

Compensation report

The remuneration of the members of the Management Board consist of fixed compensation paid in twelve equal monthly installments. In addition, an annual performance-related bonus payment is provided for the Management Board members, which must be linked to the long-term performance of the Company in accordance with the German Act on the Appropriateness of Management Board Compensation. Furthermore, a long-term compensation component is in place through participation in the Company's stock option program and stock appreciation rights (SAR) program.

The total Management Board compensation in fiscal 2020 as well as the total number of stock options issued to the members of the Management Board as of December 31, 2020 are as follows:

Term	Prof. Dr. Hermann Lübbert CEO		Thomas Schaffer CFO		Christoph Dünwald CCO	
	Feb 1, 1998	incumbent	June 1, 2013	Feb 28, 2021	Nov 16, 2015	Jan 31, 2020
	2020	2019	2020	2019	2020	2019
in EUR thousands (unless otherwise indicated)						
Fixed component of compensation	322	350	244	257	23	275
Compensation in kind	9	16	13	12	1	16
Total fixed compensation	331	366	257	269	24	291
Short-term incentive (variable, STI)	-	167	-	154	50	140
Long-term incentive (variable, LTI), thereof from						
Stock options (maturity May 13, 2025)						
Fair value of options granted	-	37	-	25	-	25
Income from exercising stock options	86	149	54	-	72	-
Stock Appreciation Rights (SARs) (maturity May 3, 2030)						
Fair value of SARs	290	-	218	-	-	-
Income from exercising SARs	-	-	-	-	-	-
Total LTI	376	186	271,5	25	72	25
Total performance-based compensation	376	353	271,5	179	122	165
Total compensation	707	719	529	448	146	456
Number of stock options (Dec 31)	164,495	244,495	100,000	150,000	-	150,000
Number of stock options granted	-	14,495	-	10,000	-	10,000
Fair value when granted	-	414	-	255	-	255
Number of SARs (Dec 31)	200,000	-	150,000	-	-	-
Number of SARs granted	200,000	-	150,000	-	-	-
Fair value when granted	290	-	218	-	-	-

After his departure from the Management Board, Mr. Christoph Dünwald received remuneration as a former executive member in the amount of EUR 137 thousand for the period from February to November.

The fixed component of Prof. Dr. Lübbert's compensation amounts to 47% (previous year: 51%) and that of Mr. Schaffer to around 49% (previous year: 60%) of total compensation. The fixed compensation of Mr. Dünwald amounts to approximately 16% (previous year: 64%).

The Management Board members are also provided with company cars for private use. In addition, the Company contributes to the costs of private health, pension and long-term care insurance up to the maximum amount of the respective employer's contribution limit, insofar as corresponding insurance policies actually exist and corresponding costs are incurred. The existing service agreements provide that - depending on the achievement of defined targets - an annual bonus is to be granted. If targets are exceeded, the maximum amount of the annual bonus is limited (cap). If targets are missed by up to 70%, the bonus payment is reduced on a straight-line basis; if targets are missed by more, the bonus payment is not paid at all. The assessment factors (2019: revenue (30%), earnings after tax (20%), achievement of break-even in Q4-2019 (20%), completion of patient recruitment in the BCC study (20%), completion of the clinical phase of the peripheral study (10%)) are mutually agreed at the end of each fiscal year for the following fiscal year in a performance target agreement. The aforementioned performance criteria set for 2019 were not achieved and thus no bonus payment was granted in fiscal year 2020.

Severance payments in the event of premature termination of a Management Board member's contract without serious cause are limited to a total of two annual salaries, but not more than the total compensation entitlement for the remaining term of the contract at the time of departure ("severance payment cap").

The maximum compensation of the Management Board members from the fixed and one-year performance-related compensation (bonus) amounts to EUR 520 thousand for Prof. Dr. Lübbert and EUR 390 thousand for Thomas Schaffer. With regard to the maximum compensation under the multi-year variable compensation, we refer to the following explanations on the stock option program and SAR program.

In order to further increase the long-term incentive effect of the variable compensation and consequently its focus on sustainable corporate development, the members of the Management Board have committed themselves to holding ordinary shares in the Company as private assets for stock options granted under the 2015 stock option program. This commitment is for a period of three years beginning one month after the issue date of the options ("blocked shares"). The amount of the personal commitment varies for the individual Management Board members. If restricted shares are sold prematurely, which must be reported to the Chairman of the Supervisory Board without delay, the Company may demand the retransfer of a corresponding number of stock options free of charge within one month of notification of the sale, whereby the options granted last are always to be retransferred (last in first out). A retransfer is not possible if the Management Board member can demonstrate that the sale of the restricted shares was necessary to meet urgent financial obligations. The range of exercise prices for outstanding options is between EUR 2.25 and EUR 6.708, the range of fair value of outstanding options is between EUR 1.00 and EUR 2.55. After expiry of the respective vesting period, the option rights may be exercised up to the end of six years after the respective issue date (exclusive).

As a long-term performance component, members of the Management Board are granted stock appreciation rights ("SARs") under their service agreements, starting in the 2020 financial year (long-term incentive, "LTI"). An annual target amount of 150% of the STI ("short-term incentive") target amount ("LTI target amount") has been agreed. The number of SARs granted each year is equal to the LTI target amount divided by the economic value of the SARs at the time they are granted. SARs subject to vesting requirements may not be exercised if and to the extent that the gross proceeds from all exercised SARs granted to the Management Board Chairman would exceed the gross fixed compensation actually received by the Management Board member since the first grant of SARs by more than 300% without this limit.

To the extent that terms and conditions of the SAR program provide for a personal investment, it is agreed, in deviation from any SAR terms and conditions, that the personal investment must be made without fail within six months of the exercise date

in the amount of 25% of the payout amount (gross) and that the acquired shares in the Company may not be sold for at least four years after the granting of the SARs.

For the purpose of further increasing the long-term incentive effect of the variable compensation and thus its focus on sustainable corporate development, members of the Management Board undertake to acquire up to 100,000 shares in the Company and to hold them until the end of their service agreement (share ownership guideline). However, the total acquisition cost (including incidental acquisition costs) to be borne by the Management Board member is limited per fiscal year to an amount equivalent to 25% of the target achievement bonus granted to him for the previous fiscal year.

Management Board members are required to invest 25% of the target achievement bonus received in the previous year in shares until the total acquisition of 100,000 shares per member of the Management Board has been reached.

Lock-up periods in respect of acquired shares of the Company imposed on the Chair of the Management Board in connection with the above sections shall end when the Company announces, after the Chair of the Management Board has left the Company, that the listing of the shares on the regulated market in Germany will be terminated.

Furthermore, the Supervisory Board may, at its discretion, grant the member of the Management Board a special bonus in certain exceptional and justified cases, but not exceeding an amount of EUR 50,000 (gross) per fiscal year.

Compensation of the Supervisory Board in the 2020 Fiscal Year

in EUR thousands	Compensation 2020	Compensation 2019
Ulrich Granzer, PhD	35	30
Jürgen Baumann	23	23
John Borer	15	15
Reinhard Eyring	19	15
Hansjörg Plaggemars	0	3
Prof. Franca Ruhwedel, PhD	21	7
Kevin Weber	15	15
Total	128	108

Compensation of the Supervisory Board pursuant to Section 18 of the Articles of Association of Biofrontera AG

The German Corporate Governance Code, as amended on December 16, 2019, stipulates that the members of the Supervisory Board shall receive compensation that is in reasonable relation to their duties and the position of the company. The compensation of Supervisory Board members shall take appropriate account of the higher time commitment of the chairman and vice chairman of the Supervisory Board as well as the members of committees.

Under German law, the compensation of the Supervisory Board of a German stock corporation can only be determined by the shareholders' meeting. As per the Annual General Meeting held on May 28, 2020, the Supervisory Board compensation was amended, whereby the variable compensation component of the members of the Supervisory Board was eliminated and a purely fixed compensation was set. The following remuneration system for our Supervisory Board has been approved by our shareholders:

- 1) Each member of our Supervisory Board receives a fixed annual fee of EUR 20,000 (fixed fee). The chairman receives twice and our vice chairman receives one-and-a-half times the fee.
- 2) Members of the Supervisory Board receive the following additional compensation for their work on Supervisory Board committees:
 - a) Each member of the Audit Committee receives EUR 3,000, and the chairman of the Audit Committee receives twice this amount.
 - b) Each member of another committee receives EUR 2,000, and the chairman of another committee receives double this amount. Membership of the Nominating Committee is not taken into account.

Committee activities are taken into account for a maximum of two committees. If this number is exceeded, the two most highly remunerated committee memberships shall be decisive.

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

- 4) In addition, the members of the Supervisory Board receive an attendance fee of EUR 1,000 for each participation in a meeting of the Supervisory Board or its committees. Participation in telephone and video conferences or participation in a meeting by means of connection by telephone and video conference is remunerated accordingly with an attendance fee. For several meetings - whether of the supervisory board or of committees - held on one calendar day, an attendance fee shall be paid only once in total.
- 5) Furthermore, the members of the Supervisory Board, with the exception of the chairman and the vice chairman, receive remuneration of EUR 4,000 for chairing an annual meeting.
- 6) The remuneration shall be paid after the end of each fiscal quarter.
- 7) The Company reimburses the members of the Supervisory Board for expenses incurred in the course of their duties, including any taxes incurred on the remuneration and the reimbursement of expenses.
- 8) The Company has obtained an indemnity insurance policy, for the benefit of the members of our Supervisory Board, which covers statutory liability arising from the activities of our Supervisory Board.