz Schmelig	Phenex Pharmaceuticals AG, Heidelberg	Supervisory Board	Member
	Prostatype Genomics AB, Stockholm, Schweden	Supervisory Board	Member
	CryoTherapeutics S.A., Awans, Belgien	Supervisory Board	Member
	Cevec Pharmaceuticals GmbH, Köln	Advisory Board	Member
	Tacalyx GmbH, Berlin	Advisory Board	Member

32. Related party disclosures

As a result of the IPO of Biofrontera Inc. and the associated change in the Group structure, the company was deconsolidated as of December 31, 2021; the investment in Biofrontera Inc. as of the reporting date is reported under investments in associates using the equity method. The following relationships exist with Biofrontera Inc:

in EUR thousands	December 31, 2021	December 31, 2020
Sales revenues*	8,602	0
Clinical trial expenses*	263	0
Other expenses*	86	0
Trade receivables	413	0
Trade payables	302	0
Payables from DUSA settlement	4,977	0

* The income statement items mentioned here have been eliminated 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.

The following relationships exist with the Maruho Group from the license agreement and a sublease agreement:

in EUR thousands	December 31, 2021	December 31, 2020
Revenue from research collaborations	0	493
Revenue from license agreements	0	6,000
Income from the reimbursement of costs by Maruho	0	659
Income from subleases	33	33
Purchase price liability Cutanea (earn-out and start-up costs)	0	17,811

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. No payments were made under this license agreement in the reporting year.

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 Benchmark Company, LLC, acted as underwriter in connection with the capital increase on the Nasdaq Exchange and received an amount of EUR 711 thousand in this capacity. John Borer, who was a member of our Supervisory Board at the time, is Senior Managing Director and Head of Investment Banking at The Benchmark Company, LLC.

In the 2021 financial year, there were no further reportable transactions or relationships with related parties beyond those described above or in sections 31 and 32.

The group of related parties is limited to the group of persons and companies mentioned there. The group of key management personnel is limited to the Management Board and Supervisory Board.

In the context of the underlying holding structure, Biofrontera AG is responsible for the administrative and management tasks. Biofrontera AG is also responsible for the financing of the currently still loss-making business areas, as it is a listed company and consequently enjoys optimal access to the capital market.

Due to the close cooperation between the Group companies, intercompany billing is applied, which is adjusted annually according to requirements.

33. Auditor's fees and services

The total fee invoiced by the auditor Grant Thornton AG for the 2021 financial years consist of:

in EUR thousands	December 31, 2021	December 31, 2020
Auditing services	426	530
[of which for the previous year]	[24]	[54]

The auditing services includes, in addition to the mandatory audit of the annual and consolidated financial statements of Biofrontera AG and Biofrontera Pharma GmbH, the review of the condensed interim financial statements and interim management report, as well as the audit of the consolidated financial statements according to PCAOB standards.

34. Subsequent events

Delisting der ADS von der Nasdaq

Biofrontera AG has decided on February 14, 2022 that its American Depositary Shares ("ADS") should be delisted from the Nasdaq Capital Market ("Nasdaq"), its registration with the Securities and Exchange Commission ("SEC") should be cancelled and its reporting obligations should be terminated. The main purpose of the delisting is to reduce financial reporting complexity and administrative costs. Biofrontera AG intends to maintain an adjusted ADS program on a Level I basis to allow investors to continue to hold its securities in the form of ADSs and to trade the ADSs in the U.S. over-the-counter (OTC) market. The ADSs will automatically transition to the new ADS program in connection with the delisting and will be tradable under a new ticker to be determined.

The ordinary shares of Biofrontera AG will continue to be traded on the Prime Standard of the German Stock Exchange under the symbol B8F. Holders of ADSs have the option to exchange their ADSs for ordinary shares listed on Deutsche Börse.

Change in the Supervisory Board

On February 22, 2022, the Company announced that Prof. Dr. Franca Ruhwedel has resigned from her position as a member of the Supervisory Board with immediate effect for important cause.

War in Ukraine

The war that erupted in Ukraine at the end of February 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 have already been impaired in the context of the COVID 19 pandemic. There is also the possibility of further escalations and the resulting supraregional economic risks

No other events occurred after the balance sheet date.

Leverkusen, den 29. April 2022

Ludwig Lutter

CFO

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 29, 2022

Biofrontera AG

Ludwig Lutter

Independent Auditor's Report

To Biofrontera AG, Leverkusen, Germany

Report 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, Leverkusen, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as of
December 31, 2021, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement
of cash
flows for the
fiscal year from January 1, 2021 to December
31, 2021, 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, Leverkusen, for the fiscal year from January 1, 2021 to December 31, 2021. We did not perform a substantive audit of the corporate governance statement pursuant to Section 289f and Section 315d of the German Commercial Code (HGB) , to which reference is made in the combined management report, or of the compensation report pursuant to Section 162 of the German Stock Corporation Act (AktG) contained in the combined management report as part of our audit of the consolidated financial statements in accordance with German legal requirements.

In our opinion, based on the findings of our audit, the consolidated financial statements are as follows

- 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, 2021 and of its financial
  performance for the fiscal year from
  January 1, 2021
  to December 31, 2021 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 accurately 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 and the aforementioned compensation report .

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, 2021 to
December 31, 2021. 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.

We have structured our presentation of these key audit matters as follows:

① Risk to the financial statements
② Audit procedure
③ Reference to related disclosures

Deconsolidation of Biofrontera Inc. , Woburn, USA

① Risk to the financial statements

Due to the IPO of Biofrontera Inc., Woburn, USA, on October 29, 2021, there have been changes in the proportion of shares held by the parent company Biofrontera AG as a result of the associated dilution of the shares. Biofrontera AG's shareholding in Biofrontera Inc. of 8 million shares corresponded to approximately 69% after the IPO. After the further issuance of shares as well as the exercise of warrants, the proportion of shares decreased continuously to approximately 47% until December 29, 2021. For reasons of materiality and simplification, the parent company deconsolidated Biofrontera Inc. two days later as of the reporting date December 31, 2021, and recognized the remaining investment at fair value. The carrying amount of the investment will be amortized in the future using the equity method in accordance with IAS 28. The deconsolidation gain recognized in the consolidated financial statements of Biofrontera AG amounts to EUR 59,180 thousand.

In particular, the legal representatives of Biofrontera AG had to assess whether and when this situation resulted in the loss of control over the former subsidiary as a whole in accordance with IFRS 10 and in what amount a deconsolidation gain arose.

The assessment of the control criteria by the legal representatives of Biofrontera AG in accordance with IFRS 10 over the course of an ongoing dilution of the parent company's shareholding and the determination of the carrying amounts of the assets and liabilities to be disposed of at the time of deconsolidation are complex and involve judgment. Against this background and due to the significance of the transaction for the Group's financial position and results of operations, this matter was of particular importance in the context of our audit.

② Audit procedure

As part of our audit, we first obtained an understanding of the implemented process for determining the development of the shareholding in Biofrontera Inc. and analyzed possible sources of error. In addition, we obtained an understanding of the implemented process for determining the deconsolidation income with regard to Biofrontera Inc. and analyzed possible sources of error here as well. Against the background of the regulations of IFRS 10, we critically discussed with the legal representatives which activities were significant for managing the business of Biofrontera Inc. and at what point Biofrontera AG could no longer determine decisions regarding these activities. We thus assessed whether and from when the conditions for deconsolidation according to IFRS 10 were met and the parent company correctly determined the date of loss of control according to IFRS 10. For this purpose, we also inspected and verified records of the Company. Furthermore, we used the Company's records to understand how the carrying amounts of the assets and liabilities disposed of were determined in order to present the gain or loss on deconsolidation.

③ Reference to related information

The disclosures on the assessment of the control criteria and on the accounting consequences 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 section "Notes to the Consolidated Statement of Comprehensive Income" in subsection "22. Other Income and Expenses."

Other information

The legal representatives or the Supervisory Board are responsible for the other responsible for the other information. The other information comprises

- the corporate governance statement pursuant to § 289f and § 315d HGB,
- the compensation report under stock corporation law pursuant to Art. 162 AktG contained in the combined management report,
- the responsibility statement by the legal representatives pursuant to Section 297 (2) sentence 4 HGB and Section 315 (1) sentence 5 HGB on the consolidated financial statements and the combined management report, and
- the other parts of the annual report expected to be made available to us after the date of this auditor's report,
- but not the consolidated financial statements, the audited content of the combined management report and our audit opinion thereon.

The declaration pursuant to Section 161 of the German Stock Corporation Act (AktG) on the German Corporate Governance Code, which forms part of the corporate governance statement, and the

compensation report under stock corporation law are the responsibility of the legal representatives and the Supervisory Board; the report of the Supervisory Board contained in the annual report is the responsibility of the Supervisory Board. In all other respects, the legal representatives are responsible for the other information.

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 opinion or any other form of conclusion on it.

In connection with our audit of the consolidated financial statements, we have a responsibility to read the other information referred to above and, in doing so, assess whether the other information is

- are materially inconsistent with the consolidated financial statements, the content of the audited disclosures in 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.

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 opinion 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 professional judgment and maintain a critical attitude. Furthermore

- Identify and assess the risks of material misstatement of the consolidated financial statements and the combined management report, 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. The risk of not detecting material misstatements is higher in the case of noncompliance than in the case of inaccuracy, as noncompliance may involve fraud, forgery, intentional omissions, misleading representations, or the override of internal controls.
- 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 a manner 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. Based on sufficient appropriate audit evidence, we in particular verify the significant assumptions underlying the forward-looking statements made by management 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 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 the safeguards that have been put in place to address them.

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 data contained in the file biofronteraag-2021-12-31-en.zip, with the hash value B021A545B774BD1B7444C7B48CDF3060EAF834ED01EA37457F4886D829D88AC9, calculated using SHA-256 and prepared for the purpose of disclosure of the consolidated financial statements and the combined management report (hereinafter also referred to as "ESEF documents") comply in all material respects with the requirements of section 328 (1) HGB on 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 aforementioned file and prepared for disclosure purposes comply, in all material respects, with the electronic reporting format requirements of Section 328 (1) HGB. Beyond this audit opinion and our audit opinions on the accompanying consolidated financial statements and the accompanying combined management report for the fiscal year from January 1, 2021 to December 31, 2021 contained in the preceding "Report on the audit of the

consolidated financial statements and the combined management report",
we do not express any audit opinion on the information contained in these reproductions or on the other information contained in the above-mentioned 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 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 (10.2021)). Our responsibility thereafter is further described in the section "Auditor's Responsibility for the Audit of the ESEF Documents". Our auditing practice has met 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 the internal controls as they deem 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 documents, i.e. whether the file containing the ESEF documents complies with the requirements of Delegated Regulation (EU) 2019/815 as amended at 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 April 26, 2021. We were
appointed by the Audit Committee of the
Supervisory Board on January 14, 2022.
We have served as the group auditors of Biofrontera AG, Leverkusen, without interruption since fiscal 2007.

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 ESEF format - including the versions to be published in the Federal Gazette - 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.

Responsible auditor

The auditor responsible for the audit is Arndt Krüger.

Düsseldorf, April 29, 2022

Grant Thornton AGAuditing Company

Eckhard Lewe	Arndt Krüger
Certified Public Accountant	Certified Public Accountant

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