Biofrontera

Deep in dermatology

Biofrontera AG

Annual Report 2023

Content

Biofrontera AG – Annual Report 2023

Our skin is a living diary that records every experience, every sunbath, and every environmental stress - even if they seem unnoticeable to us at the moment.

Like a chronicle of life, the damage our skin has been exposed to is not necessarily obvious in the present.

The skin never forgets; it stores the history of our dealings with it. And sometimes it is the inconspicuous times of yesterday that require our attention today.

MEMORIES FADE
OUR SKIN FORGETS NOTHING...

Our skin, as an extremely complex and adaptive organ, is a memory of past stresses and exposures. Although it may appear intact at present, it carries the memory of past sun exposure, environmental factors, and age-related influences. This hidden archive of past damage may later manifest as dermatological irregularities.

With increasing environmental pollution and changing lifestyles, the skin is under increasing stress, leading to a growing prevalence of skin diseases.

It is important to keep a close eye on your skin and react to any changes at an early stage. Early detection of skin abnormalities plays a crucial role in successful treatment. The earlier problems are detected, the better the chances of recovery and the gentler the treatment can be.

Biofrontera has established itself as a pioneer in the field of photodynamic therapy. Many years of research and development have resulted in innovations that are tailored to the individual needs of patients.

Our goal is to preserve the health of your skin, consolidate the role of photodynamic therapy and position Biofrontera as an indispensable expert in the treatment of white skin cancer.

PDT AT A GLANCE

CLEANING OF THE AFFECTED SKIN AREA AND APPLICATION OF THE AMELUZ® GEL.

AFFECTED CELLS ABSORB THE ACTIVE INGREDIENT WITHIN THE EXPOSURE TIME AND CONVERT IT INTO AN LIGHT-ACTIVATABLE MOLECULE.

5-ALA → PPIX

THE TREATED SKIN AREA IS EXPOSED TO AN ACTIVATING LIGHT SOURCE (DAYLIGHT, ARTIFICIAL DAYLIGHT, RED LIGHT LAMP).

LIGHT ACTIVATES THE ACTIVE INGREDIENT; DISEASED CELLS ARE DESTROYED AND THE TREATED SKIN AREA HEALS WITHOUT SCARRING.

OPERATIVE HIGHLIGHTS 2023

JANUARY	Start of phase III clinical trial in the US for the treatment of actinic keratosis on the extremities, neck and trunk with Ameluz®-PDT
MAY	US patent granted for an innovative photodynamic treatment protocol
JULY	Launch of belixos® ACTIVE CARE, an innovative cosmetic foam
AUGUST	Completion of patient enrollment in pivotal study of Ameluz®-PDT for the treatment of basal cell carcinoma

AUGUST	Positive results of Phase I safety study investigating photodynamic therapy with three tubes of Ameluz®
OCTOBER	U.S. Food and Drug Administration (FDA) approval of an optimized formulation of Ameluz® for the treatment of actinic keratosis
NOVEMBER	Significant increase in German revenues with growth of nearly 50% compared to the first nine months of last year
DECEMBER	EMA recommendation for label extension of Ameluz® for the treatment of actinic keratosis with artificial daylight
	Recommendation of the EMA for a variation to the marketing authorization for an improved Ameluz® formulation

Key figures in accordance with IFRS

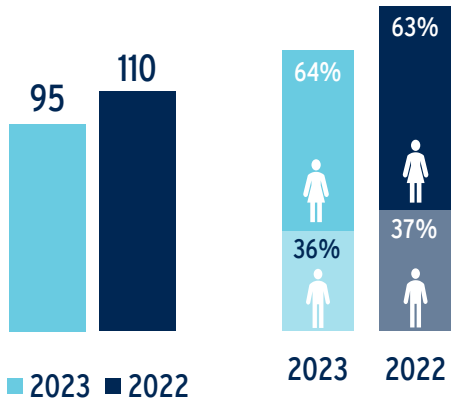
	01.01.-31.12.2023		01.01.-31.12.2022	
Results of operations				
Sales revenue	32,249	100.00%	25,738	100.00%
Gross profit on sales	26,005	80.64%	20,981	81.52%
Result on operations	4,782	14.83%	1,591	6.18%
EBITDA	5,923	18.37%	1,869	7.26%
EBIT	5,132	15.91%	1,124	4.37%
Profit/loss before income tax	(2,127)	(6.60)%	(43,210)	(167.89)%
Profit/loss for the period	(369)	(1.15)%	(44,166)	(171.60)%

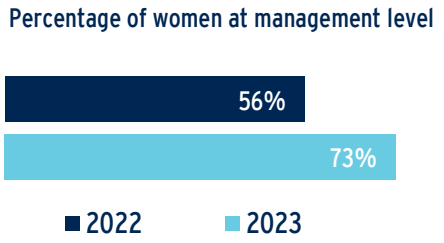
in EUR thousands	December 31, 2023	December 31, 2022
Balance sheet key figures		
Total assets	30,732	32,725
Non-current assets	13,012	17,669
Cash and cash equivalents	3,080	6,376
Other current assets	14,641	8,680
Total equity and liabilities		
Equity	19,980	20,336
Non-current liabilities	678	4,002
Current liabilities	10,073	8,387

	December 31, 2023	December 31, 2022
Number of employees	95	110
	0	0
Biofrontera Shares	0	0
Number of shares outstanding	63,807,058	63,807,058
Share price (Xetra closing price in EUR, Dec 29, 2023)	0.400	1.53

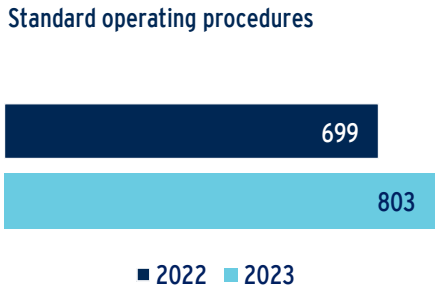
Non-financial key performance indicators

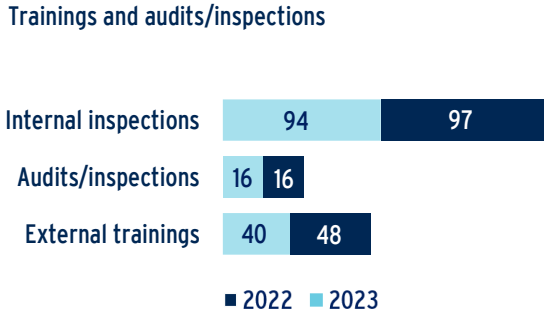
Employees





Quality management





Sustainability as a future performance indicator

The sustainability of our business activities has a significant impact on the environment, society, and our social interaction. We are aware of this responsibility and consider the impact of our actions on present and future generations. Our goal is to balance the economic interests of the company with the demands of sustainability through value creation.

Improved patient care is our goal

At Biofrontera, we are committed to skin health and want to use our products to improve the quality of life of people with sun-induced skin cancer. It is essential that patients have access to this effective therapy. To this end, Biofrontera, together with its distribution partners, aims to promote photodynamic therapy worldwide as an effective solution for sun-induced forms of skin cancer and to open up new indications through further research and development.

Employees as our most important asset

Our employees carry our company. Their high level of qualification and extraordinary commitment have made Biofrontera what it is today. From a very early stage, we at Biofrontera have supported our employees but also challenged them in a rapidly changing market environment. Employee development has therefore always been a focus of the company and is now complemented by significantly more flexible working models. In addition, communication with employees is extremely important to us, which is why employee feedback is given high priority as part of the annual performance appraisal. It is planned to include these results among the most important performance indicators so that employee commitment becomes a key performance indicator.

Ensuring product quality

We must ensure that our products meet all regulatory requirements and are suitable for their intended use. Biofrontera is therefore committed to maintaining a quality management system and continuously monitoring its effectiveness. The aim is to minimize manufacturing errors and possible risks to users and/or patients regarding safety, quality and efficacy. To this end, market information and changes in regulatory requirements are continuously evaluated to adapt our products to customer needs and regulatory requirements. In order to do this in the best possible way, Biofrontera strives for fair, open and long-term cooperation with customers, business partners, suppliers and regulatory authorities. Equally important is a clearly defined organizational structure and process organization that specifies who, when and how quality assurance tasks are to be performed. With this approach, we not only fulfill the regulatory requirements of the industry, but also ensure that quality is actively practiced in our company.

Dear shareholders,

The past year was characterized by significant developments and strategic milestones for Biofrontera. We have further consolidated our position as a leading biopharmaceutical company in the field of photodynamic therapy, expanded our market presence and at the same time strengthened the company's profitability.

With the separation of Biofrontera Inc., Biofrontera AG has taken the opportunity to focus more strategically and with all available resources on the European business, to realign itself in terms of costs and thereby increase profitability.

Our focus is clearly on expanding our sales activities in Europe and this is where we want to continue to direct our greatest efforts. This year's extremely positive results confirm the effectiveness of this strategic approach.

We are proud of the new sales records in Germany, where we have grown sales by 31% compared to the previous year. The significant jump in sales in the German market impressively demonstrates that we dominate the photodynamic therapy market. Through the continuous further development of Ameluz®, we offer our patients and customers a product that we are constantly adapting to the changing requirements of the market and patients Biofrontera is recognized as an expert in this field and is accepted as a leading innovator in the market thanks to various approval extensions. In Germany, we were able to grow sales; while at the same time taking an extremely sensitive approach to costs, so that the operating profit achieved in our home market in particular grew significantly. This is an indicator of future developments in Europe, where we grew by 20% across Europe as a whole.

In view of the complex regulatory environment in the pharmaceutical industry, which influences the cost structure, it is crucial to carefully examine how we can both strengthen our revenue side and find more efficient solutions on the cost side. By taking this strategic approach, we intend to diversify our remaining dependence on the US market in the long term and thus place Biofrontera's business risks on a broader basis.

Despite challenging market conditions, we are pleased that Biofrontera achieved a solid financial result in the 2023 financial year. We were able to increase total sales by 25% compared to the previous year. With total sales of EUR 32.2 million, we are in the upper third of our forecast and our targeted EBITDA of EUR 5.9 million is also well above the forecast range.

In addition to the financial successes, we can also look back on a number of achievements in the regulatory area and in clinical development. We have finally been able to complete patient recruitment in the clinical trial for the extension of approval to basal cell carcinoma and the safety study on the use of 3 tubes of Ameluz® has now also been successfully completed. Both approval extensions are important for the US market and can support our market penetration there. The approval application for the extension to 3 tubes of Ameluz® was submitted to the FDA in the USA as early as December 2023. The extension of the European

approval to include the use of artificial daylight provides new momentum for our European market expansion. A major campaign was initiated at the beginning of this year to promote this even broader range of applications for Ameluz®.

In summary, the development of Biofrontera AG was extremely positive, although this positive momentum was unfortunately not reflected in the share price. The uncertainty in the business development of our US licensee certainly contributed to this, causing considerable uncertainty in the market. It is therefore of fundamental importance that we gradually free ourselves from this dependence on Biofrontera Inc. The reorganization of the license agreement between the two companies is a significant step in this direction. With the reorganization of clinical development, we are now significantly reduced in terms of costs and Biofrontera Inc. can manage clinical development independently and in line with market conditions.

However, 2024 will be a very challenging year for Biofrontera AG, as our US licensee has built up an extensive stock of Ameluz® in the past year and will now monetize this stock in a liquidity-preserving manner, so that we will receive noticeably fewer orders. However, with Biofrontera Inc. as our most important customer, any change in their business behavior will have a significant impact on our business.

We will therefore have to react to this with strict cost control in order to keep Biofrontera AG in the EBITDA break-even range. The expected decline in Ameluz® purchases by Biofrontera Inc. will significantly reduce our sales level in 2024 and thus burden our liquidity situation. For this reason, it is crucial for the company to carry out a moderate capital increase.

Due to our share price below nominal value, it was technically not feasible for us to carry out a capital increase. With the 21:1 reverse split approved at the Extraordinary General Meeting in April, we can now stabilize our share price above nominal value.

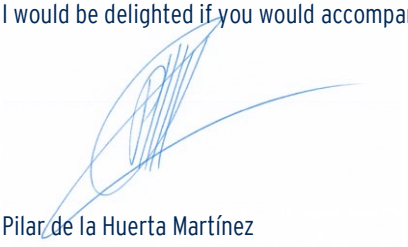
With the subsequently resolved capital measure and the signed back-stop agreement with one of our major shareholders, we now see ourselves in a position to raise the required capital in a timely manner.

Over decades, Biofrontera has created structures, networks, and values that we want to develop further with commitment and care. Over the past two years, far-reaching restructuring has taken place in Biofrontera's management, shareholders, and corporate structure. The results achieved during this time show that we are on a promising and, in particular, profitable path.

I would like to thank all our employees, consultants and cooperation partners who have supported us throughout this time. None of our goals could be achieved without the efforts and good work of our employees. And of course I would also like to thank our shareholders, who are a key element in the future success of the company.

Together, let us continue to develop Biofrontera to realize the potential that we may not have been able to fully address in the past. I remain convinced that, as a small pharmaceutical company, we can compete successfully with the global players. This is because we drive innovation, can react flexibly to market changes and, above all, are firmly convinced of the quality and potential of our product.

I would be delighted if you would accompany us on this journey.



Pilar de la Huerta Martínez

Chief Financial Officer Biofrontera AG

Report of the Supervisory Board of Biofrontera AG for the financial year 2023 (unaudited)

Dear Shareholders,

The fiscal year 2023 shows a positive operating result for Biofrontera AG. With further cost reduction measures and a clear focus on growth-promoting initiatives, we aim to continue supporting this development in the future. The Supervisory Board collaborates closely with each other and with the management team in a spirit of trust.

We extend our thanks to the Executive Board and the employees for their contributions, which have supported the development of Biofrontera AG in the past fiscal year.

Supervision and Consultation

The Supervisory Board fulfilled its duties as stipulated by law, the Articles of Association, the German Corporate Governance Code (Code), and the rules of procedure. Its activities included overseeing and advising the Executive Board in the management of the Company and the Group. The Supervisory Board discussed business decisions and plans with the Executive Board.

The Executive Board provided reports to the Supervisory Board on the Company's situation. The Supervisory Board was informed by the Executive Board about the company's development both in meetings and outside of meetings. Based on written and oral reports from the Executive Board, the Supervisory Board discussed the business development and the company's situation in its deliberations. Additionally, there was an exchange of information and ideas between the Executive Board and the Chairman of the Supervisory Board.

The Supervisory Board also reviewed the legality, regularity, appropriateness, and economic efficiency of management measures. The division of the operational activities of the Biofrontera Group into an independent US sales company on one hand and the (former) parent company Biofrontera AG on the other hand, which took place at the end of 2021, is still not optimal in the view of the Supervisory Board for the Biofrontera AG Group. A restructuring with the aim of reuniting the operational activities is currently not feasible from the Supervisory Board's perspective, at least not in the short term.

Deviation of business performance from the plans was explained to the Supervisory Board by the Executive Board and discussed with them. It was also examined to what extent the legal requirements and the decisions, suggestions, and recommendations of the Supervisory Board were considered or implemented by the Executive Board in business management.

The Supervisory Board made decisions on specific measures after reviewing relevant information and documents and consulting.

Meetings and their Focus of Discussion

In fulfilling its duties, the Supervisory Board held eight meetings during the reporting year. One meeting was held in person, while all other meetings were conducted via telephone or video conferences.

During the meetings, the Executive Board reported on the current business situation. In particular, the Executive Board explained the liquidity position of the Company in the context of sales forecasts and cost planning.

In the meeting on March 6, 2023, the Supervisory Board approved the budget for 2023 after intensive discussion with the Executive Board.

The auditor reported to the Audit Committee and the Supervisory Board in full at the meeting on April 24, 2023, on the timing, structure, and results of the audit for the fiscal year 2022.

After discussing the financial statements for 2022, the consolidated financial statements, and the consolidated management report, the Supervisory Board approved the auditor's reports in the meeting on April 27, 2023, without objections after the final results of its own review and approved the annual financial statements of the Company and the Group. It followed the recommendation of its

Audit Committee, which had previously held a meeting in the presence of the auditor and discussed the annual financial statements for 2022, the consolidated financial statements, the consolidated management report, and the audit reports.

In the meeting on June 20, 2023, the Executive Board presented a market analysis for extending the distribution of Ameluz to additional European countries with business cases. In addition, risks of the business planning of Biofrontera Inc. were discussed, and action options in the event of a decline in order intake and payments from Biofrontera Inc. were debated.

In the meeting on September 8, 2023, the Executive Board presented liquidity plans for various scenarios of reduced product sales and resulting declines in payments from Biofrontera Inc.

In the meeting on October 4, 2023, the Executive Board presented and discussed updated liquidity plans.

In the meeting on November 2, 2023, a capital increase conducted by Biofrontera Inc. and a possible amendment to the licensing and supply agreement with Biofrontera Inc. were discussed. The Supervisory Board noted an analysis and confirmation of the plausibility of the Company's liquidity planning conducted by an auditing firm.

In the meeting on December 7, 2023, the Supervisory Board discussed the budget for 2024 with the Executive Board. The Executive Board and the Supervisory Board thoroughly examined the financial situation and potential existing risk factors. The budget was then approved by circular resolution. A future deviation as a whole from the German Corporate Governance Code was discussed and approved by subsequent circular resolution. The possibility of exempting Biofrontera Pharma GmbH from the obligation to prepare and audit individual financial statements for the fiscal year 2023 in accordance with § 264 paragraph 3 sentence 1 no. 1 HGB by providing a parent company guarantee was discussed and approved by subsequent circular resolution.

Decisions outside of Meetings

Outside of meetings, the Supervisory Board made decisions in 13 parallel proceedings, including decisions on Executive Board matters, legal issues, and matters related to the Annual General Meetings in the fiscal year 2023.

Committees of the Supervisory Board

In the fiscal year 2023, there was an Audit Committee, a Nomination and Personnel Committee, and a Litigation Committee regarding the proceedings of Deutsche Balaton AG against Biofrontera AG. The Supervisory Board appointed one member to serve as the chairman of each committee.

According to the rules of procedure of the Supervisory Board, the Chairman of the Supervisory Board is also the chairman of the committees dealing with Executive Board contracts and preparing Supervisory Board meetings. Although the Chairman of the Supervisory Board was not the chairman of the Nomination and Personnel Committee, which deals with Executive Board contracts, in the fiscal year 2023, he was a member of this committee. The Supervisory Board considers this deviation from the standard regulation of the rules of procedure to be inconsequential. The Chairman of the Supervisory Board should not hold the chairmanship of the Audit Committee, which was also not the case. The chairpersons of the committees' report on the work of the committees in Supervisory Board meetings, except for the Litigation Committee.

1. Audit Committee

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

The members of the Audit Committee during the reporting year were: Mr. Karlheinz Schmelig (Chairman), Dr. Helge Lubenow, Dr. Jörgen Tielmann (January 1, 2023, to July 4, 2023), and Prof. Dr. Karin Lergenmüller (July 5, 2023, to December 31, 2023).

2. Nomination and Personnel Committee

The Nomination and Personnel Committee prepares, among other things, decisions of the Supervisory Board regarding the appointment and dismissal of Executive Board members. Since the Supervisory Board is ultimately responsible for compensation decisions, the Personnel Committee also acted preparatory in this regard.

The Nomination and Personnel Committee represented the company in the legal dispute with the former Chief Financial Officer, Mr. Lutter.
The Nomination and Personnel Committee met twice during the reporting period; all meetings were held as video conferences. In addition to these formal meetings of the Nomination and Personnel Committee, there was at least monthly informal exchange among committee members.
The members of the Nomination and Personnel Committee during the reporting period were: Dr. Helge Lubenow (Chairwoman), Mr. Wilhelm K.T. Zours, and Dr. Heikki Lanckriet.

3. Other Committees

Reference is made to the section "Conflicts of Interest" below.

Individualized Disclosure of Attendance of Supervisory Board Members at Supervisory Board and Committee Meetings in the Fiscal Year 2023

Name	Board Meetings Attendance	Presence in %	Committee Meetings Attendance	Presence in %
Dr. Heikki Lanckriet	8/7	87.5%	2/2	100%
Dr. Helge Lubenow	8/7	87.5%	10/10	100%
Karlheinz Schmelig	8/8	100%	8/8	100%
Prof. Dr. Karin Lergenmüller	8/8	100%	2/2	100%
Dr. Jörgen Tielmann	8/8	100%	6/6	100%
Wilhelm K. T. Zours	8/8	100%	2/2	100%

Annual and Consolidated Financial Statements 2023

Baker Tilly GmbH & Co. KG Wirtschaftsprüfungsgesellschaft, Düsseldorf, was appointed as the auditor for the annual and consolidated financial statements for the fiscal year 2023 by the ordinary Annual General Meeting on June 20, 2023, and subsequently commissioned by the Supervisory Board. The auditor's independence declaration was obtained. Baker Tilly GmbH & Co. KG Wirtschaftsprüfungsgesellschaft, Düsseldorf, audited the annual and consolidated financial statements of Biofrontera AG prepared by the Management Board and the summarized management report for the 2023 fiscal year and issued unqualified audit opinions. The auditor also confirmed that the Management Board had established an adequate information and monitoring system that is suitable in its design and application for the early detection of developments endangering the continued existence of the company.

The consolidated financial statements were prepared based on International Financial Reporting Standards (IFRS). The audit documents were discussed in the Audit Committee on April 29, 2024, in the presence of the auditor and other members of the Supervisory Board. During this meeting, the annual and consolidated financial statements were also discussed with the Management Board. In this context, the Audit Committee dealt in particular with the key audit matters described in the respective auditor's report, including the audit procedures performed. The audit documents were discussed in the presence of the auditor. All Supervisory Board members received the audit documents and the auditor's reports before this meeting and reviewed these documents. The auditor reported on the audit, commented on the audit focus areas, and was available to the Supervisory Board for questions and information. The auditor also reported on the scope, focus areas, and key findings of the audit, focusing in particular on the key audit matters and the audit procedures performed. Questions from the Supervisory Board were answered by the Management Board and the auditor. The auditor also reported on his findings regarding internal control and risk management relating to the financial reporting process.

In its balance sheet meeting on April 29, 2024, the Supervisory Board duly noted the audit reports, the annual and consolidated financial statements, and the summarized management report. After discussing the annual financial statements, consolidated financial statements, and the summarized management report, the Supervisory Board approved the auditor's reports and the results of the audit, raised no objections after the final result of its own review, and approved the annual and consolidated financial statements. The annual financial statements of Biofrontera AG were thereby adopted.

The present report of the Supervisory Board was adopted at the balance sheet meeting on April 29, 2024, as was the corporate governance statement.

Auditor and Responsible Auditor

Baker Tilly GmbH & Co. KG Wirtschaftsprüfungsgesellschaft, Düsseldorf, has served as the auditor for Biofrontera AG and the Group for the fiscal year 2023 for the second consecutive year.

Corporate Governance and Declaration of Compliance in accordance with § 161 AktG

Information on corporate governance is presented in the annual report and on the Internet at www.biofrontera.com under "Investors" / "Corporate Governance" and in the corporate governance statement. In particular, details regarding the objectives of the Supervisory Board regarding its composition and the status of implementation are provided there.

Conflict of Interest

Every member of the Supervisory Board is obligated to act in the best interest of the company. They must not pursue personal interests or utilize business opportunities that belong to the company without the approval of the Supervisory Board. The Rules of Procedure of the Supervisory Board stipulate that each member must disclose any conflicts of interest to the Supervisory Board. This is especially relevant in cases where conflicts of interest may arise due to consulting or organizational positions with clients, suppliers, lenders, or other business partners. Significant and not merely temporary conflicts of interest involving a member of the Supervisory Board should lead to the termination of their mandate.

On December 13, 2021, Deutsche Balaton AG, Heidelberg, filed a declaratory action against Biofrontera AG at the Cologne District Court, which was decided on December 9, 2022, by the Cologne District Court. Mr. Wilhelm K.T. Zours indirectly holds the majority of shares in Deutsche Balaton AG through VV Beteiligungen AG and is Chairman of the Supervisory Board of Deutsche Balaton AG. There is a domination agreement between VV Beteiligungen AG and Deutsche Balaton AG. Since December 14, 2021, Mr. Zours has also been a member of the Supervisory Board of the company and its chairman. The essence of the lawsuit was that Deutsche Balaton AG maintains the view, shared by the Cologne District Court in its judgment, that the IPO of Biofrontera Inc. together with capital measures required the approval of the Biofrontera AG General Meeting. The lawsuit was directed against Biofrontera AG, represented by the Management Board and represented by the Supervisory Board. Upon learning of the lawsuit, the Supervisory Board decided to form a committee in this context, and the following members of the Supervisory Board were appointed to the committee: Mr. Jörgen Tielmann (Chairman), Mr. Karlheinz Schmelig, and Dr. Helge Lubenow. The lawsuit committee did not meet during the reporting period as no decisions needed to be made.

Mr. Zours therefore did not participate in consultations and decision-making related to the lawsuit.

From the perspective of the Supervisory Board, the conflict of interest has been appropriately addressed. Also, from a retrospective perspective, it cannot be determined that it was a significant and not merely temporary conflict of interest that would have required termination of the mandate.

Changes in the Supervisory Board

The composition of the Supervisory Board remained unchanged during the reporting period. The major shareholder Maruho Deutschland GmbH withdrew its action against resolutions of the General Meeting on August 23, 2022, and the Extraordinary General Meeting on January 9, 2023, on July 4, 2023. Thus, the resolution-related election of Prof. Dr. Lergenmüller to the Supervisory Board is finally legally effective. The withdrawal of the action is part of an out-of-court settlement, which also resolved a dispute over potential loss of voting rights by Maruho Deutschland GmbH at past General Meetings and agreed on a procedure to avoid loss of voting rights at future General Meetings.

Composition of the Management Board

The composition of the Management Board remained unchanged during the reporting period.

Former Chief Financial Officer Mr. Ludwig Lutter claimed further payment claims from his Executive Board service contract during the reporting period. The Cologne District Court awarded Mr. Lutter an amount of TEUR 250 in a decision delivered to the company on March 22, 2024, taking into account the income Mr. Lutter stated to have earned elsewhere.

Since September 2022, the current sole Management Board member, Ms. Pilar de la Huerta Martinez, has been appointed as Chief Financial Officer. Ms. Pilar de la Huerta has been active as CEO and CFO of various technology companies in the pharmaceutical and healthcare sector for over 25 years, thus possessing relevant industry experience and high professional qualifications.

The Supervisory Board thanks Ms. de la Huerta for her high commitment to the company during a challenging phase of business development and for the trusting cooperation.

Future

Even if Biofrontera AG is able to report a positive operating result for the 2023 financial year, we must not overlook the fact that we continue to form a "community of fate" with Biofrontera Inc. even though we only hold less than 8% of the shares in Biofrontera Inc. due to highly dilutive capital increases and this company is reporting high losses. The economic success of Biofrontera AG in the future will continue to depend to a large extent on the sales success of Biofrontera Inc. on the US market. Biofrontera AG can only continue to develop positively if Biofrontera Inc. can further increase its sales and reduce its costs relative to sales with the funds required to break even with Biofrontera Inc. The share of the US market in total sales of the product Ameluz is expected to remain high, as is the dependence of Biofrontera AG's earnings on the success of Biofrontera Inc.

In February 2024, an agreement was concluded with Biofrontera Inc. to change the business relationship between the two companies. Biofrontera AG will focus on the utilization of its existing projects and know-how, while research and development will no longer be the focus of its activities. This change in strategy and the amended contract with Biofrontera Inc. as the company's largest customer will have a significant impact on the structure of sales and costs, both of which will be reduced. The sales of Biofrontera AG will be reduced in the next few years due to the reduction in the percentage of the revenue share in US sales with Ameluz; this will be offset by lower costs for the AG due to the assumption of the costs of Clinical Trials by Biofrontera Inc.

The performance of the Biofrontera share was also unsatisfactory in 2023. In the coming period, the Supervisory Board and the Management Board will continue to work constructively and with a focus on results to improve the economic situation of Biofrontera AG and its valuation on the capital market.

Finally, we would again like to thank you, our shareholders, for your patience, your trust and your willingness to support the company in future capital increases!

Heidelberg, April 2024

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 2023 (unaudited)

The Company has made use of the option not to include the corporate governance statement pursuant to Sections 289f, 315d of the German Commercial Code (HGB) for the financial year 2023 in the (combined) management report for the financial year 2023, but refers to the publication of this statement as well as the statement of the Management Board and the Supervisory Board of Biofrontera AG (the Company) on the German Corporate Governance Code pursuant to Section 161 of the German Stock Corporation Act (AktG) (unaudited) on the Company's website at www.biofrontera.com in the section "Investors", subsection "Corporate Governance" with the corresponding labels.

Compensation Report

Remuneration system for the members of the Management Board:

Principles of the system for the remuneration of the members of the Executive Board of Biofrontera AG

The compensation system for the executive board aims to appropriately remunerate the executive board members in line with their duties and responsibilities, taking into account the performance of each board member as well as the success of the company. The structure of the compensation system for the executive board of Biofrontera AG aims at sustainable increase of the company's value and performance-oriented corporate management. The compensation system is effective from December 2021 for new contracts and contract extensions. The performance of the executive board members is adequately considered through appropriately and ambitiously set performance criteria within the variable compensation components (Pay for Performance). The current market practices are taken into account in designing the compensation system.

In determining the compensation levels and the compensation system, the Supervisory Board generally follows the following guidelines:

- The compensation system significantly contributes to promoting the business strategy as a whole.
- In particular, the variable compensation components should be linked to the achievement of strategic objectives.
- The compensation system and the performance criteria of its variable components incentivize long-term and sustainable development of the Biofrontera Group.
- The strategic objectives formulated within the framework of the variable compensation components should ensure long-term and sustainable growth of the company.
- To ensure long-term developments, variable compensation components with a multi-year character should further contribute, aligning with the share price performance of Biofrontera AG and thus linking compensation to profit growth and shareholder interests.

The compensation system consists of:

- a fixed basic remuneration, payable monthly, which takes into account the tasks and performance of the members of the Executive 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 goals for short- and long-term variable compensation are derived from the corporate strategy of Biofrontera AG. In addition, customary fringe benefits are provided.

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

Target Total Compensation

The target total compensation for each board member results from the base salary, the short-term variable compensation, and the long-term variable compensation at 100% target achievement.

In accordance with the compensation system, the Supervisory Board determines the level of target total compensation for each board member.

In doing so, it takes into account not only an appropriate relationship to the duties and performances of the board member but also the economic situation as well as the success and future prospects of the company. The Supervisory Board ensures that the target total compensation does not exceed the customary compensation without special reasons.

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

Horizontal Comparison

The selection of the comparison group for assessing the market conformity of total compensation is based on the requirements of the Stock Corporation Act (especially industry and size as well as international orientation).

The composition of the comparison group is generally determined, as far as ascertainable, on the one hand from a comparison group of publicly traded companies in terms of revenue, EBIT, number of employees, and market capitalization. Furthermore, the selection of the comparison group is made, as far as ascertainable, from a comparison group of publicly traded industry companies.

Vertical Comparison

The compensation and employment conditions of the employees are taken into account within the framework of the vertical comparison outlined below.

Components of Compensation in Detail

Fixed Compensation Components

The fixed compensation components granted to the members of the Executive Board under the compensation system include the base salary and fringe benefits. The members of the Executive Board do not receive any pension commitments.

Basic remuneration

The Executive Board members receive the base salary, which is paid out in twelve equal parts monthly.

Fringe Benefits

Fringe benefits are granted based on employment contracts with individual members of the Executive Board and may include, for example, the following: private use of company cars, special payments such as payment of school fees, housing, rental, and relocation expenses, contributions to pension insurance (excluding pension commitments as outlined here), contributions to accident, life, and health insurance, or other insurances. Fringe benefits may be granted once or repeatedly. The annual value of fringe benefits should not exceed 10% of the annual base salary.

Short-Term Variable Compensation (Short Term Incentives; "STI")

Members of the Executive Board are entitled to short-term variable compensation, which can result in an annual bonus payment. The short-term variable compensation is linked to the achievement of performance goals, the specific target values of which are agreed upon at the end of a fiscal year.

The due date for STI payment generally occurs one month after the approval of the annual financial statements and consolidated financial statements for the respective fiscal year by the Supervisory Board of the Company. If the Company terminates the employment relationship for good cause within the meaning of § 626 of the German Civil Code (BGB), the STI payment for the fiscal year in which the termination becomes effective is forfeited.

Target Amounts

Target amounts are agreed upon with the Executive Board in the employment contracts, which are granted to them upon 100% achievement of the goals ("STI target amounts"). The amount of STI target amounts should not exceed 50% of the base salary at 100% target achievement. The amount of short-term variable compensation depends on the degree of achievement of the agreed goals and can range between 0% and 200%. The exact payout is determined by multiplying the degree of goal achievement by the STI target amount of each Executive Board member. In case of exceeding the target, an increase up to a maximum of 200% of the STI target amount (cap) takes place. If the target is achieved up to 70%, the short-term variable compensation is reduced linearly; if the target achievement is less than 70%, the STI payment is completely waived.

Performance Goals

In determining the annual target agreement, the Supervisory Board aligns with the following performance goals:

The assessment criteria for STI include financial and non-financial performance criteria, which are agreed upon in a target agreement at the end of each fiscal year for the following fiscal year. If no agreement is reached between the Executive Board member and the Supervisory Board, the Supervisory Board decides on the determination of the assessment criteria at its reasonable discretion.

Financial performance criteria should include, besides the company's revenue, financial indicators such as earnings and profitability ratios (e.g., EBITDA - Earnings Before Interest, Taxes, Depreciation, and Amortization, EBITDA margin). The Supervisory Board has the option to adjust the financial performance measure used for evaluation by excluding extraordinary components.

Non-financial performance criteria should include criteria such as integrity, employee satisfaction, diversity, as well as sustainability/environmental-social-governance (ESG) aspects, which should account for at least 10% of the total goal achievement. Strategic criteria should also be included in the target agreement, such as achieving approvals, successful completion of studies, conclusion of significant contracts, or conducting financings.

A non-financial, strategic component should consider the contribution of the entire Executive Board as well as individual Executive Board members to the implementation of the company's strategy and thus to the long-term development of the company.

For the non-financial, strategic goals, it should be clearly defined within the target agreement under which conditions the respective goal is fully met (100% achievement of the individual criterion) and which parameters are used to assess the degree of goal achievement.

Calculation of Target Achievement

The total target achievement of short-term variable compensation is determined by the weighted average of individual performance criteria and the degree of respective goal achievement. Financial performance criteria should generally account for up to 55% of the goal achievement weighting, while non-financial criteria can account for up to 45%.

Short-Term Variable Compensation for Extraordinary Developments and Performances of an Executive Board Member

In justified exceptional cases, the Supervisory Board may grant the Executive Board members a special bonus at the discretion of the Supervisory Board, not exceeding EUR 50,000 (gross) per fiscal year and Executive Board member. The resolution on the existence of an exceptional case, which should specify the extent and quality of the extraordinary performance of the Executive Board member, also determines the specific amount of a special bonus and the timing of its payment by the Supervisory Board.

Long-Term Variable Compensation (Long Term Incentive; "LTI")

As a long-term success component, Executive Board members are granted Stock Appreciation Rights ("SARs"). An annual target amount equal to 150% of the STI target amount ("LTI target amount") is agreed upon with the Executive Board members. The number of SARs granted annually corresponds to the LTI target amount divided by the economic value of the SARs at the time of grant. The economic value per SAR to be used corresponds to the intrinsic value determined based on the unweighted average closing prices of the company's shares traded in the closing auction on the Xetra trading platform of the Frankfurt Stock Exchange or in a corresponding successor system on the 15 trading days preceding the grant. Executive Board members receive a payout based on the stock price performance of the company upon exercise of the SARs.

Exercise Conditions

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

(ii) if, in addition, the reference price has developed proportionally the same or better than the "MSCI World Health Care Index TR" or a comparable successor index ("reference index") during the reference period from the last trading day before the issue date to the 5th trading day (each last index calculation day following USA Eastern Standard Time (EST)) before the start of the respective exercise window. If the reference index is a so-called Total Return Index, dividends and other distributions paid out by the company to shareholders during the reference period are considered in the determination of the performance.

The "**issue price**" corresponds to the unweighted average closing price of the company's shares between the 15th and the last trading day preceding the issue date (inclusive).

The "**reference price**" corresponds to the unweighted average closing price of the company's shares between the 15th and the 5th trading day (inclusive) before the start of the respective exercise window.

"**Closing prices**" are the prices determined in the daily closing auction on the Xetra trading platform of 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 determined price in continuous trading on the respective trading day is used as the closing price, provided that such a price was determined on the respective 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.

Lock-Up Periods

SARs may be exercised for the first time after the expiration of a lock-up period.

a) The lock-up period for 15% of the SARs granted on an issuance date is one year after the respective issuance date;

b) The lock-up period for an additional 25% of the SARs granted on an issuance date is two years after the respective issuance date;

c) The lock-up period for another 25% of the SARs granted on an issuance date is three years after the respective issuance date;

d) The lock-up period for the remaining 35% of the SARs granted on an issuance date is four years after the respective issuance date.

After the expiration of the respective lock-up period, the SARs can be exercised until six years after the respective issuance date. Thereafter, the right to exercise the SARs terminates, and any SARs not exercised by then expire without compensation.

Personal Investment

Additionally, according to the SAR terms, Executive Board members are required to make a personal investment in the company's shares. This investment must be made unconditionally within six months after the SAR exercise date, in an amount equal to 25% of the gross payout, and the acquired company shares may not be sold earlier than four years after the SARs were granted.

Share Ownership Guidelines

To further enhance the long-term incentive effect of variable compensation and its alignment with sustainable corporate development, Executive Board members are also obligated in their Executive Board contracts to acquire and hold a determined number of company shares, as specified by the Supervisory Board until the end of their contract term ("Share Ownership Guidelines"). The total acquisition expense to be borne by the Executive Board member (including acquisition-related costs) is limited to an amount equal to 25% of the STI payment (gross) granted to them for the preceding 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 for the Company to Reclaim Variable Compensation Components

The Supervisory Board may determine that unpaid variable compensation components of the STI and/or LTI are entirely or partially withheld and not paid out ("Clawback") in the event of serious misconduct by an Executive Board member. The Supervisory Board decides on the Clawback at its reasonable discretion. Serious misconduct by an Executive Board member in this regard is particularly assumed,

a) if it has at least grossly negligently violated its duties under § 93 AktG or

b) if it has at least grossly negligently violated internally documented internal behavior standards or internal guidelines that have had or could have serious consequences for the company, or

c) in the case of at least grossly negligent behavior of a criminal nature in the exercise of office as a member of the Executive Board, or

d) in the case of an intentional violation of other legal provisions in the exercise of office as a member of the Executive Board.

e) The same applies in the case of serious misconduct by employees of the company or the group, especially in cases of at least grossly negligent violations of criminal or compliance-related provisions, which were recognized by the Executive Board member in their capacity as the employee's superior and were not immediately stopped or should have been recognized and immediately stopped with the due care of an Executive Board member.

A Clawback in relation to payments from the STI is only permissible for the fiscal year in which the misconduct occurred, but not for previous or subsequent years. Regarding payments from the LTI, a Clawback is permissible if and to the extent that the serious misconduct occurred within the four years following the grant of the entitlement from the LTI (i.e., since the grant of the SARs).

A Clawback of the STI is also permissible in the case of grossly negligent misconduct that has been identified and audited after the respective financial statements have been finalized and has led to a subsequent correction of the company's financial statements. In this case, the Clawback is permissible to the extent that the STI was overstated based on the uncorrected basis.

If a Clawback situation arises according to the above provisions, already paid amounts of the STI and/or LTI, which could have been withheld accordingly, can also be reclaimed. Such recovery is permissible, calculated from the time the Supervisory Board becomes aware of the triggering event, for the year of awareness and the preceding three fiscal years.

Amounts withheld or repaid as part of the Clawback are credited against any damages claim of the company arising from the misconduct of the Executive Board member.

No variable compensation components were reclaimed in the fiscal year.

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

The Supervisory Board may establish resignation arrangements for each compensation component and for each case in which the employment relationship of an Executive Board member or the appointment as a member of the Executive Board ends. This includes cases such as retirement, full or partial incapacity for work, death, ordinary termination of the employment contract, termination of the employment contract for cause, removal from office for cause, transfer of an employment contract to the company's principal shareholder, or to an entity affiliated with the company's principal shareholder. For each of these cases, the Supervisory Board can predefine the requirements for individual or all compensation components to be paid, either fully or partially, prematurely or with a delayed timing, to the Executive Board members or - in case of death - to the heirs of the respective Executive Board member, or forfeited.

Payments to an Executive Board member upon premature termination of their Executive Board activities shall not exceed the value of two annual compensations at 100% goal achievement (severance cap) and shall not compensate for more than the remaining term of the employment contract.

Commitments for benefits in connection with the premature termination of the employment contract by the Executive Board member as a result of a change of control should not be agreed upon.

The Supervisory Board may agree with Executive Board members on a post-contractual non-competition obligation for a period of up to two (2) years. If such a post-contractual non-competition obligation takes effect, Executive Board members may receive compensation of up to half of their respective base salary per year of the respective duration of the post-contractual non-competition obligation. Payments under a post-contractual non-competition obligation are offset against any severance payments.

Compensation System in Case 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, in accordance with § 87a para. 2 sentence 2 AktG, to temporarily deviate from the compensation system and to change the regulations regarding the compensation structure and the individual compensation components, as well as the regulations for the respective procedure, if this is necessary in the interest of the long-term well-being of the company. Unfavorable market developments are not considered special and exceptional circumstances that allow deviation from the compensation system.

Maximum Compensation

The following maximum amounts apply:

	Chairman of the Executive Board	Other members of the Executive 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.
Any additional short-term variable remuneration in the event of extraordinary developments and performance by a member of the Management Board	50.000 p.a.	50.000 p.a.

Relative proportion of individual components of compensation

The Supervisory Board observes an appropriate ratio of the individual components of compensation to the target total compensation. The proportion of the components of compensation for Executive Board members to the target total compensation based on 100% target achievement in the STI and payout of the LTI at the respective LTI target amount is as follows:

Base salary	44%
STI compensation	22%
LTI compensation	33%

The proportion of the components of compensation for Executive Board members to the target total compensation based on 200% of the STI target amount and 300% of the LTI target amount is as follows:

Base salary	23.5%
STI compensation	23.5%
LTI compensation	53%

The above percentages are based on the assumptions made. The actual percentages may vary in future fiscal years and in the event of the appointment of new Executive Board members. Variations may result, in particular, from the achievement of STI and LTI targets and from annual expenses related to fringe benefits.

Procedure for determining, reviewing, and implementing the compensation system

The compensation of the Executive Board is determined by the Supervisory Board as a whole. For this purpose, the Personnel Committee of the Supervisory Board prepares appropriate recommendations. If necessary, independent external consultants are consulted. According to the Rules of Procedure for the Supervisory Board, members of the Supervisory Board are obliged to disclose any conflicts of interest immediately. The Supervisory Board designs the system for the compensation of Executive Board members, taking into account applicable laws and regulations, in particular the provisions of the German Stock Corporation Act (AktG) in its current version, regulatory requirements, and the provisions of the German Corporate Governance Code. It ensures clarity and comprehensibility. Based on the compensation system, the Supervisory Board determines the specific target total compensation. The Executive Board compensation system thus resolved by the Supervisory Board is submitted to the Annual General Meeting for approval.

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

In accordance with legal regulations (§ 87a (2) AktG), the Supervisory Board, on the proposal of the Personnel Committee, may temporarily deviate from the components of the compensation system described below in exceptional circumstances if this is necessary in the interest of the long-term well-being of the company.

Consideration of employee compensation and employment conditions when establishing the compensation system

When establishing the compensation system and determining the specific level of compensation, the Supervisory Board also takes into account the employment conditions of employees in the Biofrontera Group. For this purpose, the Supervisory Board has defined the senior management level in the Biofrontera Group and demarcated it from the Executive Board on the one hand and the total workforce in the Biofrontera Group on the other hand. In the course of the regularly conducted review of the appropriateness of Executive Board compensation, the Supervisory Board examines in particular whether changes in the relations of the compensation of the Executive Board, senior management, and the total workforce result in any need for adjustment in Executive Board compensation. In doing so, the Supervisory Board also takes into account the development of the compensations of the groups described over time.

Conflicts of interest

The Supervisory Board ensures, through appropriate measures, that any conflicts of interest of the Supervisory Board members involved in the deliberations and decisions on the compensation system are avoided and, if necessary, resolved. Each Supervisory Board member is obliged to disclose conflicts of interest to the Chairman of the Supervisory Board immediately. The Chairman of the Supervisory Board discloses any conflicts of interest concerning him to his deputy. The handling of an existing conflict of interest is decided on a case-by-case basis. In particular, it is possible that a Supervisory Board member affected by a conflict of interest does not participate in a meeting or individual deliberations and decisions of the Supervisory Board or abstains from voting.

Duration of Executive Board employment contracts

The agreed term of the employment contracts of Executive Board members corresponds to the duration of the intended appointment as Executive Board member. In the case of an initial appointment, the Supervisory Board will determine the duration of the appointment appropriately and oriented towards the well-being of the company in the respective individual case, whereby the duration of the appointment should generally not exceed three years. The period for reappointment, in compliance with the provisions of § 84 AktG, is a maximum of five years. In the event of reappointment of the Executive Board member, the employment contract is extended in accordance with the duration of a renewed appointment; otherwise, it automatically terminates without the

need for termination upon expiration of the intended regular term of appointment. A decision on any extension of the employment contract or any reappointment should be made no later than 15 months before the expiration of the employment contract or the term of appointment and finalized with the Executive Board member 10 months before the expiration.

Compensation system in case of special and exceptional circumstances

In special and exceptional circumstances (e.g., in the event of a severe financial or economic crisis, corporate restructuring of the group such as spin-offs, acquisitions, or sales of companies or similar significant M&A transactions), the Supervisory Board has the right, in accordance with § 87a (2) sentence 2 AktG, to temporarily deviate from the compensation system and to change the regulations regarding the compensation structure and the individual compensation components, as well as the regulations for the respective procedure, if this is necessary in the interest 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 deviations can be made under the circumstances mentioned are the procedure, the compensation structure, the individual components of compensation, and their performance criteria. Furthermore, in this case, the Supervisory Board may temporarily grant additional components of compensation or replace individual components of compensation with other components of compensation to the extent necessary to restore the appropriateness of Executive Board compensation in the specific situation.

Executive Board compensation in fiscal year 2023

The total compensation for members of the Executive Board in fiscal year 2023 and the inventory of all shares options issued to the Executive Board members as of December 31, 2023, are allocated as follows:

Term in EUR thousands (unless otherwise inidcated)	Pilar de la Huerta Martìnez CFO September 12, 2022 2023	 incubent 2022
Fixed component of compensation	280	86
Compensation in kind	42	4
Severance pay	0	0
Total fixed compensation	289	90
Short-term incentive (variable, STI)	47	0
Long-term incentive (variable, LTI), thereof from	0	
Stock Appreciation Rights (SARs) (maturity May 3, 2030)	0	
Fair value of SARs	0	0
Income from exercising SARs	0	0
Total LTI	0	0
Total performance-based compensation	47	0
Total compensation	336	90
Number of stock options (Dec 31)	0	0
Number of stock options granted	0	0
Fair value when granted	0	0
Number of SARs (Dec 31)	0	0
Number of SARs granted	0	0
Fair value when granted	0	0

Ms. Pilar de la Huerta was appointed as CFO to the Executive Board of the Company on September 12, 2022, and has been serving as sole Executive Board member since October 1, 2022.

The non-performance-related component of compensation for Ms. de la Huerta is 84% (100% in the previous year).

No stock options (LTI) were granted to Executive Board members in the fiscal year 2023. Furthermore, there are no promised stock options within the meaning of Section 162 (1) sentence 2 No. 3 of the German Stock Corporation Act (AktG).

The maximum compensation for Executive Board members from the non-performance-related and one-year performance-related compensation (bonus) amounts to EUR 476 thousand for Ms. de la Huerta. This was adhered to. No LTIs have been decided and contractually agreed upon for Ms. de la Huerta thus far.

The existing service contracts provide that - depending on the achievement of agreed-upon targets - an annual bonus shall be granted. The assessment factors are determined in a target agreement each year for the following fiscal year by the end of a fiscal year. The 2022 target agreement included revenue (60%) and EBITDA (earnings before interest, taxes, depreciation, and amortization) (40%) as goals. Revenue target for 2022 was set at EUR 26.5 million, and EBITDA Break-even was set at EUR 0.3 million.

The contractually agreed bonus for Ms. de la Huerta at 100% target achievement is EUR 140 thousand per year. The aforementioned performance criteria for 2022 were weighted, evaluated, and calculated pro rata based on the length of the Executive Board's tenure. The criteria for target achievement were revenue and net profit as per the consolidated income statement determined by the

Supervisory Board for 2022. The goals for the fiscal year 2022 were achieved, thus a bonus payment of EUR 47 thousand was granted to Pilar de la Huerta.

For 2023, the performance criteria included a revenue target (EUR 33.7 million, weighting 20%) and achieving EBITDA (target EUR 5 million, weighting 30%) as quantitative goals. As significant qualitative goals, the definition and implementation of a medium-term strategy including a 5-year strategic plan for sustainable sales and profit growth (20%) as well as the definition of a lean organizational and infrastructure setup to achieve strategic goals (30%) were set.

No benefits or grants were promised or awarded to Ms. de la Huerta by third parties regarding her activities.

Further information on former Executive Board members of the Company:

Mr. Prof. Hermann Lübbert, as a former corporate officer, had a severance entitlement against the Company in accordance with the terms of the SAR program for Share Appreciation Rights, the lock-up period of which had not yet expired at the time of his termination. The Company paid a severance payment of EUR 112 thousand to the former Executive Board member in June 2023.

Former corporate officer Ludwig Lutter was removed from the Executive Board for good cause on August 14, 2022. In two lawsuits before the Cologne District Court, Mr. Ludwig Lutter contested his removal as a member of the Executive Board and the termination of his employment contract and claimed (partial) continuation of his compensation. We refer to the disclosures in the Group Notes regarding events after the reporting date.

Following the formal end of his Executive Board mandate, Paul Böckmann served as a consultant for the Company from October 2022 to April 2023. During this time, the Company paid EUR 61 thousand in consulting fees.

Compensation Report Supervisory Board

Compensation system for members of the Supervisory Board

The compensation of the Supervisory Board members shall, in accordance with § 113 of the German Stock Corporation Act (AktG), be in an appropriate proportion to the duties of the Supervisory Board members and to 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 is a prerequisite for the best possible supervision and advice to the Executive Board, which in turn makes a significant contribution to a successful business strategy and the long-term success of the company. Therefore, the compensation should make taking on a mandate economically attractive enough to attract and retain outstanding members, which also requires consideration of the compensation arrangements of other comparable listed companies. However, the compensation and employment conditions of the employees are not of significant importance for the compensation system of the Supervisory Board.

The Executive Board and the Supervisory Board are of the opinion that a purely fixed compensation for Supervisory Board members is best suited to ensure independent performance of the control function of the Supervisory Board, as variable compensation, especially in matters relevant to supervision, could otherwise create a conflict of interest between the Executive Board and the Supervisory Board regarding their own compensation. Differentiated compensation for individual functions in the Supervisory Board generally takes into account the workload associated with each Supervisory Board member. In practice, the chairman of the Supervisory Board and his deputy, as well as the chairman and members of the audit committee, typically have a higher workload, thus a higher compensation is provided. According to Recommendation G.17 of the German Corporate Governance Code in the version of April 28, 2022 ("Code"), the compensation of Supervisory Board members should appropriately reflect the higher time commitment of the chairman and deputy chairman of the Supervisory Board, as well as the chairman and members of committees. According to Recommendation G.18 of the Code, the compensation of the Supervisory Board should consist of a fixed compensation. These aspects are appropriately reflected in the current version of § 18 of the Articles of Association when determining the compensation of the Supervisory Board.

The compensation is to be paid at the end of each fiscal year. There are no deferral periods for the payment of compensation components.

Supervisory Board members who are only members of the Supervisory Board or the audit committee or hold the chair or deputy chair of the Supervisory Board or the chair of the audit committee for part of the fiscal year receive a pro-rata compensation.

There are no commitments for severance payments, pension, or early retirement arrangements. The company reimburses the Supervisory Board members for expenses incurred in the performance of their duties, including any value-added tax (VAT) attributable to compensation and reimbursement of expenses, and includes the performance of the duties of the Supervisory Board members in the coverage of a directors' and officers' liability insurance policy taken out by the company.

The compensation system of the Supervisory Board is resolved by the Annual General Meeting upon proposal of the Executive Board and the Supervisory Board, as well as a statutory compensation provision. At regular intervals, at least every four years, the Executive Board and the Supervisory Board review whether the amount and composition of the Supervisory Board compensation still appear to be market-oriented and appropriate and, if necessary, submit adjustment proposals to the Annual General Meeting.

Since the members of the Supervisory Board are involved in shaping the compensation system relevant to them and must also submit proposal resolutions to the Annual General Meeting in accordance with § 124 of the German Stock Corporation Act, an unavoidable conflict of interest arises from the application of the law. However, this is effectively counteracted by assigning the decision on the final determination of the compensation to the Annual General Meeting.

In accordance with § 113 (3) sentences 1 and 2 of the German Stock Corporation Act, the Annual General Meeting of listed companies must decide 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 regulated in § 18 of the Articles of Association of the company. The current version of § 18 of the Articles of Association of the company was resolved by the Annual General Meeting on June 20, 2023, and reads as follows:

" § 18 Compensation of the Supervisory Board

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

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

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

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

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

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

(7) 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."

The Annual General Meeting made use of the authorization under § 18 (3) of the Articles of Association and resolved a special compensation for the Supervisory Board member Dr. Helge Lubenow as follows on June 20, 2023:

"The member of the Supervisory Board Dr. Helge Lubenow receives an additional compensation of EUR 22,000.00 for the fiscal year 2022 for assuming special tasks and providing special services in advising the Executive Board in the area of personnel/human resources. The entitlement to compensation and its due date are subject to the registration of the amendment to § 18 of the Articles of Association according to the provisions of agenda item 5 lit. a) in the commercial register."

The suspensive condition occurred through registration of the authorization under § 18 (3) of the Articles of Association in the commercial register on July 3, 2023. The additional compensation for the fiscal year 2022 was resolved in the fiscal year 2023 and

is therefore included in the following breakdown of the total compensation of the members of the Supervisory Board in the fiscal year 2023.

Compensation in fiscal year 2023

The total compensation of the members of the Supervisory Board in fiscal year 2023 is as follows:

in EUR thousands	Fixed compensation		Audit Committee activity		Total	
	in TEUR	in %	in TEUR	in %	in TEUR	in %
Wilhelm K.T. Zours (Supervisory Board: Chair)	44	100%	0	0%	44	100%
Dr. Jörgen Tielmann (Supervisory Board: Vice Chair)	33	100%	0	0%	33	100%
Dr. Heikki Lanckriet	22	100%	0	0%	22	100%
Dr. Helge Lubenow (Audit Committee: Member)	44	94%	3	6%	47	100%
Prof. Dr. Karin Lergenmüller (Audit Committee: Member, since July 5th,2023)*	22	96%	1	4%	23	100%
Karlheinz Schmelig (Audit Committee: Chair)	22	79%	6	21%	28	100%
TOTAL	**187**		**10**		**197**	

Vertical comparison

	Change 2023 vs. 2022	Change 2022 vs. 2021
Compensation of Executive Board members		
Pilar de la Huerta Martìnez*	373%	-
Compensation Supervisory Board members		
Wilhelm K.T. Zours*	-21%	2700%
Dr. Jörgen Tielmann*	-44%	1867%
Dr. Heikki Lanckriet*	-35%	1033%
Dr. Helge Lubenow*	-8%	1600%
Prof. Dr. Karin Lergenmüller**		
Karlheinz Schmelig*	-13%	967%
Average compensation of employees		
Employees in Europe	**3.8%**	**0.8%**

*2022 partial year only

When presenting the average salary change of employees, all employees of the European group companies (excluding the Executive Board) were included. For comparison, the contractually agreed annual gross salary without special payments and ancillary wage costs was taken into account.

The basis for comparing employee compensation has been altered. Previously, the average annual compensation including wages and salaries as well as expenses for bonuses, pension provisions, severance payments, and other personnel-related costs had been considered. It was viewed as total personnel costs per year divided by the number of employees on average per year. This approach results in an average change in personnel costs of 9%. This value provides a misleading impression. On the one hand, the workforce of the European Biofrontera companies decreased over the course of 2023, especially in the second half of the year. This trend continues. On the other hand, the company has strengthened itself with highly qualified personnel and has been able to fill some key positions that were vacant for a long time. This has had decisive effects on the increased average compensation of the workforce.

The altered presentation of the average compensation of the workforce thus more clearly and meaningfully demonstrates the development of wages and salaries in the company in vertical comparison.

Consolidated management and group management report for the fiscal year 2023

Basis of the Biofrontera Group

Group structure

As of December 31, 2023, the Biofrontera Group (hereinafter also called "Biofrontera", "Biofrontera Group", "Group" or the "Company") consists of a parent company, Biofrontera AG and four wholly owned subsidiaries in Germany. The parent company's head office is located in Leverkusen, Germany.

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

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

Business model

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

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

Asian and Oceanic markets were licensed to Maruho Co, Ltd, Osaka, Japan under the exclusive license agreement signed in April 2020.

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

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

Biofrontera AG realizes revenues through direct sales facilitated by its own sales force operating in Germany, Spain, and UK, from which Biofrontera retains 100% of the generated revenues.

For Biofrontera's US licensee, a fixed transfer price is applied, structured as a tiered system. This pricing mechanism entails charging 50% of sales for volumes up to USD 30 million, as well as 40% for all sales between USD 30 million and USD 50 million. At the beginning of each fiscal year, a thorough assessment of the delivered quantities is performed, followed by direct payment for the delivered batches. Subsequently, at the end of the year, prepaid shipments are reconciled to product sales in the US market. The transfer price for 2023 was 50% of the gross price per unit of Ameluz®, with a minimum of USD 110 per unit.

The European license partners also charge their license fees via a fixed transfer price. The transfer price varies, but currently averages 50% of annual net sales. Here, too, the delivery quantities are budgeted in advance, which means that there may be jumps in sales during the year.

The license partner for Asia and Oceania initially made a one-time payment of EUR 6 million in the fiscal year 2020 upon acquisition. Until the product is ready for the market, Biofrontera charges service fees for its involvement in the clinical trials and the regulatory approval process.

Due to these very different sources of income, Biofrontera may experience strong quarterly fluctuations during the year, which do not correlate with the actual revenue generated in the market

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

Group strategy

The strategic goal of the Biofrontera Group is to optimize the positioning and market potential of Ameluz®, and in doing so to develop the Company into a leading innovative specialty pharma company in dermatology, characterized by a special degree of innovation. The focus of activities is on the further territorial expansion of marketing and the development of additional market potential, e.g. through synergistic additions to the company's own product portfolio on the basis of marketing partnerships, as well as the licensing of Ameluz® in other regions.

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

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

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 actinic keratosis compared to the direct competitor product in conventional light treatment with a special red-light lamp.

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

In 2017, Biofrontera submitted an application for approval for daylight-PDT with Ameluz® and was granted approval by the European Commission in March 2018. Since then, the label extension has also included the treatment of actinic keratoses and field cancerization with daylight-PDT. Daylight-PDT is a cost-effective and painless alternative to conventional PDT treatment with a special lamp. The topically applied drug is activated by natural or artificial daylight. Since daylight-PDT does not necessarily have to be carried out in a physician's office, it competes directly with topical drugs, which are much more widely used in Europe, are used independently by patients, and are therefore reimbursed by statutory health insurers in Germany.

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

In December 2023, the Committee for Medicinal Products for Human Use (CHMP) of the European Medicines Agency (EMA) recommended the extension of the marketing authorization for Ameluz® for use in artificial daylight. Formal approval by the European Commission has also been granted, meaning that marketing activities for Europe can be started. Photodynamic therapy with artificial daylight combines the advantages of the original daylight therapy, which significantly reduces treatment pain, with the controlled environment of a doctor's surgery, so that daylight PDT with Ameluz® can now also be used regardless of the prevailing light conditions, weather conditions and time of day.

Also in December, the European Medicines Agency (EMA) approved an amendment to the approval of Ameluz® for an improved gel formulation without the use of propylene glycol. By avoiding the use of propylene glycol, this improved Ameluz® formulation eliminates potential risks, particularly with regard to the formation of impurities and allergic reactions. This formulation will be available in Europe in the third quarter of 2024 at the earliest.

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

The optimized formulation of the Ameluz® gel without propylene glycol was also submitted to the FDA as an extension of approval for the USA. The application was approved in October 2023.

Belixos®

Belixos® represents a medical skin care range specifically developed for irritated and sensitive skin.

Originally designed as a cosmetic series with different products, it addressed various skin irritations. A unique combination of active ingredients was created by combining purely plant-based biocolloids with medicinal plant extracts to achieve a proven deep skin effect. As part of a comprehensive redesign, the Belixos® line has been undergoing transformation since mid-2022, which was successfully completed in May 2023 with the launch of Belixos® ACTIVE CARE, a novel foam formulation. With the foam formulation, the ingredients can now be delivered to the skin without any irritating supplements. This means that Belixos® is now even better adapted to the needs of damaged skin. This new product replaces the previous cosmetic line.

In addition, a patent application has been filed for the underlying formulation due to its highly innovative character. Belixos® thus continues to emphasize its focus on advanced skin care to meet the individual needs of damaged skin.

Sales and marketing

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. However, in many European countries, pricing and reimbursement status must be determined prior to launch, which can be a lengthy process. Reference pricing and re-imports can lead to low prices in individual EU countries, which in turn can have a negative impact on the overall EU market. For this reason, Ameluz® is currently only available in certain EU countries. However,

due to changing framework conditions, it is always necessary to monitor whether a territorial expansion might make sense. Ameluz® is available at pharmacy retail prices ranging from EUR 140 to approximately EUR 210 per 2 g 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. Germany is by far the largest European market for Ameluz®. In other EU countries and in Switzerland, the products are distributed with the help of distribution partners. In Switzerland, independent approval procedures were required, which were carried out by our local marketing partner in collaboration with Biofrontera. The contracts with distribution partners were concluded in such a way that Biofrontera received no or only a moderate upfront payment and the regional partners purchase Ameluz® from Biofrontera at a price that is linked to their own sales price. Depending on the market conditions in each country, Biofrontera's share of the sales price varies somewhat, but averages 50% of net sales.

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

In July 2021, a license agreement was signed with Medac Gesellschaft für klinische Spezialpräparate mbH for the commercialization of Ameluz® and BF-RhodoLED® in Poland. Medac started marketing Ameluz® and BF-RhodoLED® to selected customers in the fall of 2022. To date, activities have been limited to the private healthcare sector, as Ameluz® PDT is currently not reimbursed by public payers. Medac anticipates that reimbursement of Ameluz® will be possible by the Mid of the year 2024.

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

USA

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

Other regions

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

Market overview

Actinic keratosis (AK)

Non-melanoma skin cancer and its precursor actinic keratosis (AK) is the main market for the flagship prescription drug Ameluz®. Actinic keratoses are superficial potentially pre-cancerous skin lesions caused by chronic sun exposure that may, if left untreated, develop into a form of potentially life-threatening skin cancer called squamous cell carcinoma. Actinic keratoses typically appear on sun-exposed areas, such as the face, bald scalp, arms or the back of the hands. They often appear as rough or crusty patches on the surface of the skin that may be skin-colored, reddish, or yellowish. These skin lesions feel dry and rough to the touch.

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 therapy options. 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 first-line therapy 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 with red or blue light) 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 2,5 hours and the treatment is associated with less pain.

Market overview and competitive landscape in Germany

Germany is Biofrontera's largest European sales market. In Germany, around 1.7 million people are being treated by dermatologists for AK, which corresponds to around 2 to 3% of the total population. However, the number of sufferers is probably higher. In 2023, a total of 1,089,054 prescriptions were issued for the treatment of AK (previous year: 965,848). Superficially applicable medications such as prescription creams and gels containing active ingredients (topicals) are primarily used, which also accounted for a constant market share of 93.9% in the reporting year, followed by PDT (the combination of a superficially applied medication with light therapy) with 6.1% (previous year: 93.8% and 6.2%). The PDT market segment was therefore unable to expand further in 2023. The main growth in the AK market was triggered by two topical drugs, whose growth rates were just under 50%, meaning that the overall AK market grew by 14% in 2023. Within the PDT segment, Ameluz® grew by 17%, while our direct competitor only grew by 3%.

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

In Germany, the largest European market for Ameluz®, the market share in the PDT drugs segment increased from 62% to 65% in 2023. Above all, the further establishment of daylight PDT enabled Ameluz® to continue to prove itself as a strong market leader in the PDT market compared to competing products. We estimate that daylight PDT will gain further market share in the future, which was previously reserved for self-applied topical creams, thanks to the expansion of the application with artificial daylight. This is primarily due to the reimbursement of daylight PDT by statutory health insurance companies, which means that the number of patients who would in principle have access to treatment with Ameluz® has multiplied as a result of this possible application. After the coronavirus pandemic subsided and parallel imports from Spain declined significantly, Ameluz® unit sales in Germany grew by around 32,8% in the reporting year compared to 2022.

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

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

In the Spanish market, sales of Ameluz® recorded a significant increase in 2021 and 2022 due to the price reduction ordered by the Ministry of Health. After this intervention was terminated, there was a significant decline in the quantities of Ameluz® sold in 2023 due to the loss of this considerable price advantage. A decline of Ameluz® units of 23,3% compared to the previous year was recorded. Nevertheless, due to the consistently higher price in 2023, sales remained almost stable at around EUR 1.7 million in 2023 (a decrease of -0.8% compared to 2022).

Ameluz® showed a solid growth of 9,3% in the UK market. We were able to increase sales to customers in the UK from 3,389 units in 2022 to 3,757 units in 2023. Market figures on the competitive situation are not available.

Market overview in European countries with distribution partners

Our distribution partners Pelpharma in Austria, Louis Widmer in Switzerland, Galenica in the Scandinavian countries and Finland, as well as our latest partner Medac in Poland can look back on a successful 2023. Overall, our partners contributed to the solid product development with nearly 13,000 units sold.

Market overview and competitive situation in the USA

The USA is the most important pharmaceutical market in the world. According to the Skin Cancer Foundation, approximately 58 million people in the USA have actinic keratosis. In 2022, the market size was USD 2.3 billion for this indication, according to the Grand View Research Report (01/2023). The US market differs from the European market in that cryotherapy dominates the market with a market share of over 80%. PDT has only a very small share of the overall market. Segment expansion is predicted for the coming years, but this is based on overall market growth rather than a proportionate redistribution within therapy options. Cryotherapy is expected to remain the dominant therapy option.

The PDT segment currently has a share of less than 2%, with Ameluz®-PDT expanding its market share within this segment.

It is therefore important to improve the acceptance of PDT, with its clear advantages, particularly in scar-free healing and in the treatment of field cancers, which would be preferable to surgical intervention. To this end, our US licensing partner is continuing to expand its US sales force and marketing expenditure is also being significantly increased. For 2023 Biofrontera Inc. reported a further sales improvement of nearlyt 20%.

Personnel matters

Management Board

As of December 31, 2023, the Management Board consisted of Pilar de la Huerta Martínez (CFO).

Name	Nationality	Age	Position	Date of first appointment	Term
Pilar de la Huerta Martínez	Spanish	55	CFO	September 12, 2022	December 31, 2025

Employees

As of December 31, 2023 the Biofrontera Group had EUR 95 employees (December 31, 2022: 110) representing 87.91 FTE (December 31, 2022: 99 FTE) who were distributed as follows:

	December 31, 2023	December 31, 2022
Total number of employees	87.91	99.32
Full-time	73.00	83.00
With PhD degree	20.30	16.32
By business segments	87.91	99.32
Production	9.75	11.81
Research and development	6.55	8.65
Clinical and regulatory tasks	18.80	19.67
Marketing and sales	27.78	29.53
Quality management	6.85	5.85
Management, business development, finance, HR and administration	18.18	23.81
By countries	87.91	99.32
Germany	77.28	87.94
Spain	7.63	8.38
United Kingdom	3.00	3.00

Supervisory Board

In 2023, the Supervisory Board comprised the following members as representatives of the shareholders:

Name	Nationality	Age	Position	Date of first appointment	Term
Wilhelm K. T. Zours	German	62	Chairman	December 14, 2021	2026
Dr. Jörgen Tielmann	German	54	Vice Chair	December 14, 2021	2026
Dr. Heikki Lanckriet	Belgian	46	Member	December 14, 2021	2026
Prof. Dr. Karin Lergenmüller	German	65	Member	August 23, 2022	2026
Dr. Helge Lubenow	German	55	Member	December 14, 2021	2026
Karlheinz Schmelig	German	58	Member	December 14, 2021	2026

Research and development projects

All research and development activities of the Biofrontera Group relating to nanoemulsion and Ameluz® are carried out by Biofrontera Bioscience GmbH, which is responsible for pharmaceutical development, conducting preclinical and clinical studies, and for granting, maintaining, and extending the drug approvals. Responsibility for project management of all development activities is assumed internally; individual tasks such as data management and statistics for clinical studies are partially or completely outsourced. The development of the new red-light lamp RhodoLED® XL was the responsibility of Biofrontera Pharma GmbH. All ongoing clinical studies are carried out in the U.S., as part of the agreement entered into with Biofrontera Inc. to expand labeling for the U.S. market.

Both for the approved drug Ameluz® and for the other research and development projects, except for the further development of the new red-light lamp RhodoLED® XL, the research and development costs are recognized as expenses in the period in which they are incurred. In the reporting period, 25 full-time employees (FTEs) were employed in research and development and regulatory affairs (previous year: 28 FTEs).

Update for 2022 on the ongoing pharmaceutical and clinical development program:

Optimized formulation for Ameluz®

An improved Ameluz® formulation was approved in both the U.S. and the EU during the reporting period. The new formulation n longer contains contain propylene glycol, a component commonly used in semi-solid formulations. This may have a positive impact on the safety profile of the gel as the absence of propylene glycol eliminates potential risks, particularly in terms of the formation of impurities and allergic reactions.

Extension of the marketing authorization for Ameluz® for the treatment of actinic keratoses with artificial daylight

In the EU, the EMA has positively assessed the extension of approval for the photodynamic treatment of mild and moderate actinic keratoses (AK) with artificial daylight. Photodynamic therapy with artificial daylight combines the advantages of the original daylight therapy, which significantly reduces treatment pain, with the controlled environment of a doctor's office, so that daylight PDT with Ameluz® can now also be used regardless of the prevailing weather conditions.

Phase I safety study with Ameluz®-PDT

The Phase I safety study, which started in December 2021, is a non-randomized, open-label, multi-center study in which 100 patients with mild to severe actinic keratosis on the face and scalp will be treated. It is designed to evaluate the safety and tolerability of photodynamic therapy (PDT) for the field-directed treatment of actinic keratosis (AK) with the simultaneous application of three tubes of Ameluz® together with the new RhodoLED® XL lamp. A total of nine clinical centers in the U.S. were involved in the study.

The study was completed with the milestone "last patient, last visit" in April 2023. The study results were submitted to the FDA in December 2023.

Phase II trial for the treatment of moderate to severe acne

In December 2021, patient recruitment started for the Phase IIb trial to evaluate the safety and efficacy of Ameluz® in combination with the BF-RhodoLED® red light lamp in the treatment of moderate to severe acne with photodynamic therapy (Ameluz®-PDT).

In the multicenter, randomized, double-blind, four-arm study, 126 adult patients suffering from moderate to severe acne are being treated with Ameluz® PDT or placebo. The efficacy and safety of Ameluz® PDT will be tested at exposure times of one and three hours compared to placebo. The primary endpoint of the study is the reduction in the number of inflammatory lesions in combination with an improvement in the severity of acne to "Free of acne" or "Almost free of acne". To ensure collection of highly consistent data across all participating sites, the study will combine clinical assessments performed by the physicians conducting the study with a cutting-edge, FDA-approved, artificial intelligence analysis platform that will provide a lesion count along with a severity assessment. Currently a total of nine clinical sites are participating in the study. Indication expansion is planned for the USA, so the study is conducted there as well.

By the end of the year 2023, 77 patients had been enrolled in the study.

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

To further increase growth potential in the US market in the medium term, the company is conducting a clinical trial for the treatment of superficial basal cell carcinoma (sBCC) with Ameluz® together with the BF-RhodoLED® red light lamp in the USA. Intensive work on patient recruitment has been ongoing since September 2018. In August, all required 186 patients were enrolled in the study, with the next milestone expected to be reached in February 2024, when the last patient completes the treatment phase. This is followed by a 5-year follow-up period for each patient. If approved by the FDA, Ameluz® would be the only drug in the U.S. for the treatment of superficial BCC with PDT. A total of 19 clinical centers are involved in the study.

Since the FDA has also requested results from the first year of the follow-up phase, a submission is not expected until 2026.

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

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

By the end of the year, 72 patients had been enrolled and treated in the study, although most centers were only able to start patient recruitment in April-May 2023 after completion of the Phase I safety study.

Patent development

Biofrontera's patent portfolio is constantly being expanded by filing new patent applications for new technologies and/or in other countries. The company currently maintains 9 different proprietary patent families worldwide. As at December 31, 2023, the patent portfolio consisted of 26 granted patents and 30 pending patent applications, including international patent applications (as at December 31, 2022: 23 granted patents and 18 pending patent applications). The Group's patents are held by Biofrontera Bioscience GmbH and Biofrontera Pharma GmbH. The patent families relate to our innovative technologies in connection with our nanoemulsion, our red light lamp for photodynamic therapy, photodynamic therapy itself and migraine prophylaxis.

Nanoemulsion

We have been granted patents for our nanoemulsion technology in Europe (validated for Germany, Spain, UK, Switzerland/Liechtenstein, France and Italy), Israel, Japan, China, Hong Kong, Singapore, Australia, New Zealand, Canada, South Africa, Mexico, Chile, Russia, Belarus and Ukraine. The patent protection expires on December 21, 2027. A patent was granted for the corresponding US patent application on January 3, 2023, which expires on February 7, 2028. A divisional application has also been filed in the US, which is currently still pending. As part of the license agreement with our strategic partner Maruho, the corresponding Japanese patent was transferred to Maruho.

The patent family serves to protect our nanoemulsion technology and thus also to protect Ameluz®. The risk of possible future generic competition with regard to Ameluz® is also mitigated by specific challenges in the development and market launch of generic dermatological combination products. Furthermore, as part of Biofrontera's patent strategy to protect Ameluz® , additional patent applications have been filed for photodynamic therapy itself and our red light lamp.

Red-light lamp for photodynamic therapy

An international patent application entitled "Illumination for photodynamic therapy" has been filed. We have already been granted a patent in the USA for a resulting divisional application. The patent was also granted in Australia on November 30, 2023. The patents have a maximum term until June 5, 2039. Further patent applications are also pending in Europe, the USA, Japan, China, Hong Kong, Singapore and New Zealand. The Japanese patent application was transferred to Maruho as part of the license agreement with the strategic partner Maruho.

A further patent application "Illumination device for photodynamic therapy, method for treating a skin disease and method for operating an illumination device" was initially filed in the USA; this is still pending. We have already been granted a patent in the USA for a resulting US divisional application. The patent has a maximum term until October 15, 2040. Furthermore, an international patent application was filed in this patent family, for which national/regional phases were initiated in Europe, the USA, Japan, China, Hong Kong, South Korea, India, Australia, Canada and Brazil in spring 2023.

A further international patent application to protect the lamp entitled "Illumination device for photodynamic therapy, method for treating a skin disease and method for operating an illumination device" has been filed and is still in the international phase of the PCT procedure (PCT = Patent Cooperation Treaty). All contracting states belonging to the PCT at the time of filing have been designated.

In order to protect our new RhodoLED® XL PDT lamp from imitation, design applications have also been filed for certain key design aspects of the lamp. In Europe and the United Kingdom, two designs each were already entered in the register in April 2023. Further design applications are pending in the USA and Canada. Following a successful examination, the responsible patent office issued the registration decision for one of the US design applications on November 2, 2023.

Photodynamic therapy

In the patent family of the international patent application "Photodynamic therapy comprising two light exposures at different wavelengths", Biofrontera has already been granted a patent in Australia. In addition, the corresponding US patent was granted on May 9, 2023. The patents protect a number of innovations relating to a new illumination method for the treatment of dermatological skin diseases with photodynamic therapy (PDT) and have a maximum term until August 23, 2038 (or April 23, 2039, for the USA). Further patent applications are pending in Europe, the USA, Japan, China, Hong Kong, Singapore and New Zealand. As part of the license agreement with the strategic partner Maruho, the then pending Japanese patent application was transferred to Maruho; in the meantime, a patent was also granted for this on 20 February 2023.

Internal controls

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

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

Key financial performance indicators

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

Revenue is also considered by region. On a consolidated basis, revenues include sales to wholesalers as well as to physicians and clinics, sales to our licensing partners, as well as revenues from research contracts.

In addition, the development of liquidity is used as an important key performance and management metric for the Group as well as for Biofrontera AG. It is monitored on daily basis. Liquidity is defined as the sum of cash and cash balances in bank accounts and is described as cash and cash equivalents.

Group EBITDA includes earnings before interest, taxes, depreciation of tangible assets and amortization of intangible assets. EBIT includes earnings before interest and taxes. These key performance indicators are suitable for describing and comparing operating performance, as they do not include non-operating fluctuation variables such as valuation adjustments and amortization of acquired assets.

The key financial performance indicators are calculated as follows:

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

Non-financial performance indicators

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

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

Management report for the 2023 fiscal year

Business performance

Biofrontera was once again able to confirm its targeted profitability in this financial year. The forecast EBITDA result of EUR 5.9 million was clearly exceeded and the company's sales of EUR 32.2 million were also in the upper third of the issued forecast.

In the current financial year, Biofrontera has been working intensively on its future strategic positioning after the separation of the cost-intensive US business was completed and Biofrontera decided to focus on its European business. Initially, the complete separation of the US unit was driven forward in terms of both organization and business activities. This involved reviewing existing corporate structures to ensure they are optimally aligned with the requirements of the newly focused business. Special attention was given to evaluating the current European operations with the aim of significantly expanding them in the future while simultaneously achieving cost optimization.

This strategic process was supported by a renowned consulting firm to ensure its efficiency and effectiveness. The long-term goal is to secure the profitability of Biofrontera AG independently of the business performance of the US licensing partner. To achieve this, a strategic expansion of Ameluz® market presence in Europe is a feasible approach. At the same time, it would be advantageous to expand the product portfolio through potential collaborations or licensing agreements to utilize existing complex structures more efficiently. Through this measures Biofrontera AG aims to reduce its revenue dependence on the US business and thus becaume less reliant on the business development of Biofrontera Inc.
The management is confident that these strategic steps can contribute to the long-term stability and sustainability of the company. The positive growth of the European business, particularly the outstanding performance in the German market, marks significant milestones in this long-term corporate transformation. In Germany, our consistently good sales performance in the first three quarters of this financial year enabled us to avoid the therapy-related sales fluctuations in the summer for the first time. With the usual strong fourth quarter, we were then able to achieve a revenue growth of 31.4 % for the year. In total we were able to generate revenues in Germany amounting EUR 6.3 million, with unit sales growing significantly by roughly 33%.

For the rest of Europe, sales development was more moderate over the past year, but we also recorded a slight growth of 5%. This was mainly due to a weak third quarter. Throughout the year, the Spanish market has not yet fully recovered from the price adjustment. However, with a satisfactory fourth quarter, we see growth momentum that we expect to translate into increased demand this year.

Consolidated with the German revenues, the overall European business totalled EUR 9,919 thousand (previous year: EUR 8,261 thousand), which corresponds to growth of slightly over 20 %. With this result, this division is now profitable.

As part of the license agreement concluded with Maruho Ltd., income of EUR 106 thousand was generated in the reporting year from services and the supply of medication for clinical development (previous year: EUR 342 thousand). The decline is due to the fact that a one-off payment of EUR 200 thousand was made in 2022 as part of a patent transfer.

However, in addition to these sources of income, the company's profitability is still significantly dependent on US income. In the US, we generated license income of EUR 22.1 million in 2023, representing growth of 34.3% compared to the previous year. Based on the publication of the annual results of Biofrontera Inc., the sales achieved by Biofrontera Inc. were below the expectations set by

Biofrontera Inc., as the sales growth of 25 % announced for 2023 was slightly below the forecast market development with actual growth of 19 %. This has led to a certain level of stockpiling, which must now be reduced in 2024. It is therefore becoming increasingly important for Biofrontera AG to successively minimize the risk of uncontrollable uncertainties in the US business and to resolve the existing dependency.

The company reorganization described above resulted in one-time expenses on the cost side, particularly in the area of consulting and legal costs. This was reflected in an almost constant cost level for general and administrative expenses. The increase in legal costs was due to legal disputes, which were, however, settled through agreements with the parties concerned. Furthermore, costs were also incurred in connection with the preparation of a prospectus for a capital measure planned for August 2023 but cancelled in July. Total G&A costs in the reporting period amounted to EUR 6,105 thousand compared to EUR 5,906 thousand in the previous year.
Research and development costs totaled EUR 7,846 thousand in the reporting year compared to EUR 7,128 thousand in the previous year, representing a percentage increase of 10.1 %. This increase resulted from intensified clinical development activities in the first quarter to increase market potential in the USA.
Sales and marketing costs increased to a total of EUR 7,273 thousand in the reporting year, compared to EUR 6,356 thousand in the previous year. This increase was primarily caused by preparations to intensify and expand our sales activities in Europe.

Marketing & Sales of Ameluz® in Europe

Sales development in Germany was very strong compared to the previous year. German product sales totaled EUR 6.3 million compared to EUR 4.8 millionin 2022, an increase of around 31.4 %, mainly due to the end of re-imports and the coronavirus pandemic. Direct tube-based Ameluz® sales in the German market grew by around 33% in the reporting year compared to 2022. The share of Ameluz® PDT in the PDT segment grew from 62% in the previous year to 65% in 2023.

In the remaining European countries, Biofrontera generated product sales of EUR 3.7 million compared to EUR 3.5 millionin 2022, an increase of slightly under 5%. In the Spanish market, sales of Ameluz® fell compared to the previous year due to the lack of exports and the price returning to the original level. Over the reporting year as a whole, significantly fewer tubes of Ameluz® were sold in the Spanish market, down 23%.

Ameluz® showed dynamic unit-based growth of 13% in the UK market. We were able to increase sales to customers in the UK from 3,389 tubes in 2022 to 3,757 tubes in 2023. On a sales basis, revenue increased from EUR 662 thousand in 2022 to EUR 723.4 thousand in 2023, an increase of 9.3 %.

Marketing by our European licence partners Galenica AB for the Nordic countries, Louis Widmer for Switzerland, Pelpharma for Austria and Medac Gesellschaft für klinische Spezialpräparate mbH for Poland has consistently developed positively with generally double-digit growth rates in market sales.

Sales of Ameluz® in the USA

Biofrontera Inc. generated sales of EUR 22.1 million in the reporting period, an increase of 34.3 % compared to the previous year. In the past financial year, Biofrontera Inc. made enormous investments to expand its marketing activities and significantly increased both its sales force and sales support. However, with sales growth slightly under 20 %, our sales partner fell slightly short of its own expectations for 2023. The difference between deliveries and sales indicates a certain level of stockpiling, meaning that we will have to monitor market developments in the US very closely in 2024. Both companies are in close dialogue on this.

Regulatory and clinical progress

The aim of Biofrontera's development strategy is to successively adapt Ameluz® to market requirements and patient needs and to utilize it for further indications. The full treatment and market potential of Ameluz® can only be realized with corresponding extensions of the approval.

An improved Ameluz® formulation was approved in both the USA and the EU in the reporting period. The new formulation does not contain propylene glycol. This may have a positive effect on the safety profile of the gel and avoid potential risks regarding the formation of impurities and allergic reactions.

In the EU, the EMA has positively assessed the authorization extension for the photodynamic treatment of mild and moderate actinic keratoses (AK) with artificial daylight. Photodynamic therapy with artificial daylight combines the benefits of the original daylight

therapy, which significantly reduces treatment pain, with the controlled environment of a doctor's office, meaning that daylight PDT with Ameluz® can now also be used regardless of the prevailing weather conditions.

Progress was also made in the area of clinical studies: a phase I study required by the FDA to collect more safety data on the use of three tubes of Ameluz® in a PDT session was completed this year. The extended approval dossier for the USA was submitted to FDA at the end of 2023.

The company is currently conducting three independent phase II and III clinical trials in parallel to expand the US approval of Ameluz®. One of these ongoing studies is evaluating the efficacy of Ameluz® PDT in moderate to severe forms of adult acne in adults. So far, 77 of 126 patients have been enrolled in the study. In December 2022, another phase III trial was launched to test the efficacy of Ameluz® PDT on the extremities, trunk and neck. A new lighting profile will also be used to alleviate pain during PDT. So far, 72 patients have been included in this study. In the trial to test Ameluz® PDT for superficial basal cell carcinoma, which has been running since 2018, recruitment was successfully completed in August 2023. A total of 187 patients were included in the trial. We expect the treatment phase to be completed in the first quarter of 2024, after which all patients will be in the 5-year follow-up phase.

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

Cancellation of the capital increase resolved on January 09, 2023

Due to the significant decline in the share price, the Management Board, with the approval of the Supervisory Board, decided in August 2023 not to implement the planned capital increase against cash contributions resolved by the Annual General Meeting on January 9, 2023, and to withdraw the proposal for approval of a corresponding securities prospectus. The share price below nominal value also made it impossible to restart these efforts in the course of the second half of the year, so that this capital resolution was no longer feasible.

Litigation

Biofrontera Inc. and another shareholder filed a contestation lawsuit against all resolutions of the extraordinary general meeting on January 9, 2023, including resolutions on Authorized Capital and the increase of the share capital. The lawsuit was withdrawn as part of an out-of-court settlement dated April 11, 2023 ("Inc. Agreement dated April 11, 2023"). The Inc. Agreement dated April 11, 2023, is reproduced in detail in Biofrontera AG's announcement in the Bundesanzeiger pursuant to Section 248a of the German Stock Corporation Act (AktG) dated April 19, 2023.

With the Biofrontera Inc. Agreement dated April 11, 2023, a lawsuit by the Company in the state of Delaware, USA, was also settled, seeking in particular to invalidate the resolutions adopted at the Biofrontera Inc.'s general meeting on December 12, 2022, including the elections to the Board of Directors. Essential components of the Inc. Agreement dated April 11, 2023, include the appointment of a new member nominated by the Company to the Board of Directors of Biofrontera Inc., the mutual search for a new independent member for the Board of Directors, and the mutual commitment not to significantly increase the ownership in the respective company and not to implement additional dilution measures that could prevent the holdings from being maintained in the event of capital increases.

Deutsche Balaton AG filed a declaratory action with the Cologne District Court on December 13, 2021, concerning the legal examination and determination of a so-called unwritten competence of the general meeting regarding the IPO of Biofrontera Inc. On December 9, 2022, the Cologne District Court decided in a declaratory judgment that the approval resolutions of the then Board of Directors and the then Supervisory Board for the IPO of Biofrontera Inc. were unlawful because the prior approval required for the IPO by the general meeting, as required by the Holzmüller doctrine, was unlawfully not obtained. The further claim was dismissed. In its reasoning, the court stated that the IPO initiated a significant loss of control by allowing third-party investors to take over the majority in the subsidiary without exercising the subscription rights of the parent company. According to the court, this loss of control results in significant financial losses for Biofrontera AG and its shareholders. Since all former members of the management board and supervisory board involved in the resolutions have left the company, former board members and supervisory board members were served with statements of intervention regarding possible claims for damages. The Company has decided not to appeal the judgment. Appeals by the intervenors have rendered the judgment not final, and it will be continued in the second instance by the intervening parties. The effectiveness of the IPO of Biofrontera Inc. remains unaffected by the judgment.

Management Board

Ms. Pilar de la Huerta Martínez was appointed as a member of the Executive Board on 19 August 2022 with effect from 12 September 2022. Since then, Ms. de la Huerta Martínez has been the sole member of the Executive Board, and her contract was extended by the Supervisory Board at the end of December 2023 until December 31, 2025.

Supervisory Board

At the Annual General Meeting of Biofrontera AG in 2022, Prof. Dr. Karin Lergenmüller was elected to the Supervisory Board. The election was confirmed by the Extraordinary General Meeting on 9 January 2023. On 4 July 2023, Maruho Deutschland GmbH withdrew its actions for annulment brought against both decisions. This means that the election of Prof. Dr. Lergenmüller to the Supervisory Board is final. At the same time, with the withdrawal of the lawsuit, the last lawsuit directed against resolutions of the company's general meeting was also disposed of. The withdrawal of the lawsuit is part of an out-of-court agreement dated June 19, 2023, which simultaneously settled a dispute over possible losses of voting rights of Maruho Deutschland GmbH at past general meetings and agreed on a procedure to avoid loss of voting rights at future general meetings. The agreement is set out in detail in the Company's announcement in the Federal Gazette pursuant to Section 248a of the German Stock Corporation Act (AktG) dated July 7, 2023.

Evaluation of the business performance of the Biofrontera Group

Comparison of actual and forecast business performance

The Biofrontera Group generated sales of around EUR 32.2 million in the 2023 financial year, significantly exceeding the upper third of the revenue forecast range of EUR 27 to 33 million. This result was achieved through a 34.3% increase in US licensing revenues and a remarkably positive sales performance in our home market of Germany, which also grew by 31.4%.

For the fiscal year 2023, the company had forecasted an EBITDA between EUR 3 and 5 million, and with an actual EBITDA of EUR 5.9 million, this forecast range was exceeded. Additionally, the EBIT of EUR 5.1 million, also exceeded the forecast of EUR 2 to 4 million. Essentially, Biofrontera was able to significantly strengthen the revenue side, so that the moderate increase in costs had less of an impact on the result than anticipated.

Liquidity developed as forecasted, standing at 3,080 TEUR as at 31 December 2023, was below the previous year's level of 6,376 TEUR. Due to a weak share price, the company decided to cancel a planned capital measure in July 2023. Over the course of the year, the share price was unable to recover from this low, meaning that the shares traded below the nominal value of EUR 1.00 for the remainder of the year. This meant that the implementation of a capital measure at a later date could no longer be formally realized. In the previous year, liquidity was significantly strengthened by a successfully implemented capital measure with gross issue proceeds of around EUR 7.1 million.

In the case of training measures and internal/external audits as non-financial performance indicators, the development in the financial year met the forecasts. The number of external training courses fell slightly to 40 in the year under review compared to 48 in the previous year. The company's internal identification of further training measures is based on demand, so that the development of this key figure depends significantly on the level of qualification of the current employee base. In addition, the number of employees in the Biofrontera Group declined in the year under review, with the result that training courses in particular declined as a result of onboarding processes. The number of documents describing standardized and controlled workflows (SOPs) increased dramatically again during the reporting period. The company now manages 803 SOPs (previous year: 699). Internal training was at a similar level compared to the previous year. In the internal training courses, employees are trained in new and modified SOPs. If there are product modifications or changes in official requirements, such training becomes necessary. The regulatory environment of a pharmaceutical company sets enormously high standards here, so that the internal and external training standard at Biofrontera has been at an extremely high level since the introduction of this metric. The number of external and internal audits remained stable in 2023 compared to the previous year, with 16 audits or inspections carried out.

The number of employees did not increase in the financial year as forecast.

The regulatory and clinical progress planned for 2023 was largely achieved. An improved Ameluz® formulation was approved in both the USA and the EU in the reporting period. The new formulation does not contain propylene glycol. This may have a positive effect on the safety profile of the gel and avoid possible risks with regard to the formation of impurities and allergic reactions. Biofrontera has submitted a patent application to protect this new formulation.

In the EU, the EMA has approved the extension of the marketing authorization for the photodynamic treatment of mild and moderate actinic keratoses (AK) with artificial daylight. Photodynamic therapy with artificial daylight combines the advantages of the original

daylight therapy, which significantly reduces treatment pain, with the controlled environment of a doctor's office, so that daylight PDT with Ameluz® can now also be used regardless of the prevailing weather conditions.

The Phase I study required by the FDA to collect additional safety data on the use of three tubes of Ameluz® in a PDT session was completed this year as planned. The extended approval dossier in the USA was submitted to the FDA at the end of 2023.

The Company is currently conducting three independent Phase II and III clinical trials to expand the U.S. approval of Ameluz®. One of these ongoing studies is testing the efficacy of Ameluz-PDT® in moderate to severe forms of acne in adults. So far, 77 out of 126 patients have been enrolled in the study. In the study to test Ameluz-PDT® in superficial basal cell carcinoma, which has been running since 2018, recruitment was successfully completed in August 2023. A total of 187 patients were included in the study. The treatment phase is expected to be completed in the first quarter of 2024, after which all patients will be in the 5-year follow-up phase. In December 2022, a Phase III study to investigate the efficacy of Ameluz-PDT® for the treatment of actinic keratoses of the extremities, trunk and neck started. A new lighting profile is used to alleviate pain during PDT. Recruitment progress in this study fell short of expectations in 2023. So far, 72 patients have been enrolled.

Evaluation of the business performance by the Management Board

With the exception of cancellation of the capital measure, business performance for both the Biofrontera Group and Biofrontera AG was positive overall for the year as a whole and thus met the management's expectations. Both total sales and the forecast EBITDA and EBIT were achieved or exceeded. Only in Spain did sales decline slightly, which was due to both the price increase for Ameluz® and personnel changes in the Spanish sales team. This delayed the expected recovery in Spanish sales, but it is expected that this trend will not continue in 2024 and that the extended approval of Ameluz® for artificial daylight will also provide new impetus in the Spanish market. Over the course of the year, Biofrontera continued to be affected by supply bottlenecks and inflationary pressure in the procurement of materials for the manufacturing of the RhodoLED® XL lamp.

Despite the positive EBITDA of EUR 5.9 million, earnings before income taxes amounted to EUR –2,127 thousand in the 2023 financial year (previous year:EUR –43,210 thousand).
The separate financial statements of Biofrontera AG show a net loss for the year of EUR -7,295 thousand after EUR -31,527 thousand in the previous year.

Biofrontera Group financial position and performance

Results of operations of the Biofrontera Group

The results of operations as of December 31, 2023 are as follows:

in EUR thousands	2023	2022
Sales revenue	32,249	25,738
Gross profit on sales	26,005	20,981
Research and development costs	(7,846)	(7,128)
General administrative costs	(6,105)	(5,906)
Sales and marketing costs	(7,273)	(6,357)
Result on operations	**4,782**	**1,591**
Other expenses and income	350	(467)
EBITDA	5,923	1,869
EBIT	**5,132**	**1,124**
Financial result	(7,259)	-44,334
Loss before income tax	**(2,127)**	**-43,210**
Loss after income tax	**(369)**	**-44,166**

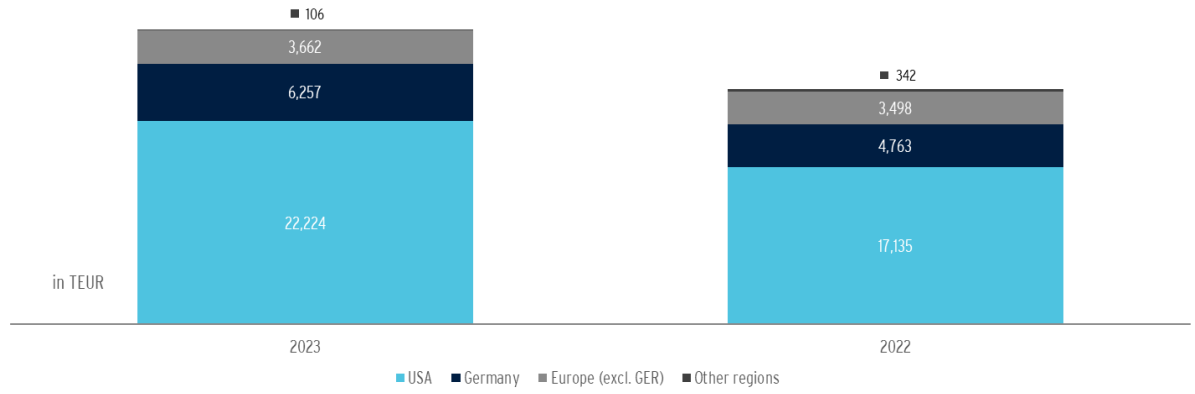
Sales revenue

The Biofrontera Group generated total sales of EUR 32,249 thousand in the reporting year 2023, an increase of 25.3% compared to the previous year (previous year: EUR 25,738 thousand).

Total revenues in Europe increased by 20% compared to the previous year to EUR 9,919 thousand (previous year: EUR 8,261 thousand). In Germany, sales increased by 31.4% year-on-year to EUR 6,257 thousand (previous year: EUR 4,763 thousand) and total sales in the rest of Europe also increased slightly by 5% to a total of EUR 3,662 thousand (previous year: EUR 3,498 thousand).

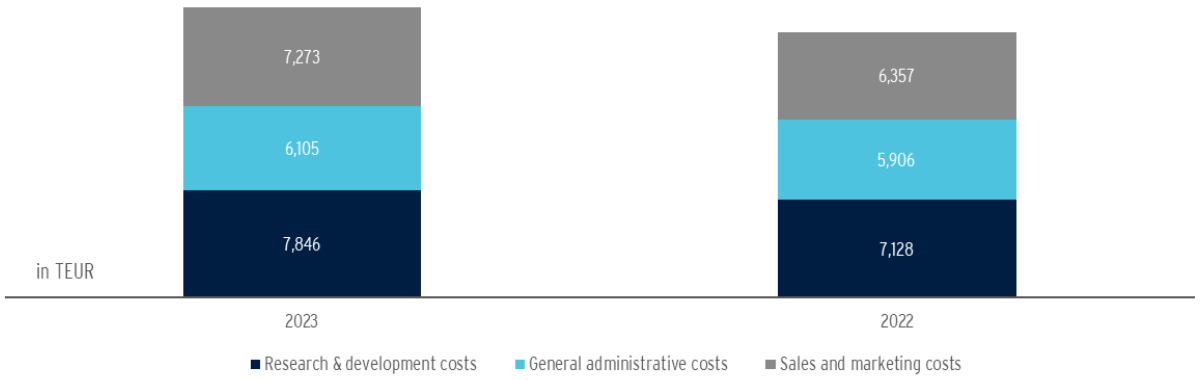
In the 2023 financial year, Biofrontera generated revenue of EUR 22,224 thousand with our licensee in the USA compared to EUR 17,135 thousand in the previous year, an increase of 30%. This includes revenues from service agreements in the amount of EUR 76 thousand (previous year: EUR 648 thousand).

Revenue from other regions amounted to EUR 106 thousand in the financial year (previous year: EUR 342 thousand) and included both license income and revenue from the sale of study materials



Gross profit on sale

Gross profit increased by EUR 5,024 thousand and amounted to EUR 26,005 thousand in 2023 compared to EUR 20,981 thousand in the prior year period. The gross margin decreased from 82% in 2022 to 81% in the 2023 financial year.



Research and development costs

Research and development costs increased by 10% to EUR 7,846 thousand in the reporting period compared to EUR 7,128 thousand in the previous year due to increased activities in clinical trials. In addition to the costs for clinical trials, research and development

costs also include expenses for regulatory affairs, i.e. for obtaining, maintaining and expanding our approvals, expenses for patents and personnel costs for employees working in these departments.

General and administrative costs

General administrative expenses amounted to EUR 6,105 thousand in the 2023 financial year (previous year: EUR 5,906 thousand), an increase of EUR 199 thousand in total compared to the previous year. Expenses were incurred for one-off and extraordinary legal and consulting costs.

Sales and marketing costs

Sales and marketing expenses amounted to EUR 7,273 thousand in the 2023 financial year, an increase of EUR 917 thousand on the previous year (EUR 6,357 thousand), mainly due to increased marketing expenses for the expansion of approvals to include artificial daylight and exploratory costs for market expansion in other European countries.

EBITDA and EBIT

The Group's EBITDA includes earnings before interest, taxes, depreciation of property, plant and equipment and amortization of intangible assets and decreased by EUR 4,054 thousand to EUR 5,923 thousand in fiscal year 2023 compared with the prior-year period (EUR 1,869 thousand). The significant increase in EBIT is largely due to the increase in income, while costs remained relatively consistent.

EBIT includes earnings before interest and taxes and improved year-on-year to EUR 5,132 thousand (previous year: EUR 1,124 thousand).

Financial result

In addition to the interest result, the financial result totaling EUR –7,259 thousand (previous year: loss of EUR 44,334 thousand) includes expenses from the subsequent measurement of the carrying amount of the investment in Biofrontera Inc. amounting to EUR 7,264 thousand (previous year: profit of EUR –44,172 thousand).

Other income and expenses

Other expenses and income amounted to a total of EUR 350 thousand in the reporting period (previous year: EUR -467 thousand) and primarily include expenses and income from currency translation and the reversal of provisions.

Income taxes

This position includes expenses from current income taxes in the amount of EUR 685 thousand (previous year: EUR 156 thousand) and income from deferred taxes in the amount of EUR 2,443 thousand (previous year: EUR -800 thousand) resulting from the first-time capitalization of deferred taxes at Biofrontera Bioscience GmbH, which is partially offset by a reduction in deferred taxes from tax-deductible loss carryforwards at Biofrontera Pharma GmbH.

Net assets of the Biofrontera Group

The net assets position as of December 31, 2023is as follows:

in EUR thousands	December 31, 2023	December 31, 2022
Non-current assets	13,012	17,669
Current financial assets	11,792	9,324
Other current assets	5,928	5,732
Total assets	**30,732**	**32,725**
Equity	19,980	20,336
Non-current liabilities	678	4,002
Current financial liabilities	5,879	5,109
Other current liabilities	4,194	3,277
Total equity and liabilities	**30,732**	**32,725**

Non-current assets

Non-current assets as of December 31, 2023, totaling EUR 13,012 thousand(previous year: EUR 17,669 thousand) include recognized deferred tax assets on tax loss carryforwards at Biofrontera Pharma GmbH and the first time recognition of deferred taxes at Biofrontera Bioscience in the amount of EUR 6,818 thousand (previous year: EUR 5,176 thousand), property, plant and equipment in the amount of EUR 3,290 thousand (previous year: EUR 3,012 thousand), and intangible assets (EUR 1,152 thousand; previous year: EUR 1,198 thousand). Also included here is the investment in Biofrontera Inc. valued at equity in the amount of EUR 1,718 thousand (previous year: EUR 8,982 thousand).

Current financial assets

Current financial assets totaled EUR 11,792 thousand as of December 31, 2023 (previous year: EUR 9,324 thousand). This includes cash and cash equivalents of EUR 3,080 thousand (previous year: EUR 6,376 thousand), trade receivables of EUR 774 thousand (previous year: EUR 691 thousand), receivables from associates of EUR 6,365 thousand (previous year: EUR 1,344 thousand), other current financial assets of EUR 1,556 thousand (previous year: EUR 878 thousand) and receivables from leasing contracts of EUR 54 thousand (previous year: EUR 35 thousand).

Other current assets

Other current assets mainly contain inventories. These increased slightly to EUR 5,077 thousand as of December 31, 2023 (previous year: EUR 4,794 thousand). In the reporting year, impairment losses were recognized on inventories in the amount of EUR 24 thousand (previous year: EUR 155 thousand).

Other current assets also include current receivables in the amount of EUR 207 thousand (previous year: EUR 146 thousand) and prepaid expenses in the total amount of EUR 643 thousand (previous year: EUR 791 thousand).

Equity

In accordance with IFRS, the Group reported equity of EUR 19,980 thousand (previous year: EUR 20,336 thousand). The equity ratio increased from 63% to 70%, mainly due to improved profit.

Non-current liabilities

The financial liabilities reported under non-current liabilities (EUR 678 thousand; previous year: EUR 1,055 thousand) contain the liabilities from leases to be recognized in accordance with IFRS 16 in the amount of EUR 678 thousand (previous year: EUR 1,055 thousand).

Current financial liabilities

Current financial liabilities include, in particular, trade payables in the amount of EUR 2,594 thousand (previous year: EUR 1,984 thousand) and current financial liabilities in the amount of EUR 468 thousand (previous year: EUR 446 thousand). Also included are liabilities to associated companies of EUR 2,747 thousand (previous year: EUR 2,653 thousand); the installment of the liability from the DUSA settlement due in January 2024 is reported here.

Current financial liabilities include current liabilities from leases in accordance with IFRS 16 in the amount of EUR 417 thousand (previous year: EUR 444 thousand).

Other current liabilities

Other current liabilities amounted to EUR 4,194 thousand (previous year: EUR 3,277 thousand) and mainly include provisions of EUR 895 thousand (previous year: EUR 603 thousand) as well as other accrued liabilities of EUR 2,458 thousand (previous year: EUR 2,518 thousand) and income tax liabilities of EUR 841 thousand (previous year: EUR 156 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	2023	2022
Cash flow from/in operating activities	(1,905)	(3,895)
Cash flow from/in operating activities	(912)	(981)
Cash flow from/in financing activities	(479)	4,344
Cash and cash equivalents	3,080	6,376
Non-current financial liabilities	678	1,055
Current financial debt	468	446
Net liquidity	1,934	4,874

Net cash flow from operating activities improved by EUR 1,990 thousand to EUR -1,905 thousand compared to the previous year's figure of EUR -3,895 thousand.

Net cash flow from investing activities amounted to EUR -912 thousand (previous year: EUR -981 thousand) and contains investments in property, plant and equipment and intangible assets.

Net cash flow from financing activities amounted to EUR -479 thousand and was lower than the previous year's figure (previous year: EUR 4,344 thousand), which included proceeds from a capital increase carried out in the previous year.

Cash and cash equivalents

Cash and cash equivalents in the Group amount to EUR 3,080 thousand as of December 31, 2023 (previous year: EUR 6,376 thousand).

Biofrontera AG financial position and performance

Results of operations of Biofrontera AG

in EUR thousands	2023	2022
Sales revenue	3,311	3,754
Other operating income	449	1,403
Personnel costs	(3,238)	(2,751)
Depreciation and amortization	(12)	(22)
Other operating expenses	(4,939)	(6,203)
Other interest and similar income	2,078	1,934
Depreciation on financial assets	(4,945)	(29,492)
Interest and similar expenses	(1)	(146)
Other taxes	(1)	(2)
Net loss	-7,297	-31,527

The revenue reported in the separate financial statements under German GAAP includes income from intercompany services. Other operating income mainly relates to income from the reversal of provisions and income from costs recharged to affiliated and associated companies.The decrease in personnel expenses is mainly due to the reduction in Management Board compensation. For further details, please refer to the compensation report.

The increase in personnel expenses is primarily due to settlements for personnel restructuring.

Other operating expenses decreased by EUR 1,264 thousand to EUR 4,939 thousand. This is primarily due to the reduction in costs for legal disputes.

Interest and other income results almost exclusively from related companies. The net loss for the year amounted to EUR -7,297 thousand (previous year: EUR -31,527 thousand). In the 2023 financial year, the net loss for the year was reduced by the impairment of the investment in Biofrontera Inc. in the amount of EUR 4,945 thousand, resulting in an adjusted net loss for the year of EUR -2,350 thousand.

Net assets of Biofrontera AG

in EUR thousands	December 31, 2023	December 31, 2022
Non-current assets	36,225	41,176
Receivables due from affiliated companies	69,644	72,112
Cash and cash balances with banks	2,560	5,706
Other assets	411	609
Total assets	**108,840**	**119,603**
Equity	104,208	111,493
Provisions	1,768	2,417
Bonds	0	0
Liabilities to banks	0	0
Other liabilities	2,864	5,694
Total equity and liabilities	**108,840**	**119,603**

Fixed assets mainly relate to shares in affiliated companies at EUR 32,224 thousand (previous year: EUR 32,224 thousand) and investment in associates at EUR 3,988 thousand (previous year: EUR 8,933 thousand).

Cash on hand and bank balances decreased from EUR 5,706 thousand in the previous year to EUR 2,560 thousand in 2023. For further details on the financial position, please refer to the presentation of the Group financial position.

As of December 31, 2023, Biofrontera AG had equity under German commercial law of EUR 104,208 thousand (previous year: EUR 111,493 thousand).

The provisions mainly include provisions for outstanding invoices, litigation costs, bonuses for employees as well as the audit of the annual financial statements and tax returns. The convertible bond 2017/22 was repaid in full on January 03, 2022 including interest.

Assessment of the financial position of Biofrontera AG and the Group

In the separate financial statements of Biofrontera AG, liquidity of EUR 2,560 thousand is, as expected, below the previous year's figure of EUR 5,706 thousand. The Group's liquidity decreased by EUR 3,296 thousand to EUR 3,080 thousand in the 2023 financial year. Please refer to the section on liquidity, profitability and access to the capital market in our risk report in the management report for more information on the necessity of providing liquidity to ensure the continuation of business activities.

Outlook and forecast

General conditions

The global economic situation for 2024 remains challenging in the context of the past crises, in particular due to significant losses in purchasing power as a result of inflation, as well as the generally weak global economic development and geopolitically tense situation.

In the current annual projection published on February 21, 2024 in the annual economic report of the Federal Ministry for Economic Affairs and Energy, the German government predicts an increase in price-adjusted gross domestic product of just 0.2% for 2024 and 1.0% for the following year. According to preliminary data from the Federal Statistical Office, gross domestic product (GDP) fell by around 0.25% towards the end of 2023 after seasonal adjustment, resulting in an overall decline of 0.3% in 2023. The inflation rate had already weakened significantly at the start of the year and now stands at 2.9%, compared to an average inflation rate of just under 6% in 2023. Despite the economic challenges, the labor market remained robust, with employment rising to a historic high of just under 46 million people.

With stagnating industrial production and global trade that has not yet reached its full strength despite slight growth, the development of the global economy will also be more subdued in 2024. International organizations are forecasting a moderate recovery in the volume of global trade this year to 3.1% (2023: 0.5%). Economic growth in the western economies is expected to continue to converge.

A panel of US economists expects the year to be characterized by rising growth in the US, largely due to falling inflation and job creation - a far cry from the widespread fears of recession that characterized 2023. The National Association for Business Economics (NABE) forecasts that gross domestic product will rise by 2.2 % in 2024, a much more optimistic forecast than at the end of 2023. According to NABE, the consumer price index is expected to fall to an annual rate of 2.4 % this year, compared to 4.1 % in 2023 and 8 % in 2022. Another indicator closely monitored by the Federal Reserve to assess price changes, personal consumption expenditures, is also expected to fall further.

Moderate growth of 0.1% to 0.4% is expected for the pharmaceutical market in Western Europe and North America in 2023 and the following years. Growth of -1% to +2% is forecast for the US market, which represents a slight reduction compared to previous forecasts and results from the Inflation Reduction Act. Growth in the European market is likely to be driven primarily by generics, biosimilars and new launches, while price pressure on innovative drugs is likely to remain. In the dermatology sector, a 5-year CAGR of 4-7% is expected for the period 2023-27.

A strategy paper from the German government is currently formulating stronger economic policy support for the pharmaceutical industry. Against the backdrop of persistent drug supply bottlenecks, geopolitical risks and regulatory changes at European and national level, the intention is to strengthen Germany as a pharmaceutical location.

Guidance

For 2024, we expect both sales and earnings to be significantly lower than in the previous year. This largely depends on the development of inventories at our main customer Biofrontera Inc. In the past year, Biofrontera Inc. has built up a high stock of Ameluz® through an aggressive stockpiling policy, which is now to be utilized in a liquidity-preserving manner. Biofrontera Inc. will continue to calculate with significantly reduced inventories in the future. As a result, our main customer will order significantly fewer merchandise from us in 2024. This change is not due to weakness in the US market or poor sales performance, but is the result of the change in stockpiling described above.

However, the solid growth in the European markets will continue.

Forecast of key performance indicators relevant to management

Key Figure	Forecast 2024
Group revenue	20-23 Mio. EUR
EBITDA	-1 Mio. bis +1 Mio. EUR
EBIT	-2 Mio. – 0 Mio. EUR
Cash and cash equivalents at 31. Dezember 2024	3 -4 Mio. EUR*
Nicht finanzielle Kennzahlen	
Employees	Decrease
Trainings	unchanged
External and internal audits	unchanged

*on the condition that the planned capital measure is fully placed

The Group anticipates revenue of EUR 20 to 23 million for the 2024 financial year, with growth of 10% expected for the European markets, while revenue from the US licensing business will decline significantly, as described above. This decline is due on the one hand to the change in stockpiling policy described above, and on the other to an adjustment to the US license agreement, which reduced the transfer price of Ameluz® for the second half of the year. However, this transfer price change is fully offset by the reduction in costs for the clinical program.

In Germany, the most important European sales market, the company expects further expansion of the PDT market in the current year due to market share gains in the area of topical drugs. Increasing awareness of actinic keratosis as an early form of skin cancer requiring treatment and the approach of patient-friendly and reimbursable daylight therapy should support new sales momentum in the market.

Furthermore, the approval of artificial daylight therapy will help us to expand the market in countries where weather conditions do not permit the patient-friendly daylight option.

As a result of the expanded base of sales partners and the associated regional expansion of the marketing of Ameluz®, particularly in the Scandinavian countries and Poland, we expect continuous sales growth for the European market. The expansion of sales efforts in Spain and the UK should also contribute to this market growth. As mentioned at the beginning, however, sales growth outside the USA is heavily dependent on the continued economic recovery and overcoming the effects of the global crises. There is therefore still a degree of uncertainty regarding the sales that can be achieved in the current year.

Although the decrease in revenue will be approximately EUR 10 million, EBITDA will not be burdened to the same extent due to lower expenses for clinical studies. With the amendment of the license agreement between Biofrontera AG and Biofrontera Inc., all expenses for clinical development will be transferred to Biofrontera Inc. as of June 1. This will enable the company to maintain EBITDA in the break-even range of EUR -1 to +1 million until 2024. Following a normalization of the stockpiling policy of our main customer, EBITDA growth is expected to be in line with previous years in subsequent years. EBIT will be between EUR -2 million and break-even.

As of December 31, 2023, the Biofrontera Group held cash and cash equivalents of EUR 3,080 thousand. Based on the current corporate planning for 2024 and the assumption of a successful capital measure, the Group will have sufficient liquidity to meet all obligations for a further 12 months from the date of preparation. In this liquidity forecast, it was assumed that a capital measure will result in a cash inflow of EUR 3 million in May 2024. Assuming expenses and income develop as planned and the capital measure described above, the Group expects to have cash and cash equivalents of between EUR 3 million and EUR 4 million as of December 31, 2024.

For the separate financial statements of Biofrontera AG, we continue to expect a net loss for the year, which is likely to be in the low single-digit million range. As the parent company, Biofrontera AG manages the liquidity of the Biofrontera Group. The planned cash and cash equivalents of the Group as of December 31, 2024 therefore also correspond to the planned cash and cash equivalents of Biofrontera AG.

Forecast of further key figures

Biofrontera expects the number of employees to decrease by at least 12 FTEs in 2024 due to the transfer of clinical trial activities to Biofrontera Inc.

As a result of the increasing requirements for capital market-oriented pharmaceutical companies, we assume that the number of training measures in 2024 will be at a comparable level to 2023.

Maintaining and expanding our approvals is essential for securing and strengthening Biofrontera's market position and is reflected in our quality management, among other things. The number of external and internal audits are important non-financial performance indicators for the company. We assume that the number of audits in 2024 will be at a similarly high level as in 2023.

Planned regulatory progress

In fall 2024, we expect the FDA's response to our application to extend approval for the use of three tubes of Ameluz in a PDT session. The Phase I study required by the FDA to collect additional safety data on the use of 3 tubes of Ameluz® during PDT treatment was completed as planned in 2023. The submission of the extended approval dossier in the USA took place at the end of 2023.

The progress of the clinical trials will no longer be reported as a key performance indicator from 2024, since clinical research and development will be transferred to the US licensee Biofrontera Inc. in the middle of the year (see note 35 to the consolidated financial statements; events after the reporting date).

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 (unaudited)

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

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

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

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

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

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

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

Accounting-related risk management system and accounting-related internal controls

The accounting process of the Group as well as of Biofrontera AG pursues the presentation of correct and complete figures and disclosures in the instruments of external accounting (bookkeeping, annual and consolidated financial statements, summarized management report) as well as compliance with the relevant legal and statutory provisions. The structures and processes in place for this purpose integrate detailed internal control measures with regard to the accounting process. In connection with the increasing business activities, the accounting-related internal control system is subject to a continuous monitoring and improvement process.

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

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

Risk reporting concerning financial instruments

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

Market risk

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

Credit risk

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

Liquidity risk

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

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

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

Risks and opportunities relating to future business development and growth

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

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

Net assets

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

External influences and global risks

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

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

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

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

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

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

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

Since February 1, 2020, the United Kingdom is no longer a member state of the European Union. As the regulatory framework for pharmaceutical products in the United Kingdom, which covers quality, safety and efficacy of pharmaceutical products, clinical trials, marketing authorization, commercial distribution and sales of pharmaceutical products, is derived from European Union directives and regulations, this could impact the future regulatory regime which applies to products and the approval of product candidates in the United Kingdom. Corresponding adjustments to changed regulatory requirements have already been implemented. To this end, the specially founded Biofrontera UK Ltd. has taken over the distribution of pharmaceutical products in the United Kingdom in its entirety from the parent company Biofrontera Pharma GmbH on the basis of a wholesale license since September 2023. It remains to be seen how changed regulatory requirements will also be implemented with regard to medical devices in the United Kingdom.

Due to the implementation of the amended regulatory requirements for the distribution of pharmaceutical products, the company considers the risk from product sales in the United Kingdom to be low.

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

Liquidity, profitability and capital markets access

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

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

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

As of December 31, 2023, the Biofrontera Group held cash and cash equivalents of EUR 3,080 thousand. Based on the current corporate planning for 2024 and the assumption of a successful capital measure, the Group will have sufficient liquidity to meet all obligations for another 12 months from the time of preparation. The prerequisite for this is that liquidity of EUR 3,000 thousand is raised in the capital measure planned for May 2024. A major shareholder has already signed a backstop agreement in the amount of EUR 1,800,000 for this approved capital measure. These proceeds will enable the company to cover its capital requirements at a base level over the next 12 months.

If the capital measure planned for May 2024 cannot be carried out to the planned extent, the continued operation of Biofrontera AG would be severely jeopardized (material uncertainty).

Law and compliance

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

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

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

Regulatory approvals

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

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

Research and development

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

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

Product portfolio

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

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

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

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

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

Patent protection

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

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

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

Furthermore, a patent application for an improved Ameluz® formulation without propylene glycol was filed in spring 2023. If this patent is granted, Ameluz® will be protected in the EU and the USA until 2043.

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

Products and product stewardship

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

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

Markets

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

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

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

Procurement and production

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

Risks associated with the manufacturing, bottling, storage and transportation of products may result in personal injury or material or environmental damage and may give rise to an obligation to pay damages. Using our own audit and monitoring system, Biofrontera regularly ensures that the manufacturing conditions at its most important suppliers meet the required standard. This

enables us to avoid such risks and damages. We have also established our own production facilities for in-house production quality control of the BF-RhodoLED® lamp to reduce our dependence on suppliers in this area, too.

Business strategy

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

Staff

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

Information technology and data protection

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

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

Insurance coverage

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

Taxes

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

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

Opportunities

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

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

We also see further long-term revenue opportunities in the form of milestone and royalty payments through licensing and supply agreements with our licensing partners in Europe, Asia, and the United States. At the same time, the company is analyzing new markets such as Canada or Brazil with regard to cooperation with a relevant market player there. In the European market, marketing options for countries such as France, Italy or the Netherlands are also being examined, either through a partnership or the establishment of a dedicated sales unit. The establishment of a separate sales unit in France in particular currently appears promising in the mid to long term due to the attractive market environment and would be accompanied by an expansion of personnel sales structures in this country. A more comprehensive European sales structure that covers the major European markets could also make the company more attractive as a licensee for marketing other companies' products. The growth and expansion of the Ameluz markets is a clear priority for Biofrontera.

Overall opportunity and risk situation at Biofrontera

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

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

- To date, the Group has been able to meet its payment obligations at all times.
  In recent years, the Company has regularly relied on external cash and cash equivalents. As of December 31, 2023, the Biofrontera Group held cash and cash equivalents of EUR 3,080 thousand. Based on the current corporate planning for 2024 and the assumption of a successful capital measure, the Group will have sufficient liquidity to meet all obligations for another 12 months from the time of preparation. The prerequisite for this is that liquidity of EUR 3,000 thousand is raised in the capital measure planned for May 2024. A major shareholder has already signed a backstop agreement in the amount of EUR 1,800,000 for this approved capital measure. These proceeds will enable the company to cover its capital requirements at a base level over the next 12 months.

- 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 conducting a clinical program in the USA. This includes a phase III clinical trial for the treatment of superficial basal cell carcinoma (BCC) with Ameluz®, a phase IIb trial to extend the approval of Ameluz® for moderate to severe acne in the USA and the already completed phase I safety trial to extend the posology for Ameluz® to three tubes in the USA, where use is currently limited to one tube of Ameluz® per treatment..

- 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 the original scope of the 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.

- An amendment to the existing license and supply agreement between Biofrontera AG and Biofrontera Inc. will be implemented on June 1, 2024. This contract amendment provides for Biofrontera Inc. to take over the entire clinical development from now on, which will reduce the cost burden for Biofrontera AG. As a result, Biofrontera AG's available resources can now be increasingly focused on expanding its portfolio and developing the market in Europe and other countries. In addition, Biofrontera AG can continue to benefit significantly from the positive growth of the US business. Further information on changes relating to the license and supply agreement between Biofrontera AG and Biofrontera Inc is provided separately in the "Outlook and forecast" section.

- With regard to legal disputes, Biofrontera considers itself well positioned. The judgment obtained by Deutsche Balaton AG in 2022 declaring that the approval resolutions of the former Management Board and the former Supervisory Board for the IPO of Biofrontera Inc. were unlawful does not affect the completed IPO of Biofrontera Inc. or the company's operating business. The proceedings are being continued by the former members of the Management Board and Supervisory Board in the second instance against Deutsche Balaton AG. The action for rescission brought by two shareholders against the capital increase resolved at the Extraordinary General Meeting on January 9, 2023 was withdrawn on April 13, 2023 on the basis of a settlement. The action for annulment brought by Maruho Deutschland GmbH against the resolutions of the Annual General Meeting on August 23, 2022 and the Extraordinary General Meeting on January 9, 2023 was also withdrawn on July 4, 2023 on the basis of a settlement. This also settles the last action brought against resolutions of the company's Annual General Meeting.

Litigation

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

Maruho Deutschland GmbH filed an action for annulment with the Cologne Regional Court against the election of Prof. Dr. Karin Lergenmüller to the Supervisory Board resolved at the Annual General Meeting on August 23, 2022 under agenda item 8a. In an extension of the action, Maruho Deutschland GmbH is also contesting the confirmation pursuant to Art. 244 sentence 1 AktG of the election of Prof. Dr. Karin Lergenmüller to the Supervisory Board resolved at the Extraordinary General Meeting on January 9, 2023 under agenda item 5. The Cologne Regional Court has not yet ruled on the action and the extension of the action. Maruho Deutschland GmbH withdrew the action for annulment and the extension of the action on July 4, 2023. Prof. Dr. Lergenmüller's election to the Supervisory Board is therefore final. At the same time, the withdrawal of the action also settled the last action brought against resolutions of the company's Annual General Meeting. The withdrawal of the lawsuit is part of an out-of-court agreement dated June 19, 2023, which also settled a dispute over possible losses of voting rights by Maruho Deutschland GmbH at past Annual General Meetings. At the same time, a procedure for avoiding losses of voting rights at future Annual General Meetings was agreed. The agreement is reproduced in detail in the company's announcement in the Federal Gazette pursuant to Section 248a AktG dated July 7, 2023.

Deutsche Balaton AG v. Biofrontera AG (declaratory action)

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

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

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

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

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

Biofrontera AG v. Biofrontera Inc.

The Company brought an action before the Court of Chancery of the U.S. State of Delaware seeking in particular to annul the resolutions adopted at the Annual General Meeting of Biofrontera Inc. on December 12, 2022, including the elections to the Board of Directors of Biofrontera Inc. Among other things, the Company requested a repetition of the Annual General Meeting of Biofrontera Inc. taking into account the proposed resolutions of the company. By mutual agreement, the proceedings were terminated by a declaration filed jointly with Biofrontera Inc. with the Court of Chancery. The amicable termination was agreed in an out-of-court settlement with Biofrontera Inc. dated April 11, 2023 ("Inc. Agreement dated April 11, 2023").

Biofrontera Inc et al. v. Biofrontera AG

An action for avoidance was filed by two shareholders against all resolutions of the Company's Extraordinary General Meeting of January 9, 2023, i.e., inter alia, against the resolutions under agenda item 1 (resolution on authorized capital) and agenda item 2 (resolution on the increase of the share capital). The action was withdrawn on April 13, 2023. The withdrawal of the action is part of the Inc. agreement of April 11, 2023. The Inc. agreement dated April 11, 2023 is published in detail in the announcement of Biofrontera AG in the Federal Gazette pursuant to Section 248a AktG dated April 19, 2023.

Ludwig Lutter v. Biofrontera AG

In two actions before the Regional Court of Cologne, Mr. Ludwig Lutter contested his dismissal as a member of the Management Board and the termination of his employment contract and claimed the (partial) continued payment of his remuneration. The Cologne Regional Court ruled on the two lawsuits in judgments served to the company on March 22, 2024.

In the proceedings for a declaratory judgment, the court ruled that the employment relationship was not terminated by extraordinary termination, as the alleged derelictions of duty, if any, were not serious enough individually and as a whole to justify extraordinary termination in the opinion of the court. As a result, Mr. Lutter was awarded the continued payment of his fixed remuneration in the proceedings for documentary evidence. This amounts to EUR 250 thousand. This amount includes income earned elsewhere, which was deducted by the court. The company can claim the deduction of any other income earned elsewhere in subsequent proceedings relating to the documentary proceedings.

Biofrontera Inc et al. v. Biofrontera AG

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

Biofrontera Bioscience GmbH v. PCS Europe Sp. z o.o.

In proceedings before the District Court in Warsaw (Sąd Okręgowy w Warszawie), Biofrontera Bioscience GmbH obtained an injunction against a competitor. The injunction of September 3, 2023 prohibited the competitor from advertising their cosmetic product by attributing effects that are reserved for medications.

Takeover-relevant information

The following overview provides an explanation of the mandatory disclosures in accordance with Section 315a (1) HGB. The disclosures reflect the situation as of December 31, 2023.

Composition of the share capital

As of December 31, 2023, the subscribed capital amounted to EUR 63,807,058 and was divided into 63,807,058 nopar value ordinary registered shares (no-par value shares). There were no different classes of shares.

Trading platforms

Biofrontera shares are traded under the stock exchange code B8F and the ISIN DE0006046113 in the Prime Standard of the Frankfurt Stock Exchange and on all other German stock exchanges.

Restrictions affecting voting rights or the transfer of shares

Each share grants one vote at the Annual General Meeting. The Company is not aware of any restrictions on voting rights. There are also no shares with special rights that grant powers of control.

Disclosures on significant equity investments

The company is aware of the following direct and indirect shareholdings in the company's share capital exceeding 10% of the voting rights as of December 31, 2023:

	December 31, 2023	December 31, 2022
Maruho Co., Ltd., Osaka Japan The total share of voting rights is assigned to Maruho Co., Ltd, Osaka, through the company Maruho Deutschland GmbH, Düsseldorf, which is controlled by the former. In an accompanying voting rights notification, Mr. Takagi reported "acting in concert" over the entire voting rights of Maruho.	18,850,981	13,399,965
Wilhelm Konrad Thomas Zours The voting rights through the chain of subsidiaries listed below are attributed to Mr. Zours: • DELPHI Unternehmensberatung Aktiengesellschaft; • VV Beteiligungen Aktiengesellschaft • Deutsche Balaton Aktiengesellschaft; • Heidelberger Beteiligungsholding AG; • SPARTA AG; • Deutsche Balaton Biotech AG	18,671,057	17,021,057
Biofrontera Inc., Woburn, USA	177,465	6,466,946
Free float	26,107,555	26,919,090
Total	**63,807,058**	**63,807,058**

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.

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

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

Appointment and dismissal of members of the Management Board

The appointment and dismissal of members of the Management Board is governed by Sections 84 and 85 AktG and Section 9 of the Articles of Association in the version dated June 27, 2023. In accordance with Section 9 of the Articles of Association, the Management Board consists of one or more persons. The number of Management Board members is determined by the Supervisory Board.

Amendment of the Articles of association

Pursuant to Section 179 AktG, amendments to the Articles of Association require a resolution by the Annual General Meeting. In accordance with Section 179 (2) AktG in conjunction with Section 22 (2) of the Articles of Association, the resolution of the Annual General Meeting requires a simple majority of the votes and the share capital represented when the resolution is passed. A majority of at least 75% of the share capital represented when the resolution is passed is required for changes to the purpose of the company. In accordance with Section 16 (6) of the Articles of Association, the Supervisory Board may resolve amendments to the Articles of Association that only affect the wording of the Articles of Association, i.e. do not themselves result in any material changes.

Powers of the Board of Management to issue or repurchase shares

By resolution of the Annual General Meeting on 9 January 2023, the Executive Board is authorized, with the approval of the Supervisory Board, to increase the company's share capital by up to EUR 12,700,000.00 in return for cash contributions on one or more occasions until 31 December 2027 (Authorized Capital 2022). Shareholders are generally entitled to subscription rights. However, the Executive Board is authorized, with the approval of the Supervisory Board, to exclude subscription rights for fractional amounts resulting from the subscription ratio.

The share capital was conditionally increased by up to EUR 1,359,864 by resolution of the Annual General Meeting on 28 August 2015 (Conditional Capital I). Conditional Capital I serves to secure the granting of shares to fulfil (i) option rights and obligations or (ii) conversion rights and obligations that were issued, agreed or guaranteed on the basis of the authorization of the Annual General Meeting on 28 August 2015 until 27 August 2020.

The share capital was conditionally increased by up to EUR 249,050.00 by resolution of the Annual General Meeting on July 2, 2010 (Conditional Capital III). Conditional Capital III serves to secure the granting of shares for share options in accordance with the conditions of the 2010 share option plan, which were issued on the basis of the authorization of the Annual General Meeting on 02.07.2010 until 01.07.2015.

The share capital was conditionally increased by up to EUR 1,554,984.00 by resolution of the Annual General Meeting on 28.08.2015 (Conditional Capital V). Conditional Capital V serves to secure the granting of shares for share options in accordance with the conditions of the 2015 share option plan, which were granted on the basis of the authorization of the Annual General Meeting on 28 August 2015 until 27 August 2020.

The share capital is conditionally increased by up to EUR 17,725,000.00 by resolution of the Annual General Meeting on June 20, 2023 (Conditional Capital 2023). The contingent capital 2023 serves to grant shares to the holders of bonds with warrants or convertible bonds with or without warrants, profit participation rights or participating bonds (or combinations of these instruments), each with option or conversion rights, which are issued on the basis of the authorization of the Annual General Meeting on 20.06.2023 until 15.06.2028.

The Annual General Meeting has not authorized the purchase or sale of treasury shares.

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

No agreements have been made in this respect.

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

No agreements have been made in this respect.

Leverkusen, April 29, 2024

Biofrontera AG

Pilar de la Huerta Martínez, CFO

Corporate Governance Statement of Biofrontera AG pursuant to Sections 289f, 315d HGB for the financial year 2023 (unaudited)

The Company has made use of the option not to include the corporate governance statement pursuant to Sections 289f, 315d of the German Commercial Code (HGB) for the financial year 2023 in the (combined) management report for the financial year 2023, but refers to the publication of this statement as well as the statement of the Management Board and the Supervisory Board of Biofrontera AG (the Company) on the German Corporate Governance Code pursuant to Section 161 of the German Stock Corporation Act (AktG) (unaudited) on the Company's website at www.biofrontera.com in the section "Investors", subsection "Corporate Governance" with the corresponding labels.

Leverkusen, April 29, 2024

Biofrontera AG

Pilar de la Huerta Martínez
CFO

Consolidated financial statements as of December 31, 2023

Consolidated balance sheet as of December 31, 2023

Assets

in EUR thousands		December 31, 2023	December 31, 2022
Non-current assets			
Tangible assets	(1)	3,290	3,012
Intangible assets	(1)	1,152	1,198
Deferred tax	(9)	6,818	4,375
Investments accounted for using the equity method	(2)	1,718	8,982
Non-current lease receivables	(6)	33	101
Total non-current assets		**13,012**	**17,669**
Current assets			
Financial assets			
Trade receivables	(4)	774	691
Receivables from associated companies	(33)	6,365	1,344
Other financial assets	(5)	1,556	878
Cash and cash equivalents	(8)	3,080	6,376
Current lease receivables	(6)	18	35
Total financial assets		11,792	9,324
Other assets			
Inventories	(3)	5,077	4,794
Other assets	(7)	850	938
Total other assets		5,928	5,732
Total current assets		**17,720**	**15,056**
Total assets		**30,732**	**32,725**

Equity and liabilities

in EUR thousands		December 31 , 2023	December 31 , 2022
Equity	(10)		
Subscribed capital		63,807	63,807
Capital reserve		137,330	137,318
Capital reserve from foreign currency conversion adjustments		1	0
Loss carried forward		(180,789)	(136,623)
Loss for the period		(369)	(44,166)
Total equity		**19,980**	**20,336**
Non-current liabilities			
Financial debt	(11)	678	1,055
Liabilities to associated companies		0	2,642
Total non-current liabilities		**678**	**4,002**
Current liabilities			
Financial liabilities			
Trade payables	(13)	2,594	1,984
Liabilities to associated companies	(33)	2,747	2,653
Current financial debt	(11)	468	446
Other financial liabilities	(12)	71	26
Total financial liabilities		5,879	5,109
Other liabilities			
Income Tax	(14)	841	156
Other provisions	(15)	895	603
Other liabilities	(16)	2,458	2,518
Total other liabilities		4,194	3,277
Total current liabilities		**10,073**	**8,387**
Total equity and liabilities		**30,732**	**32,725**

Consolidated statement of comprehensive income for the fiscal year 2023

in EUR thousands		01.01.-31.12.2023	01.01.-31.12.2022
Sales revenue	(17)	32,249	25,738
Cost of sales	(18)	(6,243)	(4,757)
Gross profit from sales	**(18)**	**26,005**	**20,981**
Operating expenses			
Research and development costs	(19)	(7,846)	(7,128)
General administrative costs	(20)	(6,105)	(5,906)
Sales costs	(21)	(7,273)	(6,356)
Result from operations		**4,782**	**1,591**
Depreciation and amortization	(27)	791	746
Other Expenses	(24)	(236)	(902)
Other Income	(24)	586	435
EBITDA		**5,923**	**1,869**
Depriciation and amortization	(27)	(791)	(746)
EBIT		**5,132**	**1,124**
Interest expenses	(22)	(15)	(163)
Interest Income	(22)	21	1
Income from investments accounted for using the equity method	(23)	(7,264)	(44,172)
Profit/loss before income tax		**(2,127)**	**(43,210)**
Income tax	(25)	1,758	(956)
Profit/loss for the period		**(369)**	**(44,166)**
Profit attributable to owners of the parent company		(369)	(44,166)
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	0
Total profit/loss for the period		**(368)**	**(44,166)**
Basic earnings per share in EUR	(26)	(0.01)	(0.77)
Diluted earnings per share in EUR	(26)	(0.01)	(0.77)

Consolidated statement of changes in equity for the fiscal year 2023

		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, 2022		**56,717,385**	**56,717**	**137,332**	**0**	**-136,623**	**57,426**
Loss for the period		0	0	0	0	-44,166	-44,166
Foreign currency conversion		0	0	0	0	0	0
Total loss for the period		**0**	**0**	**0**	**0**	**-44,166**	**-44,166**
Capital increase		7,089,673	7,090	0	0	0	7,090
Conversion of stock options from the stock option program		0	0	0	0	0	0
Cost of equity procurement		0	0	-64	0	0	-64
Increase in capital reserve from the stock option program		0	0	50	0	0	50
Disposal scope of consolidation		0	0	0	0	0	0
Balance as of December 31, 2022	**(10)**	**63,807,058**	**63,807**	**137,318**	**0**	**-180,789**	**20,336**

		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, 2022	**(10)**	**63,807,058**	**63,807**	**137,318**	**0**	**-180,789**	**20,336**
Loss for the period		0	0	0	0	-369	-369
Foreign currency conversion		0	0	0	1	0	1
Total loss for the period		**0**	**0**	**0**	**1**	**-369**	**-368**
Capital increase		0	0	0	0	0	0
Conversion of stock options from the stock option program		0	0	0	0	0	0
Cost of equity procurement		0	0	0	0	0	0
Increase in capital reserve from the stock option program		0	0	12	0	0	12
Balance as of December 31, 2023	**(10)**	**63,807,058**	**63,807**	**137,330**	**1**	**-181,158**	**19,980**

Consolidated cash flow statement for the fiscal year 2023

in EUR thousands		01.01.-31.12.2023	01.01.-31.12.2022
Cashflows from operations			
Loss before income tax		-2,127	-43,210
Adjustments to reconcile loss before income tax to cash flow into operations			
Income tax		1,758	-956
Financial result		7,259	44,334
Depreciation		791	746
Losses from disposal of assets		0	11
Non-cash (income) and expenses		-2,450	569
Changes in operating assets and liabilities			
Trade receivables		-5,077	-831
Other assets and income tax assets		-590	-367
Inventories		-283	20
Trade payables		711	-3,204
Provisions		305	-309
Other liabilities		-2,238	-728
Net cash flow from/in operational activities		**-1,905**	**-3,895**
Cash flow from investment activities			
Purchase of intangible and tangible assets		-912	-981
Net cash flow from/in investment activities		**-912**	**-981**
Cashflows from financing activities			
Proceeds from the issue of shares		0	0
Costs of equity procurement		0	-64
Proceeds from draw down of EIB loan		0	-2,031
Leasing payments		-467	-453
Interest paid		-12	-198
Net cash flows from/in financing activities		**-479**	**4,344**
Net increase/(decrease) in cash and cash equivalents		-3,296	-532
Cash and cash equivalents at the beginning of the period		6,376	6,908
Cash and cash equivalents at the end of the period	**(8)**	**3,080**	**6,376**

Notes to the consolidated financial statements as of December 31, 2023

Information about the Company

Biofrontera AG (hereinafter also referred to as "Biofrontera" or the "company"), registered in the Commercial Register of the Local Court of Cologne, Department B under no. 49717, and its wholly owned subsidiaries Biofrontera Bioscience GmbH, Biofrontera Pharma GmbH, Biofrontera Development GmbH, and Biofrontera Neuroscience GmbH, all with registered offices at Hemmelrather Weg 201, 51377 Leverkusen, Germany, along with the wholly owned subsidiary Biofrontera UK Ltd. based in Reading (Berkshire, United Kingdom) as a 100% subsidiary of Biofrontera Pharma GmbH, and the Spanish branch Biofrontera Pharma GmbH sucursal en España, based in Cornellá de Llobregat, research, develop and distribute dermatological products.

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

The shareholding in Biofrontera Inc. as at the reporting date amounts to 26.4% and is reported under investments in associates using the at-equity method.

Biofrontera AG (hereinafter also referred to as "Biofrontera" or the "company"), registered in the Commercial Register of the Local Court of Cologne, Department B under no. 49717, and its wholly owned subsidiaries Biofrontera Bioscience GmbH, Biofrontera Pharma GmbH, Biofrontera Development GmbH, and Biofrontera Neuroscience GmbH, all with registered offices at Hemmelrather Weg 201, 51377 Leverkusen, Germany, along with the wholly owned subsidiary Biofrontera UK Ltd. based in Reading (Berkshire, United Kingdom) as a 100% subsidiary of Biofrontera Pharma GmbH, and the Spanish branch Biofrontera Pharma GmbH sucursal en España, based in Cornellá de Llobregat, research, develop and distribute dermatological products.

Segment reporting

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

For further information, please refer to our comments in the notes on „Sales revenue“ (Note 18).

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, 2023 to December 31, 2023 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 are prepared on a going concern basis. This assumes that a capital increase of around EUR 3,000 thousand planned for May 2024 will be successfully implemented (material uncertainty). To this end, the company has entered into a backstop agreement with a major shareholder in the amount of EUR 1,800 thousand to ensure that the company has sufficient cash to cover its liquidity requirements over the next 12 months, regardless of the final subscription ratio of the capital increase. Without the planned capital increase, the company's continued existence as a going concern is seriously jeopardized.

Biofrontera AG is the ultimate controlling company preparing consolidated financial statements for the group of consolidated companies. For Biofrontera Pharma GmbH, Leverkusen, which is included in the consolidated financial statements, the exemption provisions pursuant to Section 264 (3) of the German Commercial Code (HGB) are utilized.

The consolidated financial statements as of December 31, 2023 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, 2023 were authorized for issue and forwarding to the Supervisory Board by the Executive Board on April 29, 2024.

Changes in accounting standards

The accounting policies applied are consistent with those used as of December 31, 2022, 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 2023.

Standard	Description	Mandatory application	Effects
Initial Application of IFRS 17	Insurance contracts	January 1, 2023	No effects
Amendments to IFRS 17	Insurance contracts: Initial Application of IFRS 17	January 1, 2023	No effects
Amendment to IAS 1	"Presentation of financial statements": Disclosure of accounting policies	January 1, 2023	No effects
Amendment to IAS 8	"Accounting Policies, Changes in Accounting Estimates and Errors": Definition of accounting estimates	January 1, 2023	No effects
Amendment to IAS 12	"Income taxes": deferred taxes relating to assets and liabilities arising from a single transaction	January 1, 2023	No effects
Amendment to IAS 12	"Income taxes": Deferred taxes resulting from the introduction of global minimum taxation	January 1, 2023	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 IAS 1	"Presentation of financial statements": Classification of liabilities as current or non-current	January 1, 2024	No effects
Amendment to IFRS 16	"Leases": Lease liability in a Sale-and-Leaseback	January 1, 2024	No effects
Amendments to IAS 21 *	"The Effects of Changes in Foreign Exchange Rates": Lack of Exchangeability	January 1, 2025	No effects
Amendments to IAS 7 and IFRS 7 *	" Statement of Cash Flows" and "Financial Instruments": Disclosures: Supplier Finance Arrangements	January 1, 2024	No effects

* Endorsement by the EU still pending

Basis of consolidation

The consolidated financial statements as of December 31, 2023 include the financial statements of the parent company, Biofrontera AG, and the subsidiaries that the parent company controls. Control exists when Biofrontera is subject to, or has rights to, variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary.

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, 2023, prepared in accordance with uniform principles. The consolidated financial statements as of December 31, 2023 were prepared on the basis of standard accounting and valuation principles (IFRS).

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

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

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

Translation of amounts in foreign currencies

The consolidated financial statements as of December 31, 2023 are presented in EUR (or EUR thousand), which is the functional currency of the German entities included in the consolidated financial statements, and the presentation currency of the Group.

For subsidiaries whose functional currency, other than the Group's presentation currency, is the local currency of the country in which the entity is domiciled, assets and liabilities denominated in foreign currencies that are reported in the balance sheets of the foreign entities are translated into euros using the exchange rate prevailing at the balance sheet date (2023: 0.86905 GBP/EUR). Revenue and expense items are translated at the average foreign currency exchange rates (2023: 0,86979 GBP/EUR) during the underlying period. The difference resulting from the valuation of equity at the historical exchange rate and the closing rate is recognized as a change in equity within other components of equity with no effect on profit or loss (2023: EUR 1 thousand).

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

Application of estimates

The preparation of the consolidated financial statements as of December 31, 2023 has been made in accordance with the estimates and assumptions by management required by IFRS, which affect the reported amounts of assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period.

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

- Assessment of the recoverability of non-current assets

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

- Income taxes

  Biofrontera is required to calculate the expected current income tax for each group company, as well as to assess temporary differences arising from the different treatment of certain balance sheet items between the IFRS consolidated financial statements and the financial statements prepared for tax purposes. Where temporary differences exist, these generally result in the recognition of deferred tax assets and liabilities in the consolidated financial statements.

Management must make assumptions and estimates when calculating actual and deferred taxes. The recognition of deferred tax assets of Biofrontera is subject to higher requirements due to the loss history. Deferred tax assets are only recognized if it can be substantiated that taxable profits will be generated in the future and that it is then probable that the deferred tax item to be capitalized can be offset against future taxable profits. In order to assess the probability of the future utilization of deferred tax assets, various factors have to be taken into account, such as the earnings situation in the past and operational planning. If actual results differ from these estimates, or if these estimates have to be adjusted in future periods, this could have an adverse effect on the Group's net assets, financial position and results of operations. If there is a change in the assessment of the recoverability of deferred tax assets, the recognized deferred tax assets - corresponding to the original recognition - are to be written down through profit or loss or recognized in equity, or impaired deferred tax assets are to be recognized through profit or loss or in equity.

- Provisions for litigation risks

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

- Estimates in connection with liabilities from the SAR program

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

- Development costs

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

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

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 the lessee mainly for buildings and motor vehicles used for operational and administrative purposes. The corresponding lease liability 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 for the underlying asset is recognized at cost at the inception of the lease. In addition to the lease payments, any initial direct costs of the lessee and dismantling costs are included in the calculation. Incentive payments granted by the lessor must 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 such impairment. The main useful lives of leases are determined by the term of the lease and are as follows:

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

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

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

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

Intangible assets

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

The principal useful lives for intangible assets are:

- - Software and licenses 3 years, straight-line
- - Self-generated assets 10 years, straight-line
- - Rights of use 4 to 12 years, straight-line

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

There are no intangible assets with indefinite useful lives.

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

Associated companies

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

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

Impairment of assets

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

Financial assets

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

Impairment of financial assets

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

Trade receivables

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

Cash and cash equivalents

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

Inventories

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

Financial liabilities

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

Trade payables

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

Provisions

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

Stock options

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

Stock Appreciation Rights

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

Income taxes

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

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

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

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

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

Earnings per share

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

Revenue recognition

The Company recognizes as revenue all income from product sales and the granting of licenses. The completed customer contracts each comprise only one performance obligation. The Company is entitled to a fixed consideration for the products sold and licenses granted. To the extent that return obligations for expired products have been agreed with customers, Biofrontera recognizes revenue only in the amount that is most likely to be recoverable, taking into account the proportion of the products that are expected to be returned. The timing and amount of revenue to be recognized in the consolidated income statement is determined by the extent to which Biofrontera transfers control of the products to be delivered or rights to be granted to the customers. Revenue from product sales to third parties and licensees is recognized at the time of delivery.

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

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

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

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

Cost of sales

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

Research and development expenses

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

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

Notes to the consolidated balance sheet

1. Intangible and tangible assets

As in the previous year, no impairment losses were recognized on property, plant and equipment or intangible assets during the fiscal year 2023. 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 2023

in EUR thousands	Purchase and production cost						Accumulated depreciation					Carrying amounts	
	01.01. 2023	Currency translation	Additions	Disposals	Transfers	31.12.2023	01.01. 2023	Currency translation	Additions	Disposals	31.12.2023	31.12.2023	01.01. 2023
Tangible assets and leases													
Operating and business equipment	3,680	0	799	-16	0	4,462	-1,997	0	-214	16	-2,194	2,268	1,683
Right-of-use leasing properties	3,110	0	0	86	0	3,196	-2,005	0	-295	-36	-2,336	859	1,105
Right-of-use leasing tangible assets	954	0	62	-110	0	906	-730	0	-124	110	-743	163	225
Tangible assets and leases	**7,744**	**0**	**861**	**-40**	**0**	**8,564**	**-4,732**	**0**	**-633**	**90**	**-5,274**	**3,290**	**3,012**
	0	0	0	0	0	0	0	0	0	0	0	0	0
Intangible assets	0	0	0	0	0	0	0	0	0	0	0	0	0
Software and licenses	259	0	40	-26	0	273	-212	0	-43	26	-230	43	46
Right-of-use assets	736	0	0	0	0	736	-707	0	-9	0	-716	20	28
Self-generated intangible assets	1,250	0	73	0	0	1,323	-127	0	-107	0	-234	1,089	1,124
Intangible assets	**2,245**	**0**	**113**	**-26**	**0**	**2,332**	**-1,047**	**0**	**-159**	**26**	**-1,180**	**1,152**	**1,198**
	0	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Total	**9,989**	**0**	**974**	**-66**	**0**	**10,896**	**-5,778**	**0**	**-791**	**116**	**-6,454**	**4,442**	**4,210**

Statement of changes in non-current assets for 2022

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

2. Financial assets accounted for using the equity method

Financial assets include the carrying amount of the investment in Biofrontera Inc. of EUR 1,718 thousand (previous year: EUR 8,982 thousand), which is included and measured in the consolidated financial statements using the equity method:

General information

	Capital share		Share of voting rights		Fair value of the investment when a quoted market price exists in TEUR	
	31.12.2023	31.12.2022	31.12.2023	31.12.2022	31.12.2023	31.12.2022
Biofrontera Inc., Woburn (USA)	26.40%	29.96%	26.40%	29.96%	1,108	6,854

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

Description of the type of activity of the associated company

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

Financial information

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

in TEUR	31.12.2023	31.12.2022
Current assets	20,882	40,446
thereof cash and cash equivalents	1,215	16,134
Noncurrent assets	4,395	7,260
Current liabilities	16,369	19,589
Noncurrent liabilities	4,571	5,730
	0	0
Revenues	30,833	26,884
Operating Result	(20,522)	(17,421)
Other Income	2,317	16,851
Result after tax	(18,218)	(600)

Reconciliation to the carrying amount included in the consolidated balance sheet

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

in EUR thousands	
Carrying amount as of December 31, 2022	**8,982**
Proportionate earnings after taxes 2023	**-7,264**
Impairment	**0**
Carrying amount as of December 31, 2022	**1,718**

Obligations to the associated company

The Group has obligations to Biofrontera Inc. in the amount of EUR 201 thousand resulting from services rendered under service agreements. Furthermore, future obligations to Biofrontera Inc. in the amount of EUR 2,545 thousand in connection with the settlement payments arising from the legal dispute with DUSA Pharamaceuticals Inc. are included in liabilities.

3. Inventories

in EUR thousands	December 31, 2023	December 31, 2022
Raw materials	2,749	2,746
Unfinished goods	921	1,045
Finished goods and products	1,407	1,003
Total	**5,077**	**4,794**

In the reporting year, impairment losses of EUR 24 thousand (previous year: EUR 218 thousand) were recognized on finished goods.

4. Trade receivables

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

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

5. Other financial assets

Other financial assets mainly comprise security deposits, primarily for rented premises, credit cards and leased vehicles (EUR 30 thousand; previous year: EUR 27 thousand), as well as advance payments for services (EUR 1,508 thousand; previous year: EUR 816 thousand). As in the previous year, there was no impairment in the year under review.

6. Receivables from leases

Biofrontera is a sublessor with regard to the subleasing of business premises. The subleases were classified as finance leases on the basis of the right of use from the main lease. As of December 31, 2023, there were non-current receivables of EUR 33 thousand(previous year: EUR 101 thousand) and current receivables of EUR 18 thousand (previous year: EUR 35 thousand) under the subleases.

7. Other assets

Other assets mainly comprise prepaid expenses (EUR 643 thousand; previous year: EUR 791 thousand) and VAT receivables of EUR 207 thousand (previous year: EUR 147 thousand). As in the previous year, no impairment losses were recognized in the reporting year.

8. 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 3,080 thousand (previous year: EUR 6,376 thousand).

9. Deferred income tax

Deferred tax assets amount to EUR 6,818 thousand (previous year: EUR 4,375 thousand) concern both Biofrontera Pharma GmbH and Biofrontera Bioscience GmbH.

The increase in deferred tax assets of EUR 2,443 thousand (previous year: EUR -800 thousand) results from the first-time recognition of deferred tax assets at Biofrontera Bioscience GmbH, which is offset by a reduction in the usable tax loss carryforwards of

Biofrontera Pharma GmbH, with the amount of the usable tax loss carryforwards being reduced to the probable utilization during the planning period. 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, 2023		December 31, 2022	
	Loss carried forward	Deferred tax assets	Loss carried forward	Deferred tax assets
Corporation tax including Solidarity Surcharge	148,164	23,447	151,887	24,036
Business tax	129,303	11,314	133,709	11,700
Total		**34,761**		**35,736**

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

in EUR thousands	December 31, 2023		December 31, 2022	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Loss carried forward	7,086		4,651	0
Non-current assets				
- Intangible assets	0	(268)	0	(276)
- Tangible assets	0	(251)	0	(327)
-Receivables and other assets	0	(13)	0	(25)
Current assets				
- Receivables and other assets	0	0	0	(8)
Non-current and current financial liabilities	0	0	0	0
Current liabilities				
- Liabilities and other	264	0	360	0
Total	7,350	(532)	5,011	(636)
Netting of deferred tax assets and liabilities	(532)	532	(636)	636
As recognized on balance sheet	**6,818**		**4,375**	**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 27,675 thousand (previous year: EUR 31,085 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, 2023	December 31, 2022
Consolidated loss before tax	(2,127)	(43,210)
Expected income tax reimbursement	**523**	**10,619**
Differences arising from different tax rates	(57)	0
Share of result of associated companies	(1,785)	(394)
Tax increases due to non-deductible expenses		
- from impairment of at-equity investments	0	(10,461)
- other non-deductible expenses	(147)	(117)
Changes in unrecognized deferred tax assets	0	0
- from active temporary differences	(85)	0
- from loss carryforwards	3,309	(617)
Other effects	0	13
Income taxes per statement of comprehensive income	**1,758**	**(957)**

10. Equity

Share capital

The fully paid-in share capital of the parent company, Biofrontera AG, amounted to EUR 63,807,058.00 as of December 31, 2023. It consisted of 63,807,058 registered shares with a nominal value of EUR 1.00 each. On December 31, 2022, the share capital had amounted to EUR 63,807,058.00.

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 share capital was held as follows on December 31, 2023:

	December 31, 2023	December 31, 2022
Maruho Co., Ltd., Osaka Japan		
The total share of voting rights is assigned to Maruho Co., Ltd, Osaka, through the company Maruho Deutschland GmbH, Düsseldorf, which is controlled by the former. In an accompanying voting rights notification, Mr. Takagi reported "acting in concert" over the entire voting rights of Maruho.	18,850,981	13,399,965
Wilhelm Konrad Thomas Zours		
The voting rights through the chain of subsidiaries listed below are attributed to Mr. Zours: • DELPHI Unternehmensberatung Aktiengesellschaft; • VV Beteiligungen Aktiengesellschaft • Deutsche Balaton Aktiengesellschaft; • Heidelberger Beteiligungsholding AG; • SPARTA AG; • Deutsche Balaton Biotech AG	18,671,057	17,021,057
Biofrontera Inc., Woburn, USA	177,465	6,466,946
Free float	26,107,555	26,919,090
Total	**63,807,058**	**63,807,058**

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

By resolution of the Annual General Meeting on 9 January 2023, the Management Board is authorized, with the approval of the Supervisory Board, to increase the company's share capital once or several times by up to EUR 12,700,000.00 until 31 December 2027 in return for cash contributions (Authorized Capital 2022). 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, 2023. 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, 2023, 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, 2023 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.

The share capital has been conditionally increased by up to EUR 17,725,000.00 by resolution of the Annual General Meeting on June 20, 2023 for the issue of bonds with warrants and convertible bonds (Conditional Capital 2023).

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	07.05.2018	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, 2023	December 31, 2022
Outstanding at the beginning of the period	338,490	693,990
Granted during the period	0	0
Forfeited during the period	96,500	231,000
Exercised during the period	0	0
Expired during the period	157,000	124,500
Outstanding at the end of the period	84,990	338,490
Exercisable at the end of the period	0	0
Range of exercise prices for outstanding options	5,73-6,71 EUR	2,25-6,710 EUR
Weighted average of remaining contractual life	16 months	14 months
Cost during the period	12 TEUR	50 TEUR

Due to the non-fulfillment of the exercise conditions, no options were exercisable as of December 31, 2023.

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 0 thousand (previous year: EUR 64 thousand) for the year ended December 31, 2023.

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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11. Financial liabilities

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

in EUR thousands	December 31, 2023	December 31, 2022
Non-current financial liabilities		
Leasing liabilities	678	1,055
Total non-current financial liabilities	**678**	**1,055**
Current financial liabilities		
Leasing liabilities	429	446
Other current liabilities	39	0
Total current financial liabilities	**468**	**446**

The contractual interest and principal payment obligations from financial liabilities at the balance sheet date break down as follows:

in EUR thousands	December 31, 2023					
	2023	2024	2025	2026	2027	Total
Leasing liabilities						
Principal repayment	428	395	284	0	0	1,107
Interest payment	8	4	1	0	0	13

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

Leasing liabilities

The carrying amount of current and non-current lease liabilities is EUR 1,107 thousand (previous year: EUR 1,501 thousand). Future lease payments are discounted at the lessor's imputed interest rate or, if this is not available, at the marginal borrowing rate.

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

Development of lease liabilities:

Lease liabilities in EUR thousands	as of 01.01.2023	Additions	Disposals	Principal paymnets	as of 31.12.2023	Leasing payments	Interest expense
Buildings	1,274	0	0	(332)	942	308	11
Cars	178	62	0	(111)	129	4	121
Others	49	0	0	(13)	36	14	1
Total	1,501	62	0	(456)	1,107	325	132

For further details, please refer to the presentation of the significant accounting policies.

12. Other financial liabilities

in EUR thousands	December 31, 2023	December 31, 2022
Non-current other financial liabilities		
Liability	0	0
from SAR program	**0**	**0**
Current financial liabilities	**71**	**26**

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

13. Trade payables

As of December 31, 2023, trade payables amount to EUR 2,594 thousand (previous year: EUR 1,984 thousand).

14. Income taxes

Income tax liabilities amounting to EUR 841 thousand (previous year: EUR 156 thousand) relate to liabilities from corporation tax (EUR 499 thousand, previous year: EUR 83 thousand) and commercial tax (EUR 342 thousand, previous year: EUR 73 thousand) at Biofrontera Pharma GmbH and Biofrontera Bioscience GmbH.

15. Other provisions

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

in EUR thousands	December 31, 2022	Utilized	Released	Added	Reclassified	December 31, 2023
Provisions for litigation costs	518	(23)	(15)	325	0	805
Other provisions	85	(3)	0	7	0	89
Total	**603**	**(26)**	**(15)**	**332**	**0**	**895**

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

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

16. Other current liabilities

in EUR thousands	December 31, 2023	December 31, 2022
Liabilities from SAR program	0	304
Total other non-current liabilities	**0**	**304**
Accrual for employee bonuses	738	563
Accrual for outstanding vacation	139	117
Payroll tax	87	101
Accruals for outstanding invoices	1,049	1,187
Accruals for financial statement and audit costs	215	215
Other accruals	230	335
Total other current liabilities	**2,458**	**2,518**

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

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, 2023	December 31, 2022
Outstanding at the beginning of the period	341,504	569,205
Granted during the period	0	0
Forfeited during the period	250,791	227,701
Exercised during the period	0	0
Outstanding at the end of the period	90,713	341,504
Exercisable at the end of the period	0	0
Fair value at the end of the period	0 TEUR	80 TEUR
Cost during the period	-304 TEUR	-22 TEUR

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

17. Reporting on financial instruments

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

Financial assets

in EUR thousands	Valuation category according to IFRS 9	Fair value as of December 31, 2023	Carrying amount as of December 31, 2023	Fair value as of December 31, 2022	Carrying amount as of December 31, 2022	Hierarchy level
Cash and cash equivalents	AC	3,080	3,080	6,376	6,376	1
Trade receivables	AC	774	774	691	691	2
Receivables from associated companies	AC	6,365	6,365	1,344	1,344	2
Receivables from leases	AC	18	18	35	35	2
Other financial asstes	AC	1,556	1,556	878	878	2
Total		**11,792**	**11,792**	**9,324**	**9,324**	

	Valuation category according to IFRS 9	Fair value as of December 31, 2023	Carrying amount as of December 31, 2023	Fair value as of December 31, 2022	Carrying amount as of December 31, 2022	Hierarchy level December 31, 2023
Financial liabilities, current	AC	468	468	446	446	2
Trade payables	AC	2,594	2,594	1,984	1,984	2
Liabilities to associated companies current	AC	2,747	2,747	2,653	2,653	2
Other financial liabilities	AC	71	71	26	26	2
Financial liabilities, non-current	AC	678	678	1,055	1,055	2
Liabilities to associated companies non-current	AC	0	0	2,642	2,642	2
Total		**6,558**	**6,558**	**8,807**	**8,807**	

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

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

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

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

No reclassifications were made between the individual levels of the fair value hierarchy during the 2023 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 11 and 12).

Due to the generally short maturity of trade receivables and trade payables as well as receivables from associates, other financial receivables and liabilities and cash and cash equivalents, the carrying amounts on the balance sheet date do not differ significantly from the fair values.

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

in EUR thousands	Assets AC	Liabilities AC	Total
Income from currency translation	34	245	279
Expenses from currency translation	(25)	(223)	(248)
Total	10	22	32

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

Principles of risk management

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

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

- Foreign currency risk: The Biofrontera Group was exposed to foreign currency risks as of the balance sheet date. Risks with regard to the valuation of trade receivables are of minor importance, as the company mainly invoices in Euro. However, due to the fact that sales with license partners are tied to the prices achievable in the respective market, there is a foreign currency-related market price risk with regard to the Company's sales valued in Euro, primarily for the U.S. market due to the expansion of business in the United States. Trade payables denominated in foreign currencies in these markets have a corresponding offsetting effect. There is also a foreign currency risk in Switzerland, particularly with regard to the production of wages and salaries and due to the fact that the sales of the license partner are tied to the local currency. In addition, there is a foreign currency risk in the United Kingdom for the sales organization based there.

Exchange rate related change in profit 2022

in EUR thousands	USD EUR +10%	CHF EUR +10%	GBP EUR +10%
Profit	(1,898)	193	(1)

in EUR thousands	USD EUR -10%	CHF EUR -10%	GBP EUR -10%
Profit	2,320	(236)	2

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

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

No individual valuation allowances were recognized on trade receivables in the 2023 financial year (previous year: EUR 0 thousand). The very low default rate in the past and the lack of overdue receivables also meant that no portfolio valuation allowances were recognized; the company expects the default rate to remain very low in the future due to the existing customer structure. Cash and cash equivalents are invested with banks and insurance companies with adequate deposit protection. All financial assets are due in the short term. As in the previous year, there are no material overdue financial assets.

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

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

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

Maturity analysis of financial instruments

in EUR thousand	Carrying amount	Maturity				
	31.12.2023	2023	2024	2025	2026	2027
Financial liabilities current	468	468	0	0	0	0
Trade payables	2,594	2,594	0	0	0	0
Liabilities to associated companies current	2,747	2,747	0	0	0	0
Other financial liabilities current	71	71	0	0	0	0
Financial liabilities non-current	678	0	395	284	0	0
Liabilities to associated companies non-current	0	0	0	0	0	0
Total	**6,558**	**5,879**	**395**	**284**	**0**	**0**

Notes to the consolidated statement of comprehensive income

18. Sales revenue

	01.01.-31.12.2023				01.01.-31.12.2022			
in EUR thousands	Product revenues	Service revenues	Licensing revenues	Total 2023	Product revenue	Development revenues	Licensing revenues	Total 2022
Germany	6,257	-	-	6,257	4,763	-	-	4,763
Spain	1,743	-	-	1,743	1,757	-	-	1,757
U.K.	723	-	-	723	662	-	-	662
Other European countries	-	-	1,195	1,195	-	-	1,079	1,079
Total Europe (excluding Germany)	2,466	-	1,195	3,662	2,419	-	1,079	3,498
Total Europe	8,723	-	1,195	9,919	7,182	-	1,079	8,261
U.S.A.	-	76	22,148	22,224	-	648	16,487	17,135
Other regions	-	-	106	106	-	-	342	342
Total	**8,723**	**76**	**23,449**	**32,249**	**7,182**	**648**	**17,908**	**25,738**

All sales revenues result from contracts with customers. Sales with Biofrontera Inc. account for 69% of the Group's total sales.

As in the previous year, no license income from downpayments of license agreements was received in the current financial year.

Provisions for manufacturer rebates amount to 0.17% of total sales in fiscal 2023 (previous year: 0.17%), while provisions for return obligations amount to 0.19 % of total sales (previous year: 0. 21%).

19. Cost of sales, gross profit

The cost of materials included in the cost of sales amounted to EUR 4,117 thousand in fiscal year (previous year: EUR 3,069thousand).

The gross profit increased by EUR 5,024 thousand in the reporting year 2023 to EUR 26,005 thousand compared to EUR 20,981 thousand in the prior-year period.

20.Research and development costs

Research and development costs amounted to EUR 7,846 thousand (previous year: EUR 7,128 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.

21. General administrative costs

General and administrative expenses amounted to EUR 6,105 thousand (previous year: EUR 5,906 thousand) in fiscal year 2023 a slight increase of 3% compared to the previous year.

22. Sales and marketing costs

Sales and marketing costs amounted to EUR 7,273 thousand (previous year: EUR 6,356 thousand) in fiscal year 2023. Sales costs include the costs of our own sales force in Germany, Spain, and the United Kingdom, as well as marketing expenses.

23. Other expenses and income

Other expenses and income totaled to a profit of EUR 350 thousand in the reporting period (previous year: loss of EUR 467 thousand) and mainly include expenses and income from currency translation amounting to a profit of EUR 42 thousand (previous year: loss of EUR 677 thousand) as well as other income from the recognition of non-cash benefits and the recharging of costs in the amount of 308 TEUR (previous year: 204 TEUR).

24. Interest expenses and income

The interest expenses of EUR 15 thousand (previous year: EUR 163 thousand) mainly result from interest of EUR 11 thousand (previous year: EUR 15 thousand) to be recognized for leases in accordance with IFRS 16.

Interest income amounts to EUR 21 thousand (previous year: EUR 1 thousand) and increased by EUR 20 thousand compared to the previous year.

25. Result from investments

The investment result reflects the adjustment of the carrying amount of the investment in Biofrontera Inc. by the share of earnings in the amount of EUR -7,264 thousand (previous year: EUR -1,604 thousand). In the previous year, the investment result also included impairment losses of EUR 42,568 thousand.

26. Income tax

in EUR thousands	December 31, 2023	December 31, 2022
Deferred taxes	2,443	(800)
Actual income taxes	(685)	(156)
Total income taxes	**1,758**	**(956)**

The income from the capitalization of deferred taxes in the amount of EUR 2,443 thousand(previous year: EUR -800 thousand) results from the first-time recognition of deferred tax assets at Biofrontera Bioscience GmbH, which is partially offset by a reduction in the tax loss carryforwards of Biofrontera Pharma GmbH, with the amount of the recognizable tax loss carryforwards being reduced to the expected utilization during the planning period.

27. 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, 2023	December 31, 2022*
Number of weighted ordinary shares in circulation (on average)	63,807,058	57,474,912
Result attributable to owners of the parent in EUR	(369,347)	(44,166,205)
Basic earnings per share in EUR	**(0.01)**	(0.77)
Number of weighted ordinary shares in circulation (on average)	63,807,058	57,474,912
Result attributable to owners of the parent in EUR	(369,347)	(44,166,205)
Diluted earnings per share in EUR	**(0.01)**	**(0.77)**

28. Additional information to the consolidated statement of comprehensive income

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

Depreciation and amortization expense

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

in EUR thousands	December 31, 2023	December 31, 2022
Research and development costs	166	158
General administrative costs	433	433
Cost of sales	154	129
Sales and marketing	38	25
Depreciation and amortization expense	**791**	**745**

Personnel costs

in EUR thousands	December 31, 2023	December 31, 2022
Wages and salaries	7,652	6,904
Social security charges	1,539	1,123
Cost for pension schemes	106	94
Total	**9,297**	**8,121**

29. Staff

In 2023 the Biofrontera Group had an average of 103 salaried employees (previous year: 100).

Notes to the consolidated cash flow statement

30. 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 -3,296 thousand (previous year: EUR -532 thousand).

Interest paid amounted to EUR 12 thousand (previous year: EUR 198 thousand). Interest payments received amounted to EUR 21 thousand (previous year: EUR 13 thousand).

Expenses for short-term leases and leases of low value amounted to EUR 11 thousand (previous year: EUR 19 thousand). Income from subleases amounted to EUR 36 thousand (previous year: EUR 30 thousand).

in EUR thousands	January 1, 2023	Cash effective	Addition/ retirement	Fair value change	December 31, 2023
Leasing liabilities	1,501	(456)	62	-	1,107
Total financial liabilities	**1,501**	**(456)**	**62**	**-**	**1,107**

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

Other explanatory notes

31. Members of the Management Board

The Executive Board in 2023 consisted of Ms. Pilar de la Huerta Martínez (Chief Financial Officer).

Management Board compensation

in EUR thousands	December 31, 2023	December 31, 2022
Short-term benefits	336	542
Performance-based compensation	-	-
Total compensation	**336**	**542**

The previous year's figure included the remuneration of former Management Board members Ludwig Lutter and Paul Böckmann totaling EUR 452 thousand.

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

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

Name	Company	Board	Position
Pilar de la Huerta Martínez	4BaseBio Ltd, UK	Board of Directors	Member
	Vaxdyn, S.L., Spain	Board of Directors	Member
	Epidisease S.L., Spain	Board of directors	Member
	Atlas S.L:, Spain	Board of Directors	Member
	CELAX Innovation S.L., Spain	Board of Directors	Sole adminstrator
	Sarcorem S.L., Spain	Board of Directors	Sole adminstrator

32. Members of the Supervisory Board

Name	Nationality	Age	Position	Date of first appointment	Term until
Wilhelm K.T. Zours	German	62	Chair	December 14, 2021	2026
CV	Mr. Zours is shareholder and managing director of DELPHI Unternehmensberatung AG as well as chairman of the supervisory boards of Deutsche Balaton AG, Beta Systems Software AG, Strawtec Group AG and SPARTA AG. Since 1985, Mr. Zours has held various management and supervisory board mandates and founding participations in various companies, including Balaton Ungarn Beteiligungen AG, Sparta Beteiligungen AG and Elsö Nemet Ertekpapirkereskedelmi Kft (co-founder of the Budapest Stock Exchange in 1990).				
Dr. Jörgen Tielmann	German	54	Vice Chair	December 14, 2021	2026
CV	Dr. Jörgen Tielmann studied law at the Universities of Tübingen and Göttingen and received a Master of Laws from the University of Manchester. He has been advising companies and entrepreneurs on corporate law since his admission to the bar in Hamburg in 1998 and has been practicing this activity as a partner at Luther since 2006. Dr. Jörgen Tielmann was head of Luther's Stock Corporation, Banking and Capital Markets Law department from 2008 - 2018.				
Dr. Heikki Lanckriet	Belgian	46	Member	December 14, 2021	2026
CV	Dr. Lanckriet is Chief Executive Officer and Chief Scientific Officer at 4basebio Plc. Earlier in his career, Dr. Lanckriet was Chief Executive Officer & Chief Scientific Officer at Expedeon AG and Principal at Puratos NV. Dr. Lanckriet holds a Bachelor and Master degree in Biochemical Engineering from the University of Ghent, Belgium and a PhD in Biochemical Engineering from the University of Cambridge, UK.				

Prof. Dr. Karin Lergenmüller	German	65	Member	August 25, 2022	2026
CV	Prof. Dr. Karin Lergenmüller is Professor of Marketing and General Business Administration at the Rhine-Main University of Applied Sciences, Wiesbaden since 1999. She worked for Deutsche Bank AG after holding positions in the management consulting industry, including at Andersen Consulting and Gemini Consulting. From 1996 to 1998 she was a member of the management of Joas & Comp., Bad Homburg. Since 2000 Prof. Dr. Karin Lergenmüller is Global Equity Investor, specialized in Digital World, Technology companies, NFT's and Crypto.				
Dr. Helge Lubenow	German	55	Member	December 14, 2021	2026
CV	Dr. Helge Lubenow studied biology and obtained her doctorate in the field of genetics at the University of Cologne and the Max Planck Institute. After completing 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 and from January 2020 to 2023 she was Managing Director of Proteomedix AG, Zurich, Switzerland.				
Karlheinz Schmelig	German	58	Member	December 14, 2021	2026
CV	Karlheinz Schmelig is managing partner of Creathor Venture Management GmbH, where he has been responsible for investments in the life sciences sector since 2004. At the beginning of his career, Mr. Schmelig worked for Boehringer Mannheim and later for Roche Diagnostics in Germany and the USA. His responsibilities there included supply chain management, global marketing and business development. Mr. Schmelig holds a Bachelor's degree from the Baden-Wuerttemberg Cooperative State University Mannheim and an MBA from the Kelley School of Business, USA.				

Supervisory Board compensation

in EUR thousands	2023	2022
Wilhelm K.T. Zours	44	49
Dr. Jörgen Tielmann	33	41
Dr. Heikki Lanckriet	22	26
Dr. Helge Lubenow	47	31
Prof. Dr. Karin Lergenmüller	23	n.a.
Karlheinz Schmelig	28	31
Prof. Dr. Franca Ruhwedel	0	5
Gesamt	**197**	**191**

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

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

Name	Company	Board	Position
Wilhelm K.T. Zours	Deutsche Balaton AG	Supervisory Board	Chair
	Beta Systems Software AG	Supervisory Board	Chair
	SPARTA AG	Supervisory Board	Chair
	YVAL Idiosynkratische Investments SE	Board of Directors	Chair
Dr. Heikki Lanckriet	4basebio UK limited, Cambridge, UK	Board of Directors	Member
	4basebio Discovery Ltd., Cambridge, UK	Board of Directors	Member
	4basebio SLU, Madrid, ES	Board of Directors	Member
	Neophore Ltd., Cambridge, UK	Board of Directors	Member
	I2i capital Ltd., Cambridge, UK	Board of Directors	Member
	Kither Biotech s.r.l., Italy	Board of Directors	Member
	Biofrontera Inc.	Board of Directors	Member
Dr. Helge Lubenow	Epigenomics AG	Supervisory Board	Chair
	Human Gesellschaft für Biochemika und Diagnostika mbH	Advisory Board	Member
	Neracare GmbH	Supervisory Board	Member
	Avelo AG	Board of Directors	Chair
Karlheinz Schmelig	Prostatype Genomics AB, Stockholm, Schweden	Supervisory Board	Member (until June 30, 2023)
	CryoTherapeutics S.A., Awans, Belgien	Supervisory Board	Member
	Tacalyx GmbH, Berlin	Advisory Board	Member

33. Related party disclosures

The group of related parties is limited to the group of persons listed in Notes 31 and 32 as well as to the persons and companies listed in Note 10. The group of key management personnel is limited to the Management Board and the Supervisory Board.

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

The following relationships exist with Biofrontera Inc.:

in EUR thousands	December 31, 2023	December 31, 2022
Sales revenues	22,224	17,135
Other income		
Clinical trial expenses	775	436
Other expenses	61	64
Trade receivables	6,365	1,344
Trade payables	201	11
Payables from DUSA settlement	2,545	2,642

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

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

The following relationships exist with the Maruho Group:

in EUR thousands	December 31, 2023	December 31, 2022
Revenue from patent transfer	0	200
Revenue from license agreements	106	141
Income from subleases	34	32
Trade receivables	0	34

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

Under the license agreement, Maruho has made a one-time payment of EUR 6 million to Biofrontera AG in the previous year. Further future payments will be due upon the achievement of certain regulatory and sales milestones. Maruho will also pay royalties of initially 6% of net sales in the countries of the scope, which may increase to 12% depending on sales volumes and will decrease in the event of generic launches in these countries. In the reporting year, revenue from this licensing agreement was recognized for the supply of materials for clinical trials and the recharging of associated costs.

In the financial year 2023, there were no further reportable transactions or relationships with related parties other than those mentioned above and in Note 31 and Note 32.

34. Auditor's fees and services

The total fee invoiced by the auditor for the 2023 financial years consist of:

in EUR thousands	December 31, 2023	December 31, 2022
Auditing services	198	197
of which for the previous year	0	2
Other consulting services	48	0

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

35. Subsequent events

Extraordinary shareholders' meeting / Resolution on capital reduction

At the Extraordinary General Meeting on April 4, 2024, a capital reduction at a ratio of 21:1 was resolved at the proposal of the Executive Board and Supervisory Board. To enable this ratio, a resolution was previously passed to cancel seven shares. Following the implementation of the capital reduction, the new share capital amounts to EUR 3,038,431.00. The Biofrontera AG share will be listed on the stock exchange under a new ISIN. The capital reduction will ensure that the price of the Biofrontera share rises significantly above EUR 1.00 again and that necessary capital measures can be implemented in the future, which was previously not possible due to the prohibition of the sub-par issue, i.e. the prohibition to issue shares for less than EUR 1.00 per share. Both resolutions were adopted with the required majority.

Capital increase

On April 4, 2024, the administration of Biofrontera AG decided to carry out a capital increase from authorized capital. This is based on the resolutions of the Extraordinary General Meeting to reduce the company's share capital to EUR 3,038,431.00. The reduced share capital is to be increased at a ratio of 1:1 by issuing up to 3,038,431 new shares. Shareholders will be granted statutory subscription rights, with one existing share (after the capital reduction) entitling them to subscribe to one new share. In addition, the shareholders are to be granted a multiple subscription right; the subscription rights are to be traded on the stock exchange. The subscription price is to be EUR 1.10 per share. The company has entered into a backstop agreement with a major shareholder in the amount of EUR 1,800 thousand to ensure that the company has sufficient cash to cover its liquidity requirements over the next 12 months, irrespective of the final subscription ratio of the capital increase. The funds from the capital increase will be used to finance the operating business.

Amendment of license agreement with Biofrontera Inc.

In February 2024, Biofrontera Inc. and Biofrontera agreed on an amendment to the existing license and supply agreement. The amendment provides for Biofrontera Inc. to take over the entire clinical development program effective on or before June 1, 2024.

Legal issues

In two lawsuits before the Regional Court of Cologne, Mr. Ludwig Lutter challenged his dismissal as a member of the Management Board and the termination of his employment contract and asserted the (partial) continued payment of his remuneration. The Regional Court of Cologne ruled on the two actions in judgments served on the company on March 22, 2024.

In the declaratory proceedings, the court ruled that the employment relationship was not dissolved by extraordinary termination, as the alleged derelictions of duty, if any, were not serious enough individually and collectively to justify extraordinary termination in the opinion of the court. As a result, Mr. Lutter was awarded the asserted continued payment of his fixed remuneration in the documentary proceedings. This amounts to EUR 250 thousand. This amount includes income earned elsewhere, which was deducted by the court. The company can claim the deduction of any other income earned elsewhere in subsequent proceedings relating to the documentary proceedings.

Regulatory progress

The Medicines and Healthcare Products Regulatory Agency (MHRA), the regulatory authority for medicinal products in the UK, has approved the extension of the marketing authorization for Ameluz® to include use with artificial daylight.

No other events occurred after the balance sheet date.

Leverkusen, April 29, 2024

Pilar de la Huerta Martinéz

Chief Financial Officer

Responsibility statement

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

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

Leverkusen, April 29, 2024

Biofrontera AG

Pilar de la Huerta Martínez
CFO

- convenience translation –

AUDITOR'S REPORT OF THE INDEPENDENT AUDITOR

To Biofrontera AG, Leverkusen, Germany

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

Audit Opinions

We have audited the consolidated financial statements of Biofrontera AG and its subsidiaries (the Group), which comprise the consolidated statement of financial position as of December 31, 2023, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the financial year from January 1, 2023 to December 31, 2023, and the notes to the consolidated financial statements, including a summary of significant accounting policies. We have also audited the combined management report of Biofrontera AG for the financial year from January 1, 2023 to December 31, 2023. In accordance with German legal requirements, we have not audited the content of the "Risk management system (unaudited)" section of the risk and opportunity report or the declaration on corporate governance pursuant to Sections 289f and 315d HGB, which also contains the declaration on the German Corporate Governance Code.

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

- the accompanying consolidated financial statements comply in all material respects with IFRSs as adopted by the EU and the additional requirements of German law pursuant to § 315e (1) HGB and give a true and fair view of the financial position of the Group as of December 31, 2023 and of its financial performance for the fiscal year from January 1, 2023 to December 31, 2023 in accordance with these requirements and
- the accompanying combined management report as a whole provides a suitable view of the Group's position. In all material respects, this combined management report is consistent with the consolidated financial statements, complies with German legal requirements, and suitably presents the opportunities and risks of future development. Our opinion on the combined management report does not cover the content of the statement referred to above or the non-management report information marked as unaudited.

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.

Material uncertainty in connection with the company's ability to continue as a going concern

We first refer to the disclosures in the "Risk and opportunity report" of the combined management report and the disclosures in the section "Summary of significant accounting policies, basis of preparation of the consolidated financial statements" in the notes to the consolidated financial statements, in which the legal representatives describe that if the capital measure of EUR 3,000 thousand planned for May 2024 cannot be carried out to the planned extent, the continued existence of Biofrontera AG would be severely jeopardized. It is also stated that an investor has already signed a backstop agreement for this capital increase in the amount of EUR 1,800 thousand. As explained in the "Risk and opportunities report" in the combined management report and in the section "Summary of significant accounting policies" in the notes to the consolidated financial statements, these events and circumstances indicate that a material uncertainty exists that may cast significant doubt on the company's ability to continue as a going concern and that constitutes a going concern risk within the meaning of Section 322 (2) sentence 3 HGB.

In accordance with Article 10 (2) (c)ii) of the EU Audit Regulation, we summarize our audit response to this risk as follows:

On the basis of the corporate planning presented, we have assessed whether the assessment made by the Management Board of the Biofrontera Group's ability to continue as a going concern is appropriate. For this purpose, we first reviewed the planning for formal consistency (mathematical accuracy, correct implementation of the underlying assumptions) and checked its plausibility. In addition, we obtained and assessed evidence on the planned financing measures of the management (including: capital measure and backstop agreement). Based on the results of our audit, we consider the going concern assumption used by the executive directors to be appropriate.

Our audit opinions on the consolidated financial statements and on the combined management report are not modified with respect to this matter.

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 financial year from January 1, 2023 to December 31, 2023. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the "Material uncertainty related to going concern" section, we have determined the matters described below to be the key audit matters to be communicated in our auditor's report.

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

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

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

1. Facts and problem

2. Audit approach and findings

3. Reference to further information

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

1. In the consolidated financial statements of BIOFRONTERA AG, the shares in Biofrontera Inc. Woburn, USA, amounting to EUR 1.718 thousand, which thus represent 5.5% of total assets, are reported under the balance sheet item "Financial assets accounted for using the equity method". After application of the equity method, the Company assesses whether there is objective evidence that the net investment in the associate is impaired. In determining whether an impairment exists, management makes assumptions about the future development of Biofrontera Inc. and the present values of future cash flows resulting from this investment. The result of this assessment is highly dependent on management's estimate of future cash flows and the discount rate used, and is therefore subject to considerable uncertainty, which is why this matter is of particular importance in the context of our audit.

2. In order to test this risk appropriately, we critically reviewed management's assumptions and estimates and performed the following audit procedures, among others:

   We have traced the methodical procedure for determining the present value of future cash flows and assessed the determination of the discount rate used.

   We have satisfied ourselves that the assumptions underlying the future cash flows and the discount rates used, taken as a whole, provide an appropriate basis for determining the recoverable amount of this investment. Our assessment of the planned future cash flows was based, among other things, on a comparison with general market expectations and management's explanations of the main value drivers of the plans, as well as a comparison of this information with the current budgets from the planning approved by the Supervisory Board.

   Knowing that even small changes in the discount rate can have a material impact on the recoverable amount determined in this way, we considered the parameters used in determining the discount rate and understood the Company's calculation scheme.

   In our opinion, the valuation parameters and assumptions applied by the legal representatives, taking into account the available information, are suitable overall for testing the determination of the recoverable amount.

3. The Company's disclosures on the shares in Biofrontera Inc., Woburn, USA, are included in the notes to the consolidated financial statements in the sections "Information on the Company," "Summary of Significant Accounting Policies" in the subsection "Principles of Consolidation" and in the subsection "Associated Companies," in the section "Notes to the Consolidated Balance Sheet" under "2. Investments Accounted for Using the Equity Method," and in the section "Notes to the Consolidated Statement of Comprehensive Income" in subsection "25. Income from Investments.

Other information

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

- the responsibility statement of the legal representatives attached to the notes to the consolidated financial statements

pursuant to Section 297 (2) sentence 4 HGB and Section 315 (1) sentence 5 HGB on the combined management report (unaudited balance sheet)

- the declaration on corporate governance published on the company's website, to which reference is made in the section "Declaration by Biofrontera AG on corporate governance pursuant to Sections 289f, 315d HGB for the 2023 financial year (unaudited)" of the combined management report
- the remaining parts of the annual report the subsection "Risk management system (unaudited)" of the combined management report but not the consolidated financial statements, not the information of the combined management report included in the content of the audit and our auditor's report thereon.

Our audit opinions on the consolidated financial statements and the combined management report do not cover the other information and, accordingly, we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, we have a responsibility to read the other information and, in doing so, evaluate whether the other information is

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

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

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

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

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

In addition, management is responsible for the preparation of the combined management report that as a whole provides a suitable view of the Group's position and is consistent in all material respects with the consolidated financial statements, complies with German legal requirements, and suitably presents

the opportunities and risks of future development. Furthermore, management is responsible for the arrangements and measures (systems) that it determines are necessary to enable the preparation of the combined management report in accordance with the applicable German legal requirements and to provide sufficient appropriate evidence for the statements made in the combined management report.

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements and the combined management report due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinion. The risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting a material misstatement resulting from error because fraud may involve collusion, forgery, intentional omissions, misleading representations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of the arrangements and actions relevant to the audit of the combined management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of those systems.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the going concern basis of accounting used by management and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements and the combined management report or, if such disclosures are inadequate, to modify our respective audit opinions. We draw our conclusions based on the audit evidence obtained up to the date of our audit opinion. However, future events or conditions may result in the Group being unable to continue as a going concern.

- we assess the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in such a way that the consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with IFRSs as adopted by the EU, and the additional requirements of German law pursuant to § 315e Abs. 1 HGB.
- obtain sufficient appropriate audit evidence regarding the accounting information of the entities or business activities within the Group to express opinions on the consolidated financial statements and the combined management report. We are responsible for directing, supervising and performing the audit of the consolidated financial statements. We are solely responsible for our audit opinions.
- we assess the consistency of the combined management report with the consolidated financial statements, its legality and the overall presentation of the Group's position in the consolidated financial statements.
- We perform audit procedures on the forward-looking statements made by management in the combined management report. In particular, based on sufficient appropriate audit evidence, we reproduce the significant assumptions made by management regarding the forward-looking statements and evaluate the appropriateness of the information derived from these assumptions. We do not express an independent opinion on the forward-looking statements or on the underlying assumptions. There is a significant unavoidable risk that future events may differ materially from the forwardlooking statements.

We discuss with those charged with governance, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We make a declaration to those charged with governance that we have complied with the relevant independence requirements and discuss with them all relationships and other matters that may reasonably be thought to bear on our independence and, where relevant, the actions taken or safeguards implemented to address independence threats. From the matters we discussed with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters.

We describe these matters in our auditor's report unless law or regulation precludes public disclosure of the matter.

OTHER STATUTORY AND OTHER LEGAL REQUIREMENTS

Report on the Audit of the Electronic Reproductions of the Consolidated Financial Statements and the Combined Management Report Prepared for the Purposes of Disclosure Pursuant to Section 317 (3a) of the German Commercial Code (HGB)

Audit opinion

We have performed an assurance engagement in accordance with § 317 Abs. 3a HGB to obtain reasonable assurance about whether the reproduction of the consolidated financial statements and the combined management report (hereinafter also referred to as "ESEF documents") contained in the provided file "biofronteraag-2023-12-31-en.zip" and prepared for publication purposes complies in all material respects with the requirements of § 328 Abs. 1 HGB for the electronic reporting format ("ESEF format"). In accordance with German legal requirements, this audit only extends to the conversion of the information contained in the consolidated financial statements and the combined management report into the ESEF format and therefore does not extend to the information contained in these reproductions or any other information contained in the above-mentioned file.

In our opinion, the reproduction of the consolidated financial statements and the combined management report contained in the above-mentioned file and prepared for publication purposes complies in all material respects with the requirements of Section 328 (1) HGB for the electronic reporting format. We report on this audit opinion and on our audit opinions on the accompanying consolidated financial statements and on the accompanying combined management report for the financial year from January 1, 2023 to January 31, 2023 contained in the "Report on the Audit of the Consolidated Financial Statements and of the Combined Management Report" above.

January 1, 2023 to December 31, 2023, we do not express any opinion on the information contained in these disclosures or on the other information contained in the above-mentioned file.

Basis for the audit opinion

We conducted our audit of the reproduction of the consolidated financial statements and of the combined management report contained in the above-mentioned file provided in accordance with Section 317 (3a) HGB and in compliance with IDW Auditing Standard: Audit of the Electronic Reproduction of Financial Statements and Management Reports Prepared for Publication Purposes in Accordance with Section 317 (3a) HGB (IDW PS 410 (06.2022)). Our responsibilities under those requirements are further described in the "Auditor's responsibilities for the audit of the ESEF documents" section. Our auditing practice has complied with the requirements of the IDW Quality Management Standard: Requirements for Quality Management in the Auditing Practice (IDW QMS 1).

Responsibilities of the executive directors and the supervisory board for the ESEF documents

The executive directors of the company are responsible for the preparation of the ESEF documents including the electronic reproduction of the consolidated financial statements and the combined management report in accordance with § 328 Abs. 1 Satz 4 Nr. 1 HGB and for the tagging of the consolidated financial statements in accordance with § 328 Abs. 1 Satz 4 Nr. 2 HGB.

Furthermore, the company's management is responsible for such internal control as they have determined necessary to enable the preparation of ESEF documents that are free from material non-compliance with the requirements of Section 328 (1) HGB for the electronic reporting format, whether due to fraud or error.

The Supervisory Board is responsible for overseeing the process of preparing the ESEF documents as part of the financial reporting process.

Auditor's responsibilities for the audit of the ESEF documents

Our objective is to obtain reasonable assurance about whether the ESEF documents are free from material - intentional or unintentional - non-compliance with the requirements of Section 328 (1) HGB. We exercise professional judgment and maintain professional skepticism throughout the audit. In addition

- 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 opinion.
- Obtain an understanding of internal control relevant to the audit of the 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 these controls.

- Evaluate the technical validity of the ESEF documents, i.e. whether the file containing the ESEF documents complies with the requirements of the Delegated Regulation (EU) 2019/815 in the version applicable at the reporting date regarding the technical specification for this file.
- Evaluate whether the ESEF documents enable an XHTML reproduction with content equivalent to the audited consolidated financial statements and the audited combined management report.
- Evaluate whether the tagging of the ESEF documents with Inline XBRL technology (iXBRL) according to Articles 4 and 6 of the Delegated Regulation (EU) 2019/815 in the version applicable at the reporting date provides an adequate and complete machine-readable XBRL copy of the XHTML reproduction.

Other information pursuant to Article 10 EU-APrVO

We were elected as auditor and group auditor by the annual general meeting on June 20, 2023. We were engaged by the supervisory board on November 2, 2023. We have been the auditor of Biofrontera AG, Leverkusen, without interruption since the financial year 2022.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 EU Audit Regulation (audit report).

OTHER MATTERS - USE OF THE AUDITOR'S REPORT

Our audit opinion should always be read in conjunction with the audited consolidated financial statements and the audited combined management report as well as the audited ESEF documents. The consolidated financial statements and the combined management report converted into the ESEF format - including the versions to be filed in the company register - are merely electronic reproductions of the audited consolidated financial statements and the audited combined management report and do not replace them. In particular, the ESEF report and our audit opinion contained therein can only be used in conjunction with the audited ESEF documents provided in electronic form.

AUDITOR RESPONSIBLE FOR THE AUDIT

The German Public Auditor responsible for the engagement is Andreas Weissinger."

Munich, April 29, 2024

Baker Tilly GmbH & Co. KG

Wirtschaftsprüfungsgesellschaft

(Düsseldorf)

Weissinger Nitsche

Wirtschaftsprüfer Wirtschaftsprüfer