Investment Stewardship Group

Voting bulletin: Deutsche Lufthansa AG

As part of our fiduciary duty, BlackRock's Investment Stewardship team (BIS) advocates for sound corporate governance and business practices that are aligned with long-term sustainable financial performance. This objective underpins all our engagements and votes at company meetings.

We engage company leadership on key topics emphasizing governance practices including management of environmental and social factors that potentially have material economic, operational or reputational ramifications for the company.

We determine our engagement priorities based on our observation of market developments and emerging governance themes, and evolve them year over year as necessary. The BIS team's key engagement priorities include:

1. Board quality
2. Environmental risks and opportunities
3. Corporate strategy and capital allocation
4. Compensation that promotes long-termism
5. Human capital management

Our approach to investment stewardship is grounded in an expectation that the board will oversee and advise management, influencing management's approach to key business issues. When effective corporate governance is lacking, we believe that voting against the responsible director(s) is often the most impactful action a shareholder can take.

We are committed to enhancing the transparency of our stewardship practices. Where we believe it will help to understand our voting decisions at shareholder meetings, we will publish a Voting Bulletin explaining the rationale for how we have voted on select resolutions, and (where relevant) provide information around our engagement with the issuer.

Company	**Deutsche Lufthansa AG**
Market	Germany
Meeting Date	5th May 2020
Key Resolutions[1]	**Item 4:** Approval of the Supervisory Board's actions for financial year 2019 **Item 6:** Approval of the remuneration system for members of the Executive Board
Board Recommendation	The company recommends shareholders vote FOR both resolutions.

[1] Full meeting agenda and resolutions can be accessed at https://investor-relations.lufthansagroup.com/en/events/annual-general-meeting/annual-general-meeting-2020.html

BlackRock Vote	We voted AGAINST both resolutions given our concerns about progress on climate-related risks reporting and the structure of executive pay at the company.

We believe that as companies face material climate risks, they must demonstrate that management have assessed how climate may impact operations and determined an appropriate business strategy. As we describe in our commentaries on our Approach to Engagement on Climate Risk and Emissions, Engagement, and Transition to a Low-Carbon Economy, we expect robust disclosures of climate-related risks and opportunities in line with the recommendations of the Sustainability Accounting Standards Board (SASB) and the Task Force on Climate-related Financial Disclosures (TCFD). Greater transparency will contribute to improved market-level data, better engagements with shareholders, and more informed voting decisions aligned with long-term value creation.

Overview

Deutsche Lufthansa (Lufthansa) is a German aviation group which operates Lufthansa German Airlines, SWISS, Austrian Airlines and Eurowings. Lufthansa is listed in Germany.

Climate risk is likely to have an impact on the company's long-term strategy and its ability to deliver sustainable shareholder returns. As a result of its climate profile, in the last quarter of 2017 BIS wrote to the CEO and Chairman of the Lufthansa Executive Board, along with senior executives of other companies that we consider to have material climate risk inherent in their business operations. We asked them to closely review the TCFD's recommendations and to consider reporting in alignment with them.

We reviewed Lufthansa's 2019 annual report[2] and do not believe it demonstrates sufficient progress since our 2017 letter. The company identifies climate as a substantial risk and has expanded the Executive Board as of January 2020 to include a director of Customer & Corporate Responsibility who will be accountable for environment, climate and society. While the company has adopted the targets set by the aviation sector in 2009,[3] it does not provide clear reporting on its progress towards achieving these targets. Overall, the lack of explicit and structured TCFD-aligned reporting falls short of our expectation of large carbon emitters.

In addition, we continue to have concerns about the structure of executive pay at Lufthansa, which we previously expressed by voting against the pay proposal at the 2019 annual general meeting (AGM). The company's new executive pay proposal does not address our concerns.

Rationale for BlackRock Vote

Based on our analysis and engagement with the company, BlackRock voted against the following agenda items:

Item 4: Approval of the Supervisory Board's actions for financial year 2019 (AGAINST)

BIS believes Supervisory Board members should be held accountable for the level of oversight provided on governance matters, including executive pay and how management addresses material issues such as climate risk. Given the lack of progress made by the company has on its climate disclosures and, equally, the insufficient improvement to its executive pay policy, BIS' policy is to withhold support from the re-election of those Supervisory Board members who are most accountable through their membership on relevant board sub-committees. In the absence of such committees, BIS will hold accountable the most senior Supervisory Board member. However, Lufthansa has 'staggered' Supervisory Board elections, meaning that shareholders do not

[2] Lufthansa's Annual Report 2019 available at https://investor-relations.lufthansagroup.com/fileadmin/downloads/en/financial-reports/annual-reports/LH-AR-2019-e.pdf

[3] IATA press release, December 2009, https://www.iata.org/en/pressroom/pr/2009-12-08-01/

have the opportunity to vote on all members in any given year. Rather, Supervisory Board members are re-elected on rotation, in line with the expiry of their appointment term which is every five years at Lufthansa. While BIS accepts this as common practice in several markets across EMEA, the hindrance of this model to shareholders being able to optimally reflect their views is illustrated in this AGM. BIS is unable to withhold support from the re-election of Supervisory Board member Mr. Karl-Ludwig Kley as chair and most senior director responsible for climate disclosures, and as member of the remuneration committee. As such, BIS voted against the discharge of the Supervisory Board as a whole for actions taken in 2019.

Item 6: Approval of the remuneration system for members of the Executive Board (AGAINST)

We also voted against the approval of the remuneration policy to reflect our continuing concerns, as we previously expressed by voting against the pay proposal at the 2019 AGM. As we describe in our Europe, Middle East, and Africa proxy voting guidelines, BlackRock believes companies should identify those performance measures most directly tied to shareholder value creation, and that they should emphasize factors within management's control to create economic value over the long-term. We are wary of companies using only 'output' metrics such as earnings per share (EPS) or total shareholder return (TSR). Notably, a significant portion of Lufthansa's long-term incentive plan is assessed based on TSR relative to the DAX30 and awards will begin to vest for performance below median, in other words for relative underperformance. Additionally, the awards are cash-settled via phantom shares and will be subject to accelerated vesting in a change of control, neither of which are considered to provide alignment with shareholders' interests.

We will continue to engage with the company and monitor developments, with a particular focus on progress on climate-related risk disclosures as well as the structure of executive pay. **Where we do not see progress, we will continue to hold the Supervisory Board to account at next year's annual shareholder meeting, either through withholding support from the re-election of members of the relevant committee or the most senior Supervisory Board member, or through the discharge of the Supervisory Board as a whole.**