SHAPING GLOBAL GOVERNANCE
2012 ENGAGEMENT REVIEW

BlackRock®

OUR CLIENTS' FUTURES DEPEND ON OUR ABILITY TO MAXIMIZE THE VALUE OF THE ASSETS THEY ENTRUST TO US

At BlackRock, our pursuit of good corporate governance stems from the responsibility we feel to our clients. Our clients' futures often depend on our ability to maximize the value of the assets they entrust to us. And encouraging the highest standards of board leadership and executive management in the companies in which we invest is central to achieving that goal. That is why we have created one of the largest Corporate Governance and Responsible Investment teams in the industry to engage with the management of companies in which we invest and help us deliver long-term value to our clients.

Some observers like to measure an asset manager's commitment to corporate governance in the number of votes they cast against management on shareholder resolutions. To be clear: we will vote against management when we think that is in our clients' best long-term interest. But we are not interested in symbols—we care about results. And we believe that effective stewardship requires much more robust engagement than simply casting negative proxy votes.

Further, we find that a generally antagonistic approach to management is counterproductive because it puts companies unnecessarily on the defensive, which defeats the whole purpose of increasing transparency and responsiveness to investors. Not much gets done when two sides are exchanging barbs through the newspapers. We should be using public forums to build bridges, not create divides, between shareholders and the companies in which they invest.

At the same time, hostile perspectives have led to regulatory solutions that wrongly usurp the role of the board of directors in the name of protecting investors. We think companies and their boards should have sufficient space to be able to take the same long-term perspective we do to investing and in particular to the governance, environmental and social factors that affect value.

In our experience, real change in behavior by a company takes research, reflection and thoughtful planning. Boards have to strike a delicate balance between divergent shareholder opinions, regulatory demands and strategic priorities. Management and boards need the opportunity for thoughtful deliberation and to fashion responses that are truly aimed at creating shareholder value—rather than simply responding to a publicity campaign.

That's why we believe that constructive engagement is central to promoting good governance. In January 2012, we wrote to some 600 companies to encourage them to engage in direct dialogue with us. In that letter, we put the onus on boards to anticipate concerns shareholders might have with their companies' governance but at the same time, we committed to have a fair, respectful and open-minded airing of views. The response to these letters has been overwhelmingly positive and has resulted in truly productive, ongoing interactions with a large number of companies. But to reiterate, engagement is not about letting companies off the hook: we also make sure managements understand that a negative vote on resolutions remains an option for those who remain unresponsive to shareholder concerns.

At BlackRock, we recognize that a lack of accountability is one reason public trust in the financial system and corporations has so eroded in the wake of the financial crisis—and that we all have a responsibility to use our voices and influence to make markets work better and rebuild faith in them. Again, we think the best way to make that happen is to build a partnership among investors, companies and government, and our Corporate Governance and Responsible Investment program is one of the ways we are working to achieve that. We look forward to continuing the dialogue and working with companies to help restore the confidence of investors—and deliver the performance our clients require and deserve.

Larry

Larry Fink
Chairman and CEO of BlackRock

This review is intended to explain BlackRock's overarching philosophy in relation to corporate governance and responsible investment and provide practical examples of our work in 2012. It is organized on a variety of overlapping themes, which provide a sense of the breadth and complexity of this aspect of BlackRock's work on behalf of clients.

FRAME

- What guides our corporate governance and responsible investment work
- Profile of the team
- Recent developments in governance globally that shape our approach

PARTNER

- How we integrate our work with that of our investment colleagues
- How we partner with clients to provide responsible investing solutions
- Products and services we have developed to meet client needs

ANALYZE

- How we research companies for voting and engagement
- BlackRock's governance risk model
- Use of proxy advisory firms

ENGAGE

- Communicating with companies to improve mutual understanding
- Examples of engagements undertaken in 2012
- Engagement statistics

VOTE

- Our voting process
- Examples of our voting in practice
- Voting statistics

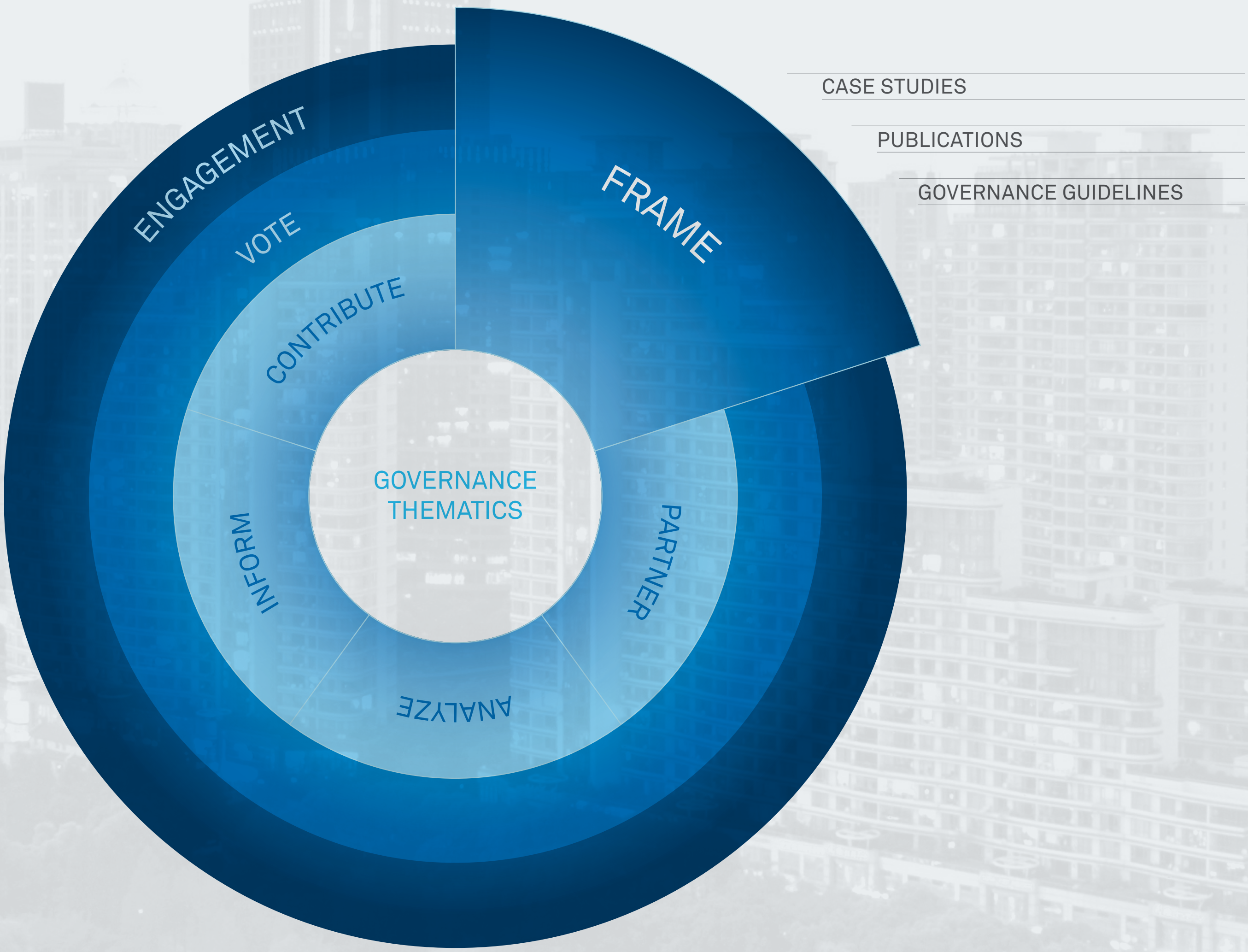
INFORM

- Informing ourselves on a range of governance issues
- Informing the public debate
- Oversight of our governance program

CONTRIBUTE

- Our participation in the public policy process
- Organizations in which we are involved
- Our support of the United Nations Principles for Responsible Investment (UNPRI)

Committed to Protecting and Enhancing the Value of Our Clients' Assets



At BlackRock we frame our corporate governance program, including the treatment of social, ethical and environmental issues, within an investment context. We believe that a sound corporate governance framework promotes strong leadership by boards of directors and good management practices, contributing to the long-term success of companies and better risk-adjusted returns to our clients.

We recognize that corporate governance practices and expectations differ around the world. Even so, there are high-level corporate governance principles that we believe apply universally: transparency and accountability to those who provide capital; oversight by a well-informed, experienced board; robust accounting and risk management systems; and sound policies on business management issues such as employee and supplier relations, environmental impacts and compliance with regulations.

Our Corporate Governance and Responsible Investment (CGRI) team develops and applies our framework. The team is structured to be local but coordinate globally. **The corporate governance program led by the CGRI team is integrated within all portfolios investing in public companies, whether clients invest in specialist socially responsible investment (SRI) products or in our core index and active investment strategies.** The CGRI team acts as a central clearinghouse of BlackRock's views across the various portfolios with holdings in individual companies and aims to present a clear and consistent message.

The team is represented in San Francisco, New York, London, Tokyo, Hong Kong and Sydney. Team members work closely with regional and global investment and client-facing colleagues in engaging with companies and clients, respectively. We also engage locally with regulators and commentators, as well as other shareholders, to ensure we are aware, and understand the implications for our clients, of policy developments and emerging practices and trends.

BlackRock's clients are a diverse group of investors including corporate, public, multi-employer pension plans, insurance companies, mutual funds, endowments, foundations, charities, corporations, official institutions, banks and individuals. Some have expressed their views on corporate governance, others have not. The one thing they have all asked of us is to protect and enhance the value of their assets. In pursuit of that goal, the CGRI team members use their professional judgment to determine which engagements to undertake, and how to vote at shareholder meetings, to best protect the economic interests of clients.

GOOD GOVERNANCE

Good governance is about leadership. We focus our efforts on the board of directors because without board and C-suite leadership companies won't have sound governance practices, including environmental and social considerations. In most markets, investors can hold directors accountable by removing them from office if they fail to act in the interests of their shareholders.

OUR GUIDING CORPORATE GOVERNANCE PHILOSOPHY AT A GLANCE:

1. As a fiduciary investor, our primary duty is to act in our clients' best interests.
2. As a long-term investor, with significant investment in index-tracking strategies, we're patient and persistent in working with our portfolio companies to build trust and develop mutual understanding.
3. As a large investor, we are able—and feel a responsibility—to monitor the companies in which we invest and to engage with them constructively and privately where we believe that would help protect shareholders' interests.
4. We don't try to micro-manage companies; we present our views as a long-term shareholder and listen to companies' responses.
5. We see environmental and social issues as corporate governance issues, integral to successful company management.
6. We promote best practices in corporate governance because we believe that practitioner-led solutions are generally more effective than regulatory ones.
7. We don't discuss company engagements publicly because you don't need to make headlines to protect shareholder value.
8. We will vote against management when we judge that direct engagement has failed.
9. Our corporate governance program is an investment function because it is focused on company leadership and management, not compliance.
10. We work closely with fundamental portfolio managers, acting as a clearinghouse across BlackRock's investment teams, with the intention to present a consistent message to companies about governance.

Global Team with a Local Presence

Carrying out BlackRock's work in corporate governance and responsible investing is a group of 20 dedicated professionals who:

- Work in six offices in five countries in three key regions: the Americas; Europe, the Middle East and Africa (EMEA); and Asia-Pacific
- Speak nine languages: French, Spanish, Russian, Japanese, Mandarin Chinese, German, Danish, Portuguese and English
- Have earned more than 15 different degrees
- Include 10 members who each have a decade or more of experience in governance
- Vote in more than 90 markets and engage with over 1,000 public companies a year

Our regionally focused teams evaluate and engage with portfolio companies on governance and social, ethical and environmental risks within their local markets on behalf of BlackRock's clients globally. We also work closely with internal and external experts across the globe.

The CGRI team also helps deliver value to clients through a range of services that help them understand the ESG characteristics of their investments.

Through our overarching governance program:

- We evaluate how the companies in which we invest are governed and manage environmental and social issues
- We manage relationships with our portfolio companies for mutual understanding on performance issues and risk mitigation
- We conduct proxy voting under BlackRock's policies and report to clients on our proxy voting activities
- We provide market updates on the evolving corporate governance landscape

The corporate governance landscape is continually evolving. Accordingly, BlackRock adapts its policies and practices to reflect the changing environment.

We monitor issues and trends and participate in public discussions that help to shape the framework that we and the companies we invest in must operate within. These are some of the global trends we've been tracking.

OUR CUSTOMIZED SERVICE

Through our customized service:

- We consult with clients on governance and proxy policy development
- We develop responsible-investing products, in equity and fixed income, active and passive investing
- We provide customized environmental, social and governance (ESG) risk evaluation and reporting

The Evolution of Global Corporate Governance

1 Improving Shareholder Rights in Asia

Across Asia ex-Japan, great changes are taking place on corporate governance issues, as many fast-growing countries mature and stabilize. A common theme is regulatory changes that are intended to make companies more accountable to shareholders. This takes on varied dimensions in different countries.

For example, in Hong Kong, one-third of each corporate board must be independent non-executive directors by December 31, 2012. India's Securities and Exchange Board has agreed to new takeover regulations and mandatory disclosure of voting rights, but the timing of implementation is uncertain. South Korea's draft new securities law will abolish shadow voting, a process that tends to infringe on minority shareholders' rights, by 2015. Malaysia's Securities Commission released its five-year corporate governance blueprint covering shareholder rights, the role of the board in governance, disclosure and transparency, among other issues.

2 Chinese Fraud and Lack of Access to Information

In China, allegations of corporate fraud are frequent. Roughly half of the 200 Chinese companies with stocks listed in the US have faced allegations of fraud, failure to resolve financial discrepancies or regulatory action. The situation is compounded by the Chinese government's restricting access to regulatory filings. Chinese authorities have blocked the US Public Company Accounting Board (PCAOB) from accessing audits on Chinese firms on the grounds of Chinese sovereignty.

As a result of these conditions and a spate of issues, including undisclosed related-party transactions, overstatement of client base and market penetration, and acquisition history, short selling stock in Chinese companies has increased. China will likely present investors with ongoing challenges for some time.

GLOBAL AND LOCAL INITIATIVES

BlackRock has been a UNPRI signatory since 2008 and involved in about 40 other global and local initiatives, such as the International Corporate Governance Network, the US Council of Institutional Investors and Eumedion in the Netherlands.

3 Japan: Spotlight on Director Independence

In Japan, stock regulators are focusing on the independence of outside directors and auditors. The Tokyo Stock Exchange's new rules require greater disclosure of information on business transactions, mutual directorships and donations involving candidates for director. Listed companies are also drafting and disclosing their own definitions of director independence.

4 Slow Progress on Woman Board Directors

The poor representation of women on corporate boards and in senior management positions continues to be a global issue, with recent activity in Australia, the US, UK and continental Europe, among other markets and regions. The details may differ from country to country, but the theme remains familiar. Progress is being made, but women continue to be greatly under-represented as executives and directors. This is a cause for concern from a corporate governance standpoint for a number of reasons, including the lost or overlooked potential contribution from this talent pool. (See "Women a Scarce Resource in Australian Boardrooms" in the "Inform" section of this report.)

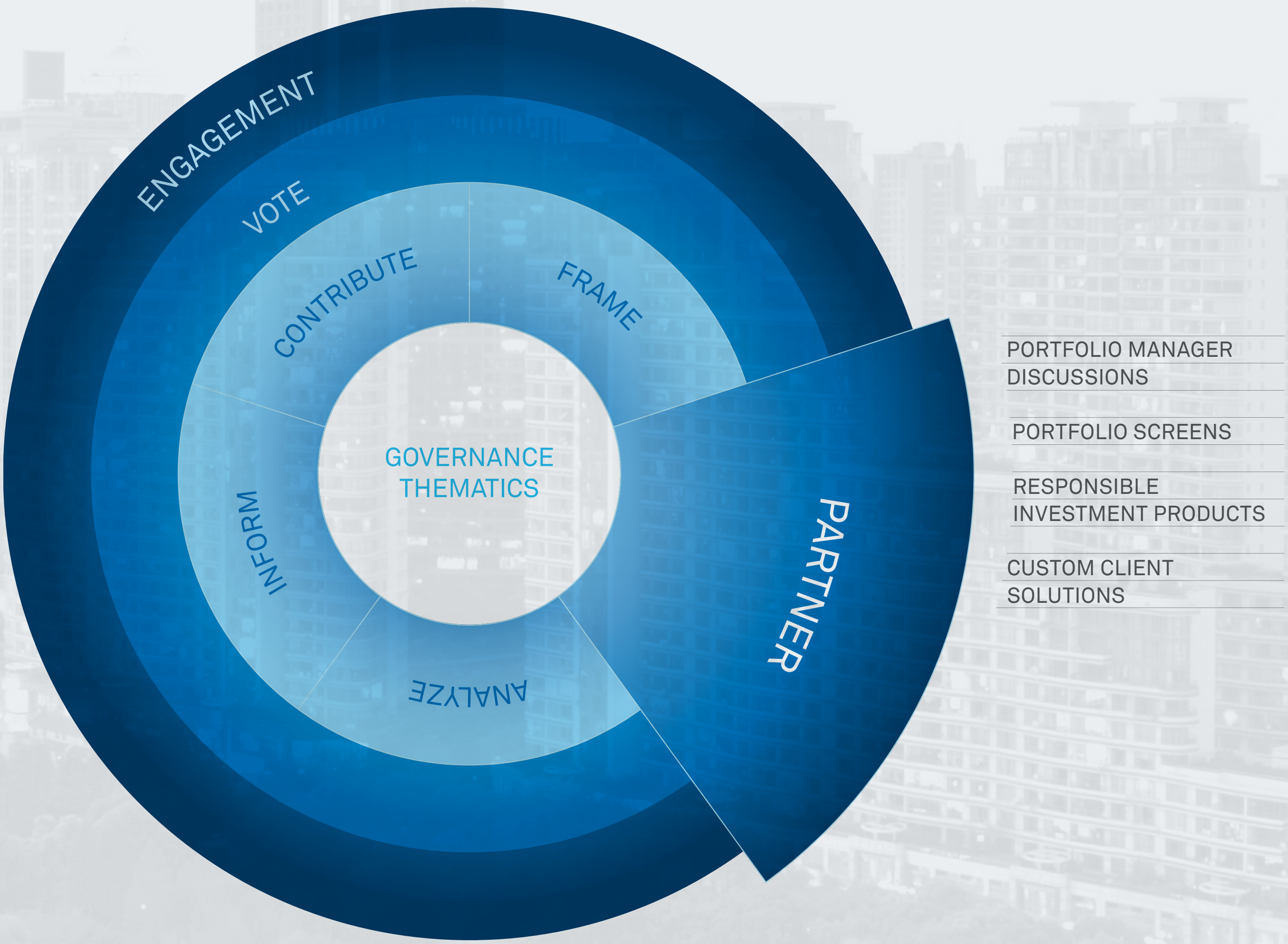
5 European Union Shareholder Rights Directive Increases Engagement

The trend towards greater contact with foreign investors on governance matters began a few years ago, with full implementation of the European Union Shareholder Rights Directive in all member states. As a result of the directive, more companies are reaching out to shareholders to discuss executive remuneration, succession planning, board composition and strategy.

6 Expansion of Investors' Rights in the US Leads to Litigation and Dialogue

In the US, market standard rules adopted by the Securities Exchange Commission (SEC) providing the right for investors to nominate director candidates directly to the proxy (proxy access) were challenged and struck down in court. However, the court's ruling left open the possibility that companies and shareholders would reach private agreements regarding proxy access mechanisms. Approximately six shareholder proposals requesting proxy access were submitted to a shareholder vote during the 2012 proxy season. Out of those six, only two received majority support.

Integrating ESG Strengthens Our Investment Process



Our Investment Process

"CGRI partners closely with the Fundamental Equity Team in Hong Kong. We're building an investment edge while reshaping thinking in Asia. Creating and integrating ESG scores into the team's investment process helps reduce risk and improve decision-making while raising key issues that face investors and companies. It adds a high degree of value."

MARC DESMIDT
Managing Director
Head of Alpha Strategies for BlackRock's Asia Pacific Region

We actively seek to integrate environmental, social and corporate governance issues into our investment process. This begins with the mindset that ESG factors are often a signal of or proxy for management quality, particularly over the longer term. The CGRI team therefore partners closely with colleagues in portfolio management to help raise awareness of potential risks, such as exposure to companies that are more likely to face litigation, or reputational harm as a result of poor management of the impact of their operations on the environment.

The CGRI team is a centralized resource, bringing our specialized knowledge and perspective to colleagues providing products and services that meet client needs. We work with colleagues investing directly in companies to analyze in more depth the material ESG factors relevant to their investment decision-making. We also work with parties outside BlackRock to raise awareness of the value of sound corporate governance standards.

HOW WE INTEGRATE RESPONSIBLE INVESTMENT VARIES BASED ON THE INVESTMENT MANDATE AND THE STYLE OF PORTFOLIO MANAGEMENT.

Our Traditional Mandates cover the spectrum of fundamental, scientific active and index investing.

Fundamental
Portfolio managers consider factors that they believe will affect the financial performance of companies. For example, on behalf of our clients invested in the **BGF World Mining Fund** and other funds invested in mining companies, CGRI and portfolio managers have met with several large holdings on topics including a contentious merger, executive remuneration, board composition, health and safety and environmental impacts. The CGRI team is also working to integrate our governance risk signal into the company templates used by the fundamental portfolio managers and analysts, to foster closer cooperation and detailed research where warranted.

OUR ESG FOCUS

BlackRock manages $215 billion (6% of our assets under management as of June 30, 2012) in mandates that specifically focus on ESG factors.

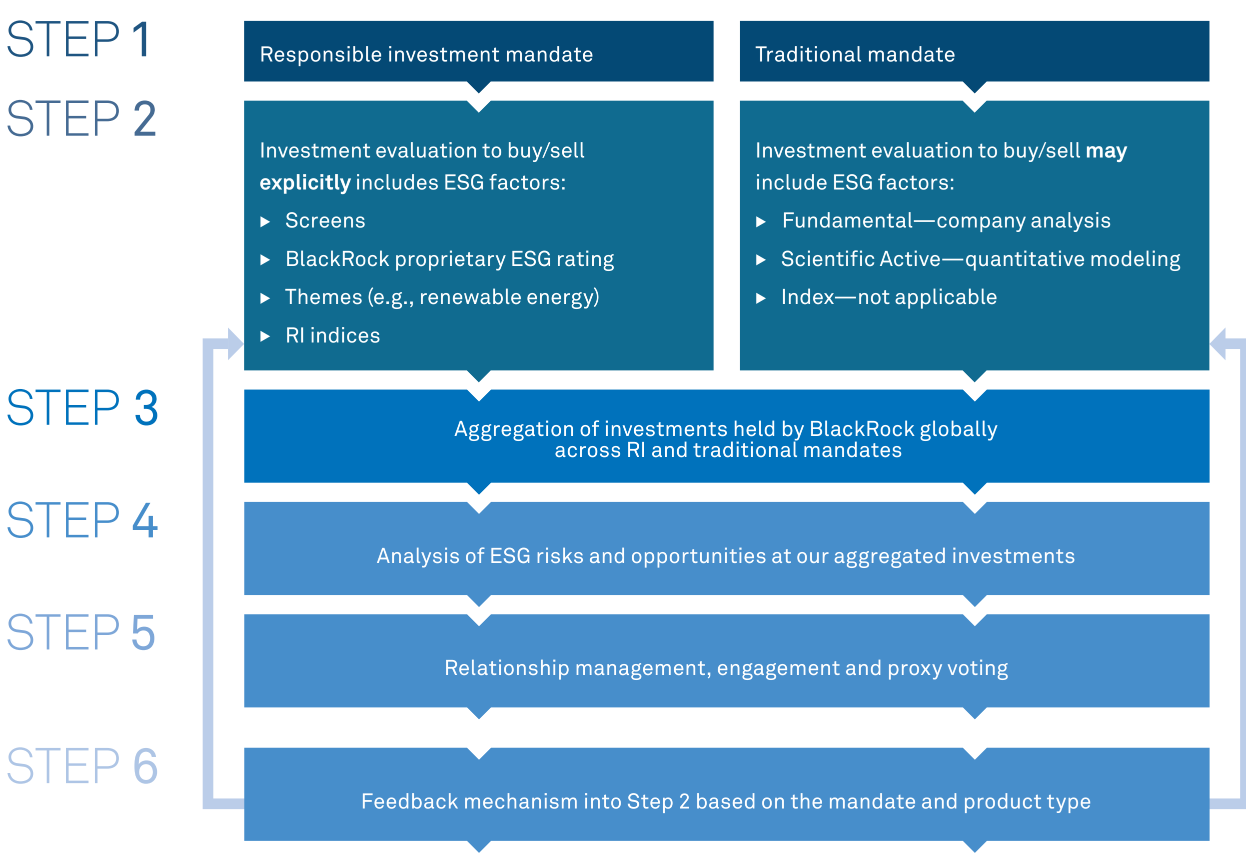
Scientific Active

Our proprietary quantitative models may include ESG data to provide insights into a company's prospects. For example, CGRI and the scientific active portfolio managers for the **32 Capital Fund** routinely discuss opportunities to improve data sets for analysis, such as executive compensation information or director qualifications, to determine if governance signals may be differentiators in our active signals.

Index

Where clients are invested across an index and unable to sell underperforming companies we engage to address ESG and financial concerns. In indexed strategies, such as **iShares**,® engagement with companies, including proxy voting, is the key means to integrate ESG factors into investing. For example, on behalf of our **Emerging Market Index** funds we engage with companies to promote minority shareholder representation on boards of directors.

Figure 1: CGRI Integrated into the Investment Process



Evolving Field is Fertile Ground

FRESH APPROACHES

There is a growing belief that well managed businesses are more likely to consider how their activities relate to society at large. By being good corporate citizens, those companies are also better equipped to respond to unexpected events, limit reputational damage and adapt their way of doing business swiftly and successfully. You can see this in the growing demand for integrating environmental and social factors within the overall corporate governance approach and investment process.

The field of responsible investment is quickly evolving, presenting opportunities to develop a range of innovative investment products, services and strategies.

As a leader in this field, BlackRock offers a variety of investment products that address social, ethical and environmental (SEE) concerns:

- Socially Responsible Equity—This actively managed US large-cap core portfolio is based on our belief that reasonably valued, high-quality, sustainable businesses will outperform the market.
- NTR Renewable Power Strategy gives institutional investors access to a dynamic, diversified portfolio of private equity investments in wind and solar power.
- Ecosolutions Investment Trust targets equities issued by companies that are tapping opportunities in new energy, water resources and agriculture.
- Socially Responsible iShares—A variety of index-based iShares ETFs that focus on companies with positive ESG characteristics, such as the MSCI KLD 400 Social Index or the S&P Global Clean Energy Fund.
- Separate Accounts tailor financial solutions to clients' values and beliefs. BlackRock partners with clients to create customized products that address their particular values and beliefs using internal and external screens. Our clients are diverse:
  - An environmental foundation looking for "green" investments
  - A family trust seeking socially responsible investments
  - A health care organization wishing to avoid alcohol and tobacco companies
  - A faith-based group seeking consistency with its religious guidelines

1 Partnering With Clients to Assess ESG Risk

A corporate pension fund in the Netherlands asked BlackRock to help assess the quality of companies in its investment portfolio from the perspective of risks relating to environmental, social or governance issues. We conducted a market review of leading service providers in this area. In consultation with the client, we selected a provider and developed a rating system to provide custom reporting on areas of concern to this client. We subsequently built on this work to adapt the model to identify candidates for engagement where there are material economic risks derived from ESG factors.

2 Partnering With Other Financial Institutions to Reduce Greenhouse Gas

BlackRock partnered with a Latin American development bank to manage for them an exchange traded fund (ETF) devoted to carbon efficiency. The ETF is composed of companies that have adopted efficient and transparent practices regarding greenhouse gas emissions. The fund was highlighted at the United Nation's "Rio+20" Climate Conference. It debuted as the second largest iShares ETF in its market and provides investors with a liquid and well-researched mechanism for investing in carbon efficient companies.

3 Partnering With Portfolio Managers to Increase Financial Value

A US telecommunications services provider sought shareholder approval to simplify its capital structure by consolidating its two non-controlling share classes. In our view, the proposed conversion ratio favored one share class over another; BlackRock primarily held the share class proposed to receive unfavorable consideration. We decided to seek an increased exchange ratio in line with historical relative trading patterns.

The CGRI team conducted a joint analysis with BlackRock's fundamental equity portfolio managers. We established contact with the company's independent directors and executives, and expressed concern about the proposed exchange ratio. At the shareholder meeting, we voted against the proposed exchange ratio and the proposal failed to gain unaffiliated shareholder support. The company later announced an 8.7% increase in the exchange ratio and shareholders, including BlackRock, voted to approve the amended proposal.

TOP RATED

BlackRock has an "AA" rating in the 2012 MSCI ESG Industry Report, the highest among the five largest global asset managers.

4 Partnering with Portfolio Managers to Improve a Board

A US-based owner, operator and franchiser of hair salons had a period of poor share price performance, poor capital allocation decisions, excessive executive compensation, troubling related-party transactions, questionable board composition, weak long-term revenue growth and increasing operating expenses. An activist investor sought a minority of board seats to prod the company to improve operating performance, address governance concerns and realize value opportunities. The CGRI team conducted a joint analysis with fundamental equity portfolio managers and engaged with the dissident and management teams to better understand their respective concerns and positions.

We voted to replace two incumbent management nominees with two dissident board nominees. Ultimately, three dissident nominees were elected, replacing three incumbent directors. The board subsequently searched for and hired a new CEO, added an independent director, and agreed to sell off non-core business as part of a strategic restructuring. The share price outperformed the benchmark by approximately 17% over the 12 months after the proxy contest began.

5 Asian Plastics Company's Poor Track Record Troubling

We engaged with an Asian plastics manufacturer on its poor safety and accident track record, which included explosions and fires at its sites. We sought to understand what management was doing to prevent such incidents. We encouraged them to improve their disclosure and to adopt international best practices on hazard management. To this end, we also engaged with company advisors and other investors. The company has yet to improve its practices, prompting us to flag it as a significant risk from an investment perspective.

6 Green Bond Issued for Global Insurer in Switzerland

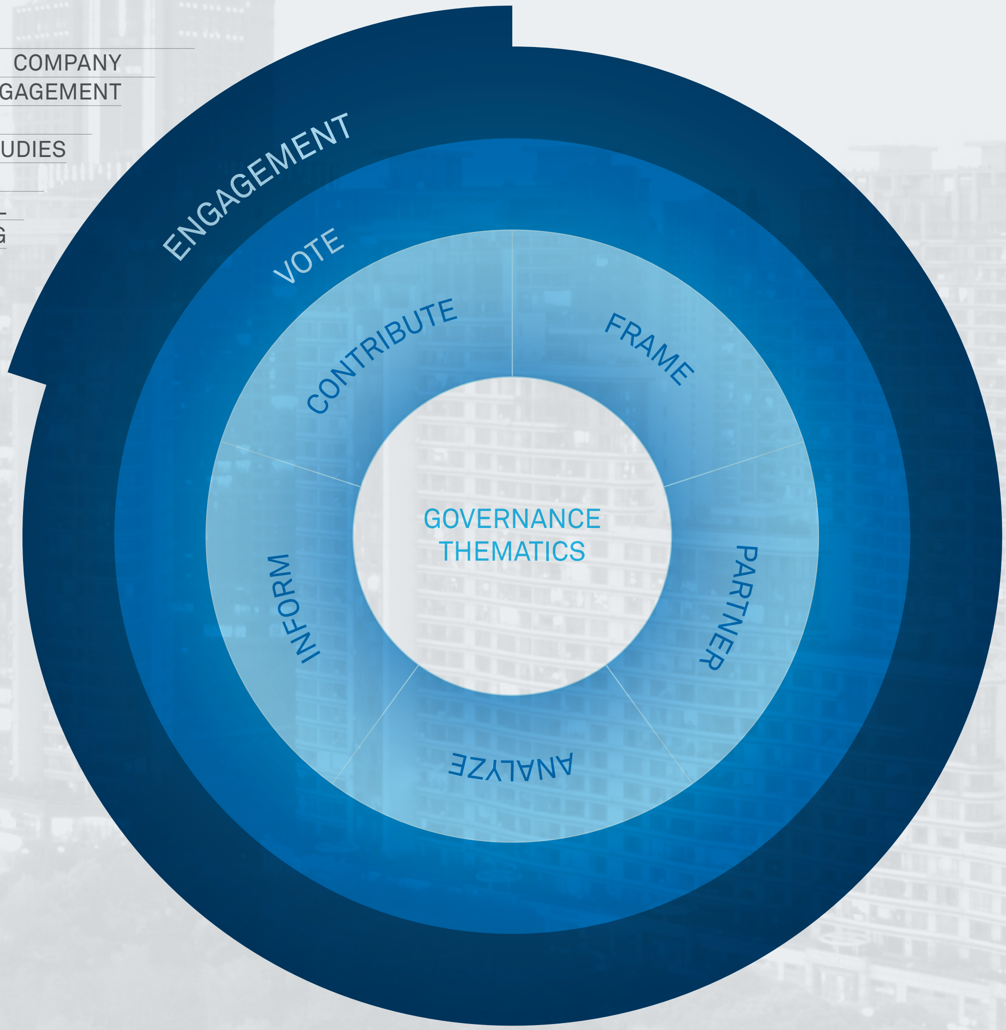
A large Swiss insurer asked BlackRock to identify a fixed income investment vehicle that provided positive impact from a societal or environmental perspective without sacrificing return. Our solution was a three-year "green bond" issued in partnership with the International Finance Corporation. The IFC is the world's largest global development institution, focused on stimulating ethical private sector investments in developing countries. Attractively priced with a comparable spread to agency bonds of similar maturity, the bond was well received. The client wants to further its impact investing partnership with BlackRock, and is open to collaborate on similar products.

Protecting the Value of Clients' Assets Through Constructive Communication

COMPANY ENGAGEMENT

CASE STUDIES

MUTUAL UNDERSTANDING



"Whether it's the fundamental portfolio managers or governance team members leading on an engagement, our close collaboration ensures we give companies a consistent message about the importance we place on board leadership and quality of management in delivering long-term shareholder value."

QUINTIN PRICE

Global Head of BlackRock's Alpha Strategies Group

As a fiduciary asset manager, we have a duty to act in our clients' best interests. This includes protecting and enhancing the value of our clients' assets—in other words, the companies in which we invest on their behalf. We believe that good corporate governance—driven by strong board and executive leadership and sound governance policies—protects and enhances long-term shareholder value.

Engagement also allows us to share our philosophy and approach to investment and corporate governance with issuers and enhance their understanding of our objectives. It also gives us the opportunity to improve our understanding of investee companies and their governance structures and to better inform our voting and investment decisions. The key to effective engagement is constructive and private communication. We prefer to engage with companies rather than exclude them from our investment universe because investors have influence and access. The CGRI team collaborates or consults with fundamental portfolio managers who have market-, sector- and company-specific expertise. We assess each company's case on its merits and are pragmatic unless we believe that an immediate response is required. We focus our efforts on what we consider to be material to the long-term sustainability of the company concerned.

We engage with companies for four main reasons:

1. We are preparing to vote at the company's shareholder meeting
2. There has been an event at the company that will impact value
3. The company is in a sector or market where there is a thematic governance issue material to shareholder value
4. Our proprietary management quality risk model has identified the company as lagging its peers on environmental, social or governance matters that may impact economic value

HOW DO WE ENGAGE?

We engage in a constructive manner—our aim is to build mutual understanding, not to tell companies what to do. We meet with executives and board directors; we communicate with the company's advisors and we engage with other shareholders where appropriate. We also vote at shareholder meetings, and will vote against a company's proposals if engagement fails to resolve our concerns.

ENGAGEMENT CAN TAKE A VARIETY OF FORMS

The following examples from 2012 demonstrate the wide range of issues our engagements cover, and the different purposes of engagement meetings. These include improving mutual company-shareholder understanding, BlackRock challenging a company on the approach it is taking and seeking change, as well as building long-term relationships that pay dividends in unforeseen ways in the future.

1 Meetings in Japan: A Valued Sounding Board

In Japan last year, BlackRock received an increase in requests for informational meetings on corporate governance from our portfolio companies. We're pleased that these firms see us as a good sounding board to discuss shareholder-related matters, and we believe this could lead to improved understanding and responsiveness on matters important to us and other shareholders. In response, we held a series of meetings with a small group of companies on selected topics. Overall, we held almost twice as many engagement meetings last year compared with 2011.

2 Informative Site Visits in Canada and The Netherlands

Field trips or site visits can inform our understanding of the complex issue being managed by the companies in which we invest. For example, a visit to an oil sands operation in Western Canada led to deeper understanding of how an energy firm manages the environmental and social impact of its drilling activities. We met with executive management, site managers, mining engineers, environmental officers, the local mayor and an Aboriginal community representative.

Similarly, a site visit on sustainable agriculture in the Netherlands included discussions with a variety of staff, leading to better understanding of numerous challenges relating to production, regulatory compliance, transparency and sustainability.

Figure 2: Global ESG Engagement by Region

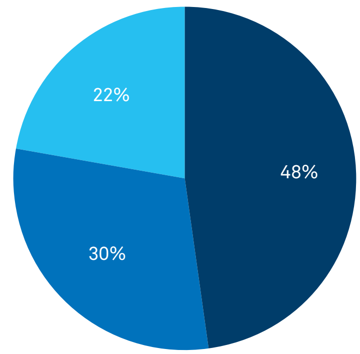
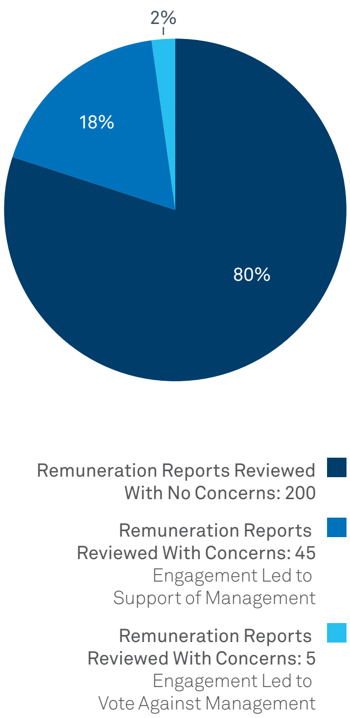


Figure 3: Engagement Statistics

		UNPRI Engagement Classification			Engagement Topic		
Region	Total	Basic	Moderate	Extensive	Environmental	Social	Governance
Australia/New Zealand	283	111	101	71	87	84	112
Japan	116	61	29	26	8	9	116
Asia ex-Japan	35	26	9	0	8	6	30
EMEA ex UK	134	74	40	20	13	14	133
United Kingdom	186	112	42	32	20	25	167
Americas	692	393	256	43	34	52	677
Total	1,446	777	477	192	170	190	1,235

Figure 4: Engagement on "Two Strikes"



"As an index manager, our engagement program takes on even greater importance as we act as a fiduciary to our clients. In many cases, we have no choice but to hold certain stocks, given their index representation. Because divestment is not an option, we must focus on seeking to promote better corporate governance."

AMY SCHIOLDAGER

Global Head of BlackRock's Beta Strategies Group

3 Working with Two Strikes

Australia's new "two strikes" rule presented us with a challenge given what is at stake. The two strikes rule enables shareholders to vote to remove the board of a company if votes cast against a remuneration report make up 25% or more of all votes at two successive annual general meetings. Our analysis of remuneration policies now delves deeper to ensure that when we vote against a remuneration policy we believe the practice is so egregious it warrants the risk of losing the board. As part of an in-depth review of remuneration reports in October–November 2011 (the peak reporting period in Australia), we identified about 50 of 250 reports as problematic. The issues included poor disclosure of short-term incentives paid, long-term incentive plans, and performance measures used in incentive plans. We engaged with all 50 companies and ended up supporting all but five of them.

4 Perseverance in Engagement Yields Results

A US explorer and producer of natural gas and oil faced major governance concerns. Issues included the board's oversight of the CEO's involvement in related-party transactions with the company, and the board's refusal to implement majority-supported shareholder proposals on governance structures. For several years, BlackRock advocated for more accountability measures, including the annual elections of directors with a majority-vote standard. In 2012, activist investors sought to substantially refresh board composition.

The CGRI team partnered with fundamental equity portfolio managers, engaged with board members to express BlackRock's concerns and ensure a full understanding of the board's perspective. We decided to vote against incumbent board members and for several shareholder proposals seeking enhanced corporate governance. Ultimately, the CEO stepped down as board chairman, four new independent directors replaced incumbent directors on the board, and the company adopted governance changes including a majority-voting standard.

5 Perseverance Still Required

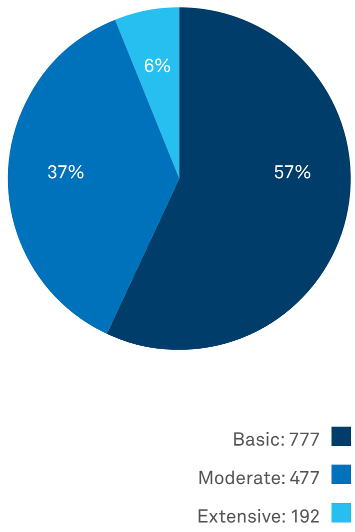
The board of a government-controlled South American energy company replaced an outgoing board member who had represented minority investors with an individual who had government ties. Working with fundamental equity portfolio managers and a local minority investor advocacy group, BlackRock's CGRI team supported the candidacy of new directors to represent minority investors at the next annual meeting. Structural challenges associated with proxy voting in this market—including a practice of not disclosing the names of minority candidates before the meeting—were a significant obstacle to this effort. We therefore worked directly with the company to ensure that our votes would be accepted. At the shareholder meeting, however, the BlackRock-supported candidates were not elected when a few large minority shareholders supported candidates backed by the company. BlackRock continues to advocate for strong independent minority shareholder representation on the board.

6 Australian Mining Industry Feels Growing Pains

The booming growth of Australia's mining industry is straining the operational capacities of many industry participants. And the rapid pace of growth is a corporate governance challenge, too. Long-established raw materials developers typically have robust corporate governance frameworks; smaller, more recent entrants tend not to and can find themselves in catch-up mode. Boards suddenly have to deal with corporate governance and disclosure requirements from institutional investors, proxy advisors and regulators. Fast-rising market capitalizations can lead to participation in widely quoted indices more quickly than might have been anticipated, with significantly intensified investor scrutiny.

BlackRock has considerable exposure to Australian listed resources companies. This year, we met with board representatives of 18 mining companies on corporate governance issues. Three broad areas dominated our discussions: board structures, board and executive compensation arrangements and company business practices in developing countries. The dialogue was mutually constructive. Boards appreciated BlackRock's commitment to work with them to improve practices where required, and they gained a better understanding of why we value good corporate governance practices.

Figure 5: Engagement Type by UNPRI Classification



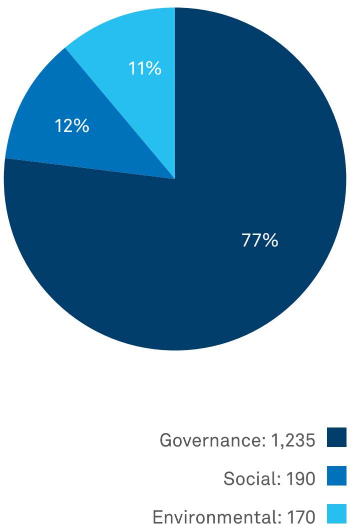
7 Exceptional Support For Unconventional Succession Plan

The board of a UK house builder approached BlackRock seeking support for its succession plan. The CEO was to become chairman when the current chairman retired and an internal candidate would succeed the CEO. Given that the UK Corporate Governance Code, and market expectations, rule out a CEO becoming chairman in the same company the board was seeking support under the 'comply or explain' provision of the Code. After consultation with fundamental portfolio managers on the individual and the contribution he was likely to make as chairman, we supported the plan as a medium term measure on the grounds that it provided necessary continuity following earlier executive team changes. Other shareholders concurred and the succession plan was implemented successfully.

8 Prompting the Withdrawal of A Special Pay Proposal

A major UK oil and gas exploration and production company called for an extraordinary general meeting in order to sell its remaining stake in an overseas business and return the cash to shareholders. The meeting agenda also had another proposal—a series of one-time payments to its former CEO and current chairman as compensation for closing the overseas deal. We engaged with the company for justification for granting these awards. After extensive discussions, the company withdrew the request for approval of the special payments.

Figure 6: Global ESG Engagement by Topic



9 Engagements That Led to Leadership Change

A UK media company's chairman was the subject of a high-profile investigation about his links to a large shareholder. We engaged with the senior independent director to discuss our concerns regarding reputational risk to the company and its chairman, and to understand the steps being taken by the company and its independent directors in response. The board agreed to a plan of action, and the chairman resigned and was replaced by the senior independent director.

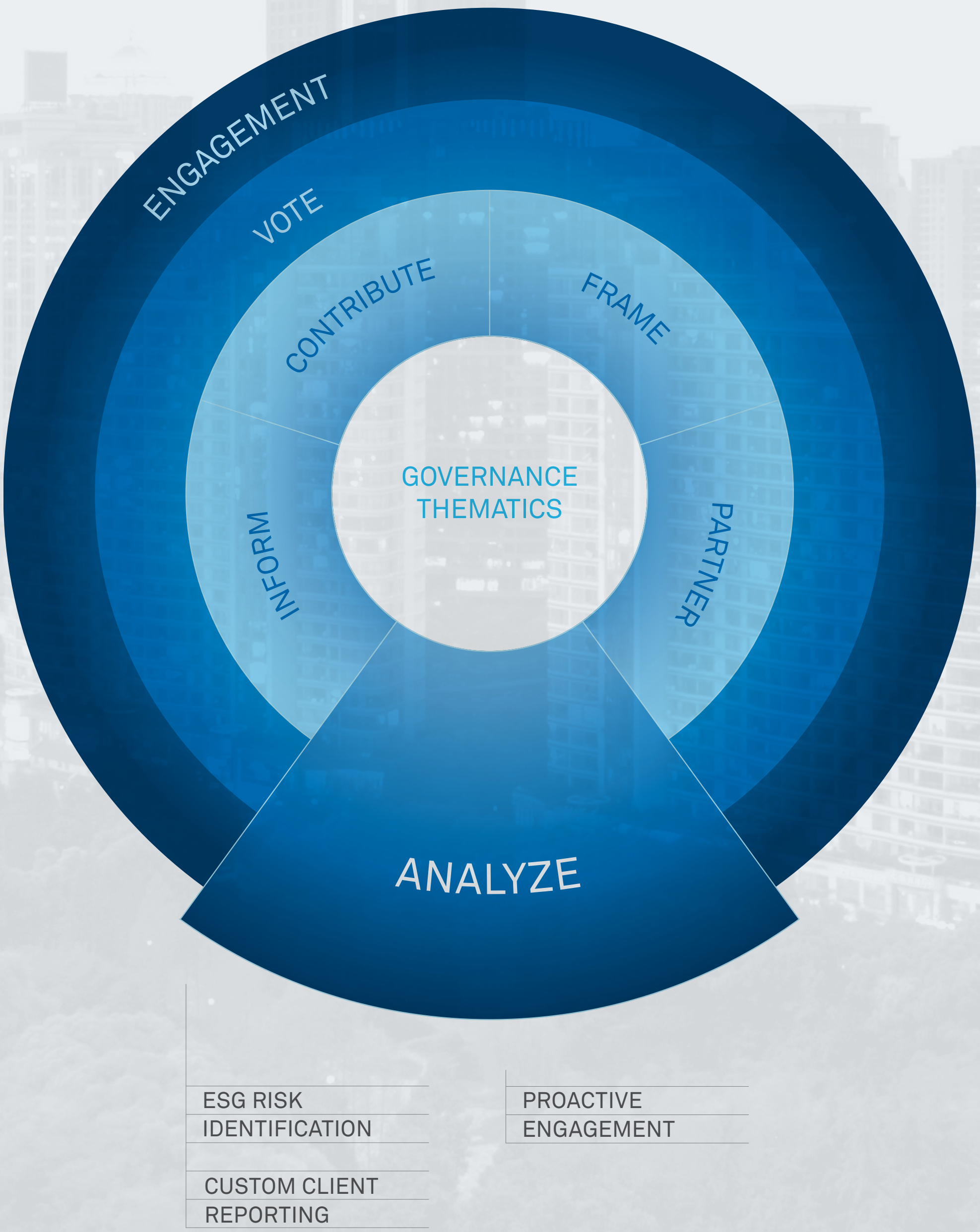
In another UK case, we were concerned with the process, strategy and execution for succession of a pharmaceutical company's chairman. We asked the board, through the senior independent director, to address these concerns. We also approached the company to better understand the governance process for nominating and appointing a new chairman. Ultimately, the CEO resigned from the company and the board announced a strategic review.

10 Japanese Medical Equipment Firm Retracts Bonus

A Japanese maker of medical equipment made a large retirement bonus payment to its founder on his sudden retirement, resulting in downward revision of its earnings. We expressed our concern to management about the payment and sought a public explanation as to how it served shareholder interests. This could avoid a potential high level of negative votes at the annual general meeting.

The company disclosed the rationale for its decision which prompted engagement by more shareholders, leading management to withdraw the proposal for a retirement bonus, which subsequently resulted in a rebound in revised earnings. The company then thanked BlackRock for its recommendations. The case illustrates how effective engagement can be and the potential benefit it can have in protecting client interest and shareholder value.

Analyzing Corporate Governance Involves a Variety of Inputs



Good corporate governance is complex. From a shareholder point of view, it involves in-depth analysis and an appreciation that there are different ways to run a company well. BlackRock supports unconventional approaches where we expect that they'll serve the interests of long-term shareholders.

To make a fair assessment of good governance, it helps to understand the local market's culture and regulatory environment. No one governance model works best universally, and even in comparing developed markets, such as Japan, the US and the UK, we find significant differences.

Our global team is well placed to review and address governance issues with an understanding of the local context. However, in most markets we find that financial transparency and the presence of directors who are independent of management and/or any controlling shareholders are key factors in reducing the risk of the negative financial consequences that can arise in a poorly governed company.

Figure 7: Overall ESG Performance—Key Performance Indicators Used in BlackRock's Governance Risk Model

Economic	Environmental	Social	Governance
▸ Client Loyalty	▸ Controversies	▸ Employment Quality	▸ Board Composition
▸ Brand Value	▸ Resource Reduction	▸ Health and Safety	▸ Board Structure
▸ Earnings Restatements	▸ Emission Reduction	▸ Training	▸ Board Functions
▸ Profit Warnings	▸ Product Innovation	▸ Diversity	▸ Compensation
▸ Insider Dealings		▸ Human Rights	▸ Shareholders' Rights
		▸ Community	
		▸ Product Responsibility	

HOW WE USE INTERNAL AND EXTERNAL RESOURCES FOR BEST ANALYSIS

A key activity is analyzing the ESG performance of portfolio companies to assess any risks and issues to monitor or engage on. We use our own proprietary methodology along with third-party research from several leading external resources to critically assess the ESG performance and risk exposure of our portfolio companies. Identifying companies that are best-in-class on ESG criteria, and conversely, are lagging their peers, helps us to prioritize our engagements, anticipate controversies and monitor portfolio-specific ESG risk exposure.

Putting our resources to best use is important. Accordingly, in certain markets, we work with vendors who apply our guidelines to filter out routine or non-contentious proposals. Referring those meetings where further research and possibly engagement is warranted ensures we focus on the most pressing governance concerns.

We rely on a third-party database to screen thousands of companies using hundreds of data points from publicly available sources such as annual reports, socially responsible investing websites and those of non-government organizations. It measures numerous key performance indicators to help assess economic, environmental, social and corporate governance performance.

PROXY ADVISORY FIRMS: JUST ONE OF MANY TOOLS

Using proxy advisory firms to synthesize information and analysis into a concise easily reviewable format allows the CGRI team to devote our efforts to additional research and engagement. The research from proxy advisors also helps us to identify those meetings which need to be prioritized in our workflow. These will generally be the meetings of companies with governance concerns or insufficiently clear reporting.

Using executive compensation as an example, given it is a topic that attracts a lot of attention, we would short-list those companies which have attracted a negative recommendation from one or more of the proxy advisory firms. We would review the proxy research, the company's own disclosures and other information sources such as compensation databases. If we are still concerned that pay practices are not aligned with shareholders' interests, we would engage the company to discuss our concerns and our policies on compensation (which are available on our website). The engagement could be with management if we are clarifying technical aspects of the policy (such as holding requirements) or with a board member if we are

VOTING DECISIONS

We do not follow any single proxy advisor's voting recommendations, but use several different inputs in our own analysis in advance of making our voting decision.

FOCUSED ANALYSIS

An in-depth review of compensation at each company takes at least two to three hours. We voted on 11,000 compensation proposals in 2012. The proxy advisory firms are an important tool to help us efficiently focus our efforts on those companies where there is a misalignment between rewards and performance.

deeply concerned about the policy overall. If we are not convinced that the company has a sound explanation for the current approach or will respond to our concerns in the near term, we will vote against the remuneration proposal, and in some markets against the re-election of the directors serving on the compensation committee. That said, in our experience, most boards meet our expectations by setting compensation policies that align management rewards with performance and returns to shareholders.

MARKET DISCIPLINE WORKS WELL

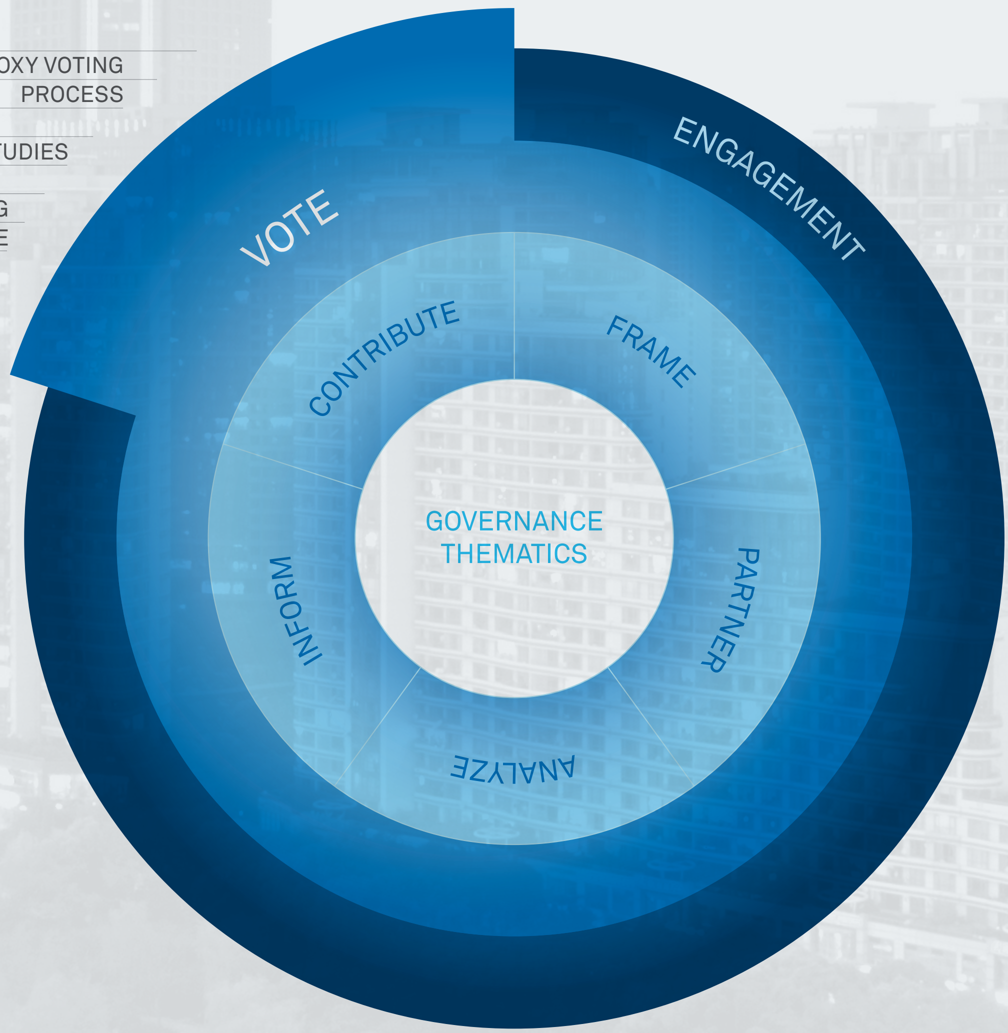
Some companies are concerned that proxy advisory firms might have undue influence over investors. We believe that investors should apply due diligence in holding their data providers, research vendors and proxy advisory firms accountable. Meanwhile, we've seen proxy advisory firms take steps to address potential conflicts of interest and increase transparency. As we have commented in the consultations undertaken in 2012 on the issue, we don't believe investors will benefit from codifying standards for transparency and avoidance of conflicts of interest in regulation. We believe that institutional investors are well positioned to impose market discipline on proxy advisory firms.

Voting in the Best Long-term Economic Interests of Shareholders

PROXY VOTING PROCESS

CASE STUDIES

EFFECTING CHANGE



One of our most important roles as a fiduciary is to vote at company annual general meetings and special meetings in the best long-term economic interests of shareholders.

Voting is an essential part of our efforts to protect and enhance shareholder value. It's the most broad-based form of engagement we have with companies, and it enables investors to provide feedback to the board while encouraging board and management teams to consider and address investor concerns. For the investments made through index-tracking strategies voting is also the only formal sanction over underperforming companies.

Figure 8: Proxy Voting Process as an Engagement Mechanism

Voting is the broadest based level of engagement we have with companies; it provides a routine opportunity for investors to provide feedback to the board and encourages board and management teams to consider and address investor concerns.

1 RESEARCH AND ISSUE SPOTTING

- Process begins with review of research from leading proxy advisory firms, company materials, broker research and other publicly available news flow as necessary
- Internally developed guidelines are applied in determining how to vote
- Straightforward meetings proceed to vote execution
- Remainder are flagged for additional research

2 REVIEW AND ENGAGEMENT

- In depth research and review of particularly complicated or controversial matters
- Leverage expertise of portfolio managers as necessary
- If warranted, schedule an engagement with the issuer's executives or board members to discuss key questions or concerns

3 VOTE EXECUTION

- Votes are executed through an electronic platform
- Vote positions reconciled against holdings to ensure clean operating environment
- For exceptional conflict issues, votes are cast as instructed by independent fiduciary
- Oversight committees receive monthly vote reports and generally meet quarterly to review voting

BlackRock tends to enter into a private dialogue with company management and boards where we have concerns. As a long-term investor we are keen to build constructive relationships with companies and we believe this is more likely if we allow them time to address governance issues before we escalate to voting against management recommendations. We do not disclose publicly or privately in advance of a meeting how we have voted or intend to vote. The one exception is that in markets where it is expected, we will privately advise the company when we intend to vote against management resolutions to ensure they understand the reason for our vote against and the change we expect of them.

TRANSPARENCY IN HOW WE VOTE

Just as we seek transparency in the companies in which we invest, as a responsible investor, we attempt to explain our stance on corporate governance and corporate responsibility to our clients, to companies and to others. Although we prefer not to publicly disclose the details of engagements with individual companies, we provide significant information on the scope of our work. Our corporate governance and engagement principles and our market-specific voting policies, as well as information about how we implement them, are published on the BlackRock website.

We provide clients with regular reports on our voting as well as quarterly commentaries outlining market developments and noteworthy voting and engagement. We file our voting record with the Securities and Exchange Commission each August and post it at blackrock.com. This annual CGRI review gives further context to the data.

We have a thorough process in place to help us determine how to vote. Regional committees of senior investment professionals oversee our guidelines and provide guidance in contentious situations. The CGRI team draws on the expertise of BlackRock's equity portfolio managers around the world in making voting decisions, and we use research from numerous leading proxy advisory firms. We also conduct our own research, based on company publications, media articles and other public sources of information.

We seek to reach a universal BlackRock view and vote all of our holdings consistently. However, to ensure that portfolio managers can execute votes in a manner consistent with their view of what is in the best interests of the clients invested in their fund, our process allows us to cast votes differently in those few cases where consensus can't be reached.

BlackRock has a clear policy on managing conflicts of interest and our procedures protect the independence of the voting decision from commercial or other influences. In addition, we use an independent fiduciary to vote proxies in any case where there is or may seem to be a conflict of interest and in any case where we are legally required to outsource a vote.

"We believe that concerns about governance should be shared privately with companies. When a company agrees to change its approach, we tend to support management and give them the opportunity to make improvements. To us, voting against management is a sign of failed engagement."

RICH KUSHEL
BlackRock's Deputy Chief Operating Officer

VOTING STATISTICS

BlackRock assesses shareholder voting case by case, considering each company's unique circumstances. As a large global investor, BlackRock votes at thousands of shareholder meetings, and decides on nearly 130,000 proposals each year.

Figure 9: Proxy Voting Process as an Engagement Mechanism

Region	Number of Meetings Voted	Number of Proposals	% of Meetings Voted Against One or More Management Recommendations*	% of Proposals Voted Against Management Recommendation*
United States	3,724	29,843	36%	7%
Americas (ex-US)	1,743	12,655	47%	12%
United Kingdom	944	11,554	14%	2%
Europe (ex-UK), Middle East and Africa	2,602	27,734	38%	8%
Japan	1,907	19,389	70%	16%
Asia Pacific (ex-Japan)	3,952	28,639	48%	12%
TOTAL	14,872	129,814	44%	10%

	Number of Proposals	% of Proposals Against Management Recommendation*
Management Proposals		
Anti-takeover and related proposals	1,069	23%
Capitalization	10,062	19%
Election of directors and related proposals	69,266	9%
Non-salary compensation	10,744	19%
Mergers, acquisitions and reorganizations	4,608	9%
Routine business	30,801	7%
Shareholder Proposals		
Compensation	147	5%
Corporate governance	97	32%
Election of directors and related proposals	2,531	5%
Miscellaneous social, ethical and environmental issues	489	7%

* Public companies generally provide shareholders with recommendations on how to vote.

VOTING IN PRACTICE

Although the majority of shareholder meetings are relatively routine and uneventful, each year we are involved in numerous high profile or contentious situations which require close analysis and engagement. The following examples give a sense of these and some general voting trends on topical issues.

1 Japan: Lack of Board Independence a Major Issue

“No” votes were much more common in Japan than elsewhere as a result of the general weakness among Japanese companies in establishing independent boards. We voted “No” on at least one agenda item at 70% of shareholder meetings in Japan from July 2011 to June 2012. The bulk of the votes against management in Japan followed our policy on the election of directors: We require companies to have an independent board wherever large block voters effectively exert control over the board.

2 Engagement Convinced BlackRock of the Company’s Commitment

At the annual general meeting of a European industrial firm, a key institutional shareholder placed several proposals on the agenda. They asked the company to change its dividend policy, and its practices on board independence and on executive and non-executive remuneration. BlackRock talked with the shareholder to better understand its concerns and then engaged with the company to understand its position. The key issue was variable remuneration. The shareholder sought support to remove variable pay for non-executive directors, introduce long-term incentive plans for executives and eliminate fees for shareholder representatives for their board work. The company assured us that it planned an independent externally conducted review of its incentive schemes for all employees—executives and non-executives. It also highlighted improvements to the board in recent years, including the addition of four independent non-executive directors and removal of the chairman/CEO from the remuneration committee. We supported management on all shareholder proposals as a result of the company’s commitment to review its governance practices.

3 Intense Proxy Fight Between Large Shareholders

A high-profile proxy fight between two large almost equal-sized shareholders of an Italian construction firm led to extensive engagement. The situation was shaped by Italy's *voto di lista* mechanism, whereby controlling shareholders and minority shareholders submit lists of nominee directors as a slate. Generally, this ensures a relative proportion of representation for minority shareholders. In this case, two large controlling shareholders had competing visions for the company and each sought control of the board to move forward their agenda. BlackRock engaged extensively with both large shareholders and with company management and sector analysts at brokerage houses to understand the implications of each strategic path. We also sought to understand how each shareholder would be prepared to work with the other if they won. BlackRock supported the slate that represented the company's incumbent management, which lost, as we believed to do otherwise would be an unwarranted vote of non-confidence. We continue to monitor developments at the company.

4 Japanese Paper Company Repays Former Chairman's Gambling Debts

The former chairman and member of the family that founded a Japanese paper company was arrested for using large sums of money from the company for gambling. The company board was unaware of this and the auditors failed to act properly. The company even made bonus payments to directors, who had failed to notice the inappropriate activity. BlackRock met with the company to convey concerns and voted against the problematic payments. The founding family has repaid all losses by selling its ownership stake in the company.

5 Focus in Asia ex-Japan on Capital Structure, Board Structure, Remuneration and Protecting Shareholder Rights

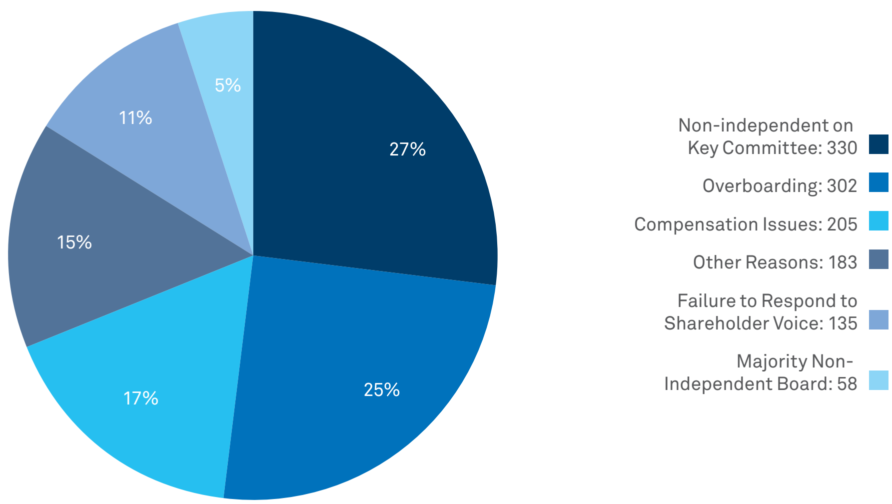
Across Asia ex-Japan, BlackRock voted against at least one resolution at just over half of the 3,952 meetings we voted at for the year ended June 2012. Top issues included:

- **Capital Structure:** Issuance of dilutive equity or debt securities without a clear rationale disclosed
- **Board Structure:** Issues include lack of independent board members, poor committee structure, poor meeting attendance and lack of disclosure on board nominees
- **Remuneration:** Excessive remuneration; pay not tied to performance; potential conflict-of-interest situations (beneficiaries sit on remuneration committee)
- **Various:** Bundled resolutions and amendments to articles that erode shareholder rights

6 Three Significant US Concerns: Independent Directors, Overboarding and Majority Rule

We expect there to be a sufficient number of independent directors on the board to ensure the protection of the interests of all shareholders. We may vote against a director for independence concerns if they are on a key committee or if they have committed themselves to a large number of boards thereby not giving them sufficient focus and time to represent shareholders well. Majority rule is a widely accepted concept for voting in general. Yet at many US companies, directors don't need to receive 50% of shareholder votes to be elected. BlackRock strongly advocates for majority voting as a core governance concept. This applies both as a requirement for a director to be seated and for a current director to remain on the board. We believe that a director who can't gather support from at least half of the shareholders voting at a meeting ought not to be seated as a representative of shareholders.

Figure 10: Most Common Reasons BlackRock Voted Against Directors in the US



7 Promoting Shareholder Value in a Merger

An operator of US and Canadian stock exchanges and securities clearing houses agreed to a merger of equals with a rival firm. An alternative party then made a competing offer of apparently higher economic value. Each prospective deal had some appeal for shareholders. We sought to maximize shareholder value in this competitive bidding situation. We conducted an economic analysis with an internal team of expert portfolio managers, and then engaged with the company and hostile bidder to ensure a full understanding of the offers and share BlockRock's areas of potential concern. Ultimately, we voted against the proposed merger of equals to allow the more favorable alternative offer to proceed. The original offer was terminated for lack of shareholder support, regulatory risks associated with the hostile merger proposal were resolved and a tender process was announced at a 13% premium to the value of the original offer.

8 Alleged Foreign Corrupt Practices

Allegations of bribery at the Central American subsidiary of a large US-based retailer led to investigations by the SEC and US Department of Justice into possible violations of the Foreign Corrupt Practices Act. The company had international anti-corruption compliance efforts in place but didn't seem to have done much to mitigate certain risks at the subsidiary.

BlackRock supported a shareholder proposal to disclose political contributions at the parent company, which was accused of knowing about the allegations but not taking concrete actions to investigate the matter. Ultimately, in addition to supporting the shareholder proposal, we decided to oppose the election of directors who were implicated in the allegations, some of whom were on the management team.

9 Shareholder Proposal to Split Leadership Role at French Bank

Following engagement by the CGRI team, we supported management on a shareholder proposal to split the roles of chairman and chief executive. Although we would normally expect the roles to be separate in French companies, we took into consideration the safeguards to achieve a balance of power that the company had in place, the commitment the board made to keep the situation under review and the fact that the company had other strategic issues to address near term.

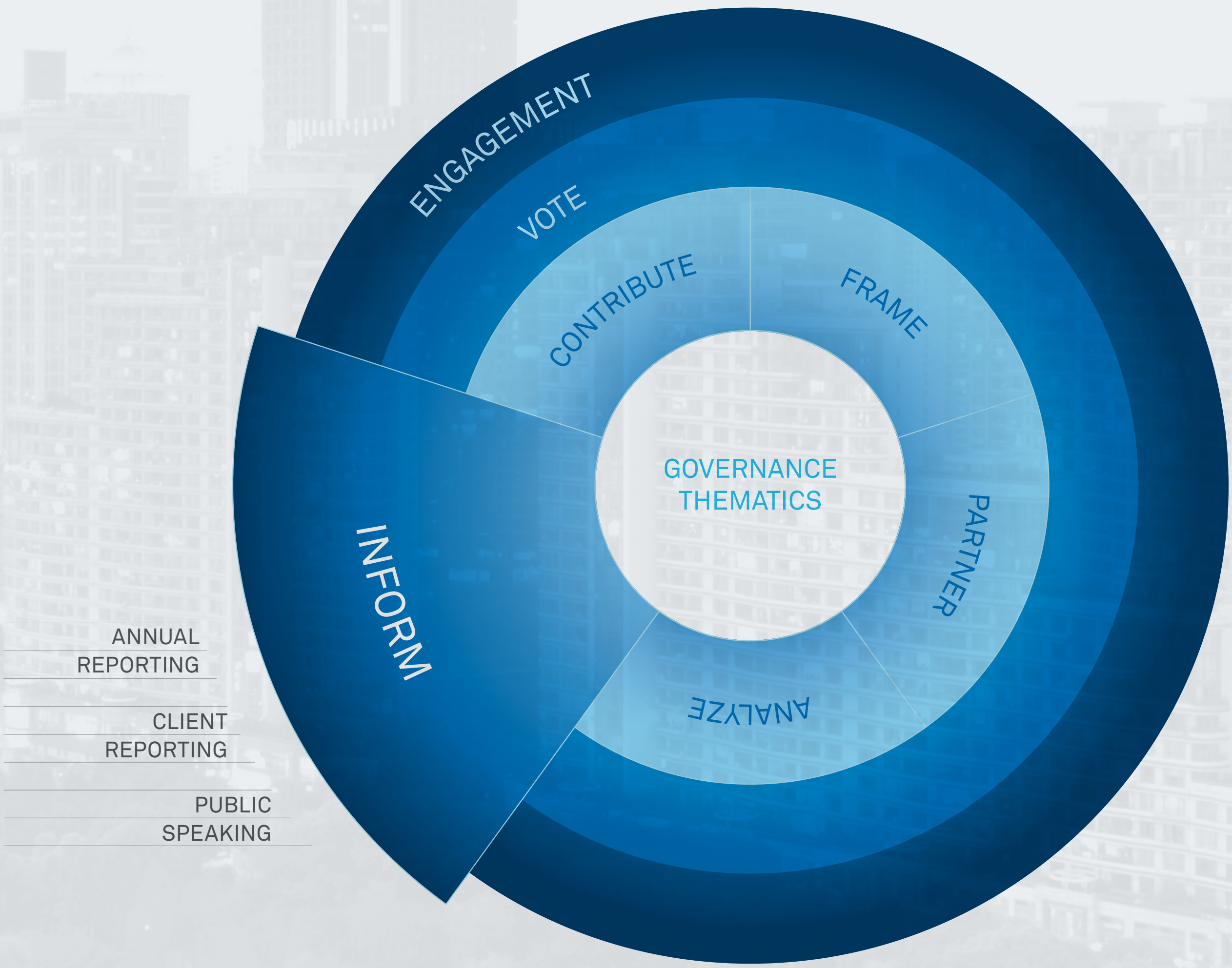
10 Shareholder Activism at Investment Trust

A shareholder activist tabled a shareholder proposal at the annual meeting of a UK investment trust for a second year running. The shareholder was concerned that the company's shares traded at a discount to net asset value and sought a commitment from management to undertake a comprehensive review of the business, including the possibility of outsourcing investment management to an external manager. A second part of the proposal sought an exit strategy for shareholders closer to net asset value. We engaged separately with the shareholder proponent and the company, which had recently appointed a new chairman, as well as other stakeholders. We found the latter part of the proposal to be too rigid, particularly in light of the change in leadership, so voted in support of management..

11 Support for Independent Board Member at Russian Mining Company

We held separate meetings with three board members of a Russian mining company ahead of yet another contested shareholder meeting. In addition, we met with an independent candidate seeking appointment to the board. Ultimately, we supported the independent candidate based on his focus on the sustainability and operational challenges that the company will need to address, such as improving employee safety and reducing environmental impacts, as well as cost control and reporting, production efficiency and capital expenditure.

Quality Information, Shared Widely, Provides Insight



> “Our approach to corporate governance mirrors our approach to investing. We act in the best economic interest of our investors, informed by the very best academic research, and our day-to-day experience in the markets.”

RON KAHN

Global Head of BlackRock’s Equity Research, Scientific Active Equity

Corporate governance and responsible investment is an evolving practice and BlackRock is committed to continuing to refine our approach through learning from others and sharing our perspectives. To that end, the CGRI team participates actively in the public debate around responsible share ownership, shareholder rights and corporate governance. The team also shares internally the insights gained through those external exchanges and our own research and benefits from the market and technical expertise of colleagues. Being able to draw on quality information and unique perspectives improves our decision-making and enables us to provide better informed commentary to clients and other interested parties.

OVERSIGHT COMMITTEES ADD DEPTH AND PERSPECTIVE

In each region the CGRI team benefits from the counsel of a corporate governance committee which acts as an information exchange and a sounding board on a range of topical and controversial issues. The committee members are senior investment professionals from relevant investment areas—fundamental equity, scientific active equity and index—augmented by ex-officio representatives from Legal and Risk. Their input helps ensure that the CGRI team’s work is always undertaken in a shareholder value context and that the team is alert to market developments.

Our regional committees oversee:

- Americas
- Europe, Middle East and Africa
- Asia ex-Japan
- Japan
- Australia and New Zealand

The regional oversight committees approve the proxy voting guidelines developed by the team for their regions, monitor reports on the CGRI team’s engagement and proxy voting activities, provide advice on high-profile and controversial governance situations and consider regional policy issues.

Regional policy perspectives are shared through the global corporate governance committee, which includes the chair and vice chair of each regional oversight committee plus representation from senior members of the Legal and Risk teams. The global committee is also responsible for confirming the appointment of the independent fiduciary to which we outsource voting in those situations where it is required by regulation or where BlackRock has a conflict of interest.

THE WIDER DEBATE

As noted, we inform clients about our voting and engagement policies and activities through direct communication and through disclosure on our website. We also contribute to the body of knowledge about governance and responsible investing through participation in market surveys and academic research, in working groups promoting changes to address market deficiencies and in conferences and publications to build understanding and air new thinking. Some examples of this aspect of the CGRI team's work in 2012 are set out below.

1 Stewardship 2020

BlackRock in the UK is a member of the Investor Stewardship Working Party focused on improving the quality of stewardship exercised by institutional investors. The findings of the working party were published in 2012 as the "2020 Stewardship" report.

Its recommendations include:

- The development of a Stewardship Framework for equity investors to identify the level of stewardship they intend to undertake. It is envisaged that signatories to the code would complete this framework providing a common basis for comparison. This is to help asset owners to make more informed decisions.
- A series of good practice steps that would enable investors and companies to make better use of each other's time.
- A feedback mechanism between companies and investors so that the quality of stewardship can be further improved over time.
- Suggestions for companies to build up a critical mass of stewardship investors.
- Develop guidance on how to implement the recommendations, in collaboration with key market participants such as the Financial Reporting Council and the Institute of Corporate Secretaries and Administrators.

ENERGY AND ENVIRONMENTAL ISSUES

BlackRock is committed to continually learning about issues in the field of corporate governance and social, ethical and environmental issues, and using that knowledge to improve the work we do on behalf of clients.

In 2012, we conducted deep dives into the topics of corruption, water use and energy, and conducted sustainability training for the CGRI team through Ceres/INCR.

BLACKROCK INVESTMENT INSTITUTE

The BlackRock Investment Institute produces information and thought leadership, and promotes systematic knowledge sharing across BlackRock. The Institute hosted a discussion by a historical climatologist with 40 of our senior portfolio managers on the short and long-term implications of weather patterns for global commodity and energy markets.

2 Academic Research Contest Promotes New Thinking

BlackRock co-sponsored a contest on academic papers on corporate governance and responsible investment in association with the US National Association of Corporate Directors (NACD). The goal is to encourage thought leadership, help develop the next generation of business leaders and apply new academic theory to business practice. Financial awards will be given to the best submissions along with the opportunity to present the paper at an NACD conference.

3 Commenting in an Article on Corporate Governance Reform In Malaysia

In our experience, reforms that have involved practitioners, both companies and investors, tend to be implemented more effectively. Where reform is imposed, companies tend to meet the minimum possible standards with "boiler plate" information in their public disclosures that does not capture the spirit of the corporate governance recommendations. A company's attitude to corporate governance is influenced by a range of factors such as their ownership structure, the size of their international business (and related exposure to different, global practices) and the diversity of the experiences of the board members, to name but a few. For family controlled and managed companies, receptiveness to corporate governance can improve when the younger generation moves into the key management positions. It should also be recognized that moving towards higher standards does not happen overnight and often a gradual, considered approach is less disruptive.

4 Japan: Rethinking Energy Risks, Opportunities

Japan is rethinking its entire energy plans and consequences after the catastrophic March 2011 earthquake and tsunami that struck Japan's nuclear plants. We held an internal training program on the risks and opportunities for shareholders regarding energy in Japan. This provided an excellent opportunity to embrace new ways of thinking about investing and leveraging regional intellectual capital and experience.

5 Brazilian Meetings Forge Closer Ties, Deepen Understanding

In Brazil, BlackRock has met with issuers and institutional investors to strengthen our relationships with key market participants, and to deepen our understanding of local market forces that shape Brazil's distinctive governance standards. We're using the information from these meetings to improve our analysis of shareholder meetings and will release updated proxy voting guidelines for Brazil for 2013.

6 Americas: Deepening and Broadening Our Understanding

In the Americas region, the CGRI team did an in-depth exploration into energy markets, exploring renewable and non-renewable energy resources, examining companies in both of those markets and researching risks and opportunities associated with decisions on energy use by real estate developers. We used a mix of independent research projects, external training events and meetings with market participants. We then presented our findings to colleagues to ensure effective cross training.

DIVERSITY SCARCE IN AUSTRALIAN BOARDROOMS

The following is a summary of a comment paper on gender diversity at Australian companies we published in 2012.

Company boardrooms and senior executive roles in Australia are still largely filled by men, a stark contrast with the advances made by women in the public sector, and particularly in higher education. BlackRock Australia's research reveals that women account for a little over 14 percent of the non-executive directors and 2.5 percent of the executive directors of Australia's 200 largest listed companies. Women make up just 8.3 percent of "key management personnel"[1] in Australia's biggest public companies and tend to be in the "pink ghettos" of human resources, finance and procurement.[2] Breaking into operational leadership has proven difficult.

We believe that raising women's representation in senior operational roles is the key to increasing their boardroom presence. But it seems that the business case for diversity is still not well understood or widely accepted. It is a governance issue because companies can benefit from bringing together a greater variety of perspectives, grounded in different experiences and backgrounds. A more diverse board can enrich debate and promote independent views and more constructive analysis. In an increasingly talent-constrained world, women represent a profoundly underutilized talent pool capable of bolstering companies' competitiveness.

Being serious about diversity requires making it a core CEO and executive function. This would move diversity from being a moral imperative to a permanent business agenda item. The cause of championing gender diversity resides with the CEO. Ultimately, a firm will know when it has reached the summit when diversity is in its DNA, when it is embraced and practiced as normal everyday activity.

1. BlackRock Australia survey of ASX 200 companies.
2. *The Australian*, "Women stifled by 'pink ghettos'," 12/1/11.

7 Excerpt From an Article on Board Effectiveness That Blackrock Contributed to the Newsletter of The French Corporate Governance Association

Discussions with senior management, board members and advisors to boards suggest that these characteristics are common among boards of companies that are successful over the longer term:

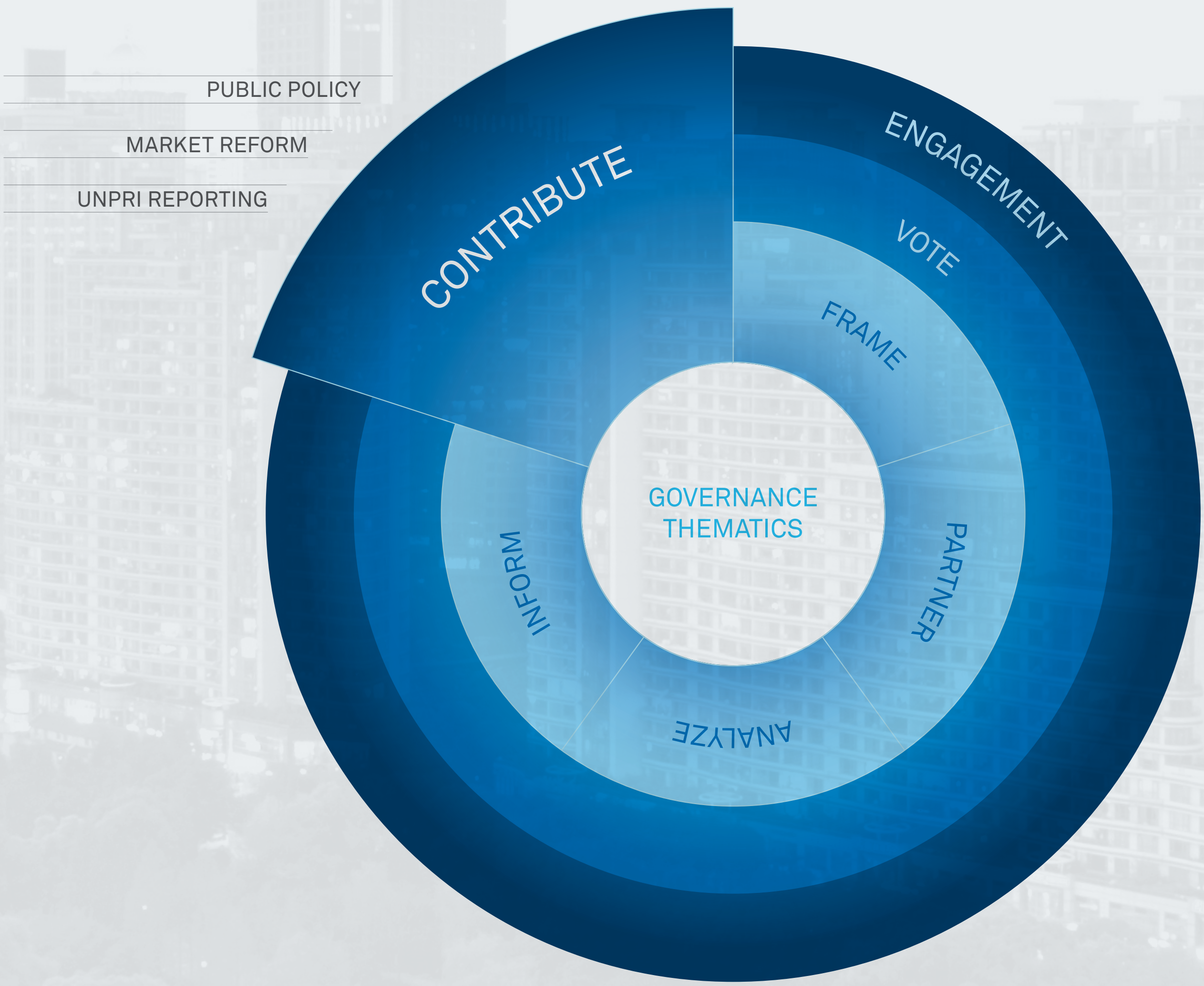
- First and foremost, active and objective leadership by a credible, independent chairman or equivalent to balance the power of the chief executive and to provide counsel when needed
- Experienced, qualified directors with diverse perspectives, skills and experiences
- Regular introduction of new directors to ensure a managed succession for key board roles and periodic review of the board's modus operandi
- A formal appointment process that starts with "what is the role?" and involves a thorough search for candidates, including those from outside the circle of "usual suspects"
- Periodic board and committee evaluations to review composition and performance
- Shared understanding between the board and management as to roles, responsibilities and accountabilities
- Recognition by board members that they are accountable to (they work for) shareholders and serve at their pleasure
- A focus on those things that only the board can do

KEY SPEAKING EVENTS

CGRI team members spoke at over 75 events in 2012. Some of the highlights were:

- National Association of Pension Funds (NAPF) Annual Conference 2011: *"The Stewardship Code—A Cost/Benefit Analysis"*
- Company Secretary FTSE 350: *"Key Themes in ESG Reporting"*
- Institutional Investors Council Conferences Amsterdam: *"Integration of ESG into the Investment Process"*
- Principal Officers Association of South Africa: *"It's a New World—ESG Integration in the Investment Process"*
- European Institute of Public Administration: *"New Developments in Corporate Governance for Financial Firms."*
- Japan Securities Investment Advisory Association: *"Theory and Practice of Corporate Governance"*
- Japan Investor Relations Consulting Seminar: *"Trends in Corporate Governance"*
- Association of Chartered Certified Accountants CFO Summit: *"Importance of Corporate Governance in Asia ex-Japan"*
- BAML Innovation Speaker Series: *"Sustainability in Asia"*
- Australian Investor Relations Association: *"Proxy Voting and Company Engagement in Australia"*
- Chartered Secretaries Australia: *"The Future of the AGM"*
- ESG Research Australia: *"Incorporating Environment, Social and Governance Issues in the Investment Process"*
- Responsible Investor Magazine and MSCI: *"Integrating ESG Research into a Mainstream Investment Process"*
- The Activist Investor Conference: *"Using Good Corporate Governance to Affect Your Strategy"*
- Aspen Institute Academic-Practitioner Roundtable: *"Rethinking 'Shareholder Value' and the Purpose(s) of the Firm"*
- National Investor Relations Institute: *"Year Two of Say on Pay in the US"*
- NYSE Euronext and Corporate Board Member Annual Boardroom Summit: *"Value Creation, Strategy and Compensation"*
- West Coast Integrated Reporting Roundtable: *"The Investor Perspective on Integrated Reporting"*
- American Bar Association 2012 Spring Meeting: *"Understanding the Role and Impact of Governance Ratings"*
- Commit! Forum: *"Advancing Corporate Responsibility: Transformational vs. Incremental Change"*
- International Corporate Governance Network: *"Stewardship—Defining Future Priorities for Practical Action"*
- US Social Investment Forum: *"Company Engagement—in the Public Eye or Behind Closed Doors?"*

The Investors' Perspective and Public Policy



“What differentiates BlackRock on public policy issues is the way in which we embrace change and our constructive and collaborative approach to finding workable, practical solutions that balance costs with benefits.”

BARBARA NOVICK

BlackRock’s Head of Government Relations and Public Policy

Asset managers act as fiduciaries; consequently, a focus on clients is central to the asset management business model. In recognition of this fiduciary responsibility, BlackRock has identified financial regulatory reform as a critical issue for our clients. We support the creation of a regulatory regime that increases transparency, protects investors and facilitates responsible growth of capital markets, while preserving consumer choice and assessing benefits versus implementation costs. Historically, investors’ participation in public policy debate has been limited. However, we believe the investor perspective is critical to consider, especially given the current scope and implications of regulatory reform. As a result, BlackRock has actively engaged in discussions with policymakers on a wide range of financial regulatory reform topics, including the governance framework and shareholder rights. Our responses to policy consultations are published on the public policy section of the BlackRock website.

In addition, we participate in governance-focused organizations that themselves help shape the framework within which our governance program is conducted. BlackRock is a signatory to the UN-backed Principles for Responsible Investment. We are actively involved in the International Corporate Governance Network and International Standards Organization among other industry groups. We also participate in numerous other organizations focused on accountability standards, corporate governance, and social, ethical and environmental investments.

SOUND REGULATORY FRAMEWORK

We submitted comments to approximately 20 formal policy consultations in 2012 and participated in several informal policy-related initiatives, some examples of which are below.

Europe was our area of focus in terms of governance-related policy consultations during the year. The full version of our comment letters are on our website. The following gives a sense of our positions on key European policy issues:

- On stewardship: In response to the Kay Review of UK Equity Markets and Long-term Decision-making
  We define stewardship as protecting and enhancing the value of the assets entrusted to us by our clients. A subtle but important distinction exists between this and the stewardship responsibilities of board of directors and company executives, namely to protect and enhance the value of the company over time. As shareholders, our stewardship responsibility is to our clients. Yet we perceive a widespread belief that stewardship implies that shareholders have a responsibility to engage with companies and “make them better.” This confuses the two responsibilities. Sometimes fulfilling our stewardship responsibilities to clients will involve engagement with companies; other times it will necessitate selling or reducing a shareholding if we cannot protect our clients’ interests through engagement, which should not be seen as a derogation of our duty, but a fulfillment of it.

Figure 11: Organizations in which BlackRock is Involved by Region

Americas	Europe, Middle East and Africa	Asia Pacific
▶ Aspen Institute Corporate Values Strategy Group ▶ Associação de Investidores no Mercado de Capitais ▶ Broadridge Domestic Steering Committee ▶ Canadian Coalition for Good Governance ▶ Conference Board, Global Corporate Governance Research Center ▶ Council of Institutional Investors ▶ CERES / Institutional Network on Climate Risk ▶ Harvard Program on Institutional Investors ▶ Stanford Institutional Investor Forum ▶ Sustainability Accounting Standards Board	▶ Association of British Insurers ▶ Executive Investment Advisory Panel ▶ Investment Committee ▶ Corporate Reporting User Forum ▶ Corporate Governance Forum ▶ Eumedion ▶ European Fund & Asset Managers Association ▶ Financial Reporting Council ▶ FTSE Policy Group ▶ Institutional Shareholders' Committee ▶ National Association of Pension Funds (NAPF) ▶ Shareholder Affairs Committee ▶ UK Social Investment Forum ▶ UK Takeover Panel Code Committee ▶ Institutional Investor Group on Climate Change	▶ Asian Corporate Governance Association ▶ Australian Institute of Company Directors ▶ China Water Risk ▶ Conference for the Promotion of Corporate Governance ▶ Financial Services Council ▶ Investor Group on Climate Change ▶ Japan Finance Association ▶ Japan Society MPT Forum ▶ Responsible Investment Association Australasia ▶ Japan Focus Group

Global	
▶ Broadridge Global Steering Committee ▶ Carbon Disclosure Project ▶ International Corporate Governance Network ▶ International Standards Organization Securities Evaluation Group	▶ United Nations Principles for Responsible Investment ▶ International Integrated Reporting Council

- **On the role for shareholders in determining executive pay: In response to the UK Department of Business Innovation and Skills Consultation on Shareholder Voting on Executive Remuneration**
  We are concerned that an annual binding vote on remuneration policy will lead to even greater standardization of remuneration policies and a higher number of consultations by companies on executive pay policies, to the detriment of engagement on governance matters more directly tied to long-term shareholder value. In addition, making shareholders more involved in the setting of pay disperses responsibility away from the board, which has the insight and information necessary to ensure effective policies.

- **On mandatory auditor rotation: In response to various consultations on audit quality and related matters**
  We are supportive of mandatory reconsideration of the incumbent auditor at regular intervals, but not supportive of a mandatory change in auditor. Mandatory reconsideration would provide the audit committee with flexibility to select the most qualified auditor and would encourage a periodic review of policies and practices as part of the tendering process. We do not support mandatory auditor rotation principally because we are not aware of any empirical evidence that indicates that mandatory rotation would improve auditor independence and skepticism. While auditor rotation may theoretically reduce certain risks, it also is likely to create other risks, such as loss of auditor institutional knowledge and a reduced incentive for audit firms to invest in the audit relationship by relocating the most qualified personnel or investing in travel and training to learn the business.

1 Contributing to Discussions in Japan

BlackRock Japan is looked to as a thoughtful, progressive voice in public forums. We contributed to a Japanese government-hosted discussion on new environmental guidelines and a roundtable discussion organized by the International Integrated Reporting Council, a group leading the development of a global framework for company reporting that integrates the material ESG aspects of corporate performance. We're also a member of two study groups hosted by the Ministry of Economy, Trade and Industry. One is drafting a code of conduct for outside directors while the other is promoting better disclosure practices among Japanese corporations.

2 Ownership Disclosure Requirements Under Review

We attended a seminar in Moscow to present our corporate governance and engagement approach when investing in Russia. Our discussions included issuers, the Federal Service for Financial Markets (FSFM), legal advisors and depositary banks. We provided a shareholder's perspective on the introduction of quarterly ownership disclosure requirements that are being considered by the FSFM.

3 UK: A Market Solution to Get More Women on Corporate Boards

In the UK, BlackRock encourages greater representation of women on corporate boards through participation in the 30% Club, of which we are an investor member. The goal of the initiative is to have women make up 30% of board members by 2015. It seeks to bring more women onto UK corporate boards through commitments from board chairmen rather than through mandated quotas. The investor members of the 30% Club engage companies on the issue of board diversity directly and when voting to reelect board members. We support the club, consistent with our belief in practitioner-led versus regulator-led market solutions.

4 Australia: Protecting Minority Shareholders as Rules Change

BlackRock weighed in on an Australian proposal that would allow small- to mid-cap companies, including many fledgling mining firms, to seek a 12-month shareholder mandate to issue 10% of issued capital on a non-pro rata basis at a maximum 25% discount to market price.

In our comment letter we explained that our preference would be that the proposal requires 75% support from shareholders as a special resolution, rather than a simple majority. Because many of these companies are in an early development/exploration phase and have low liquidity, limited access to debt financing and little if any operating revenue, a special resolution would provide better protection for minority shareholders. The 75% voting requirement would not be an obstacle for firms whose boards have a demonstrable record of prudent capital management.

5 US: Caution on Public Notification

In the United States, a petition was submitted to the SEC seeking to give investors less time before they have to notify the public when increasing their stake in a company beyond 5%. We believe the requested changes could have far-reaching unintended consequences such as a significant and costly reporting burden. BlackRock and other market participants have engaged with the SEC on this issue in person and through public events.

6 UNPRI Consultation on Reporting

BlackRock contributed to the consultation on the UNPRI reporting framework, adding to the dialogue around comparable and standardized reporting on stewardship activities conducted by asset managers. This important initiative will hopefully lead to an effective and efficient mechanism via which asset managers can report the unique ways in which we each implement the principles.

BLACKROCK AND THE UNITED NATIONS PRINCIPLES FOR RESPONSIBLE INVESTMENT

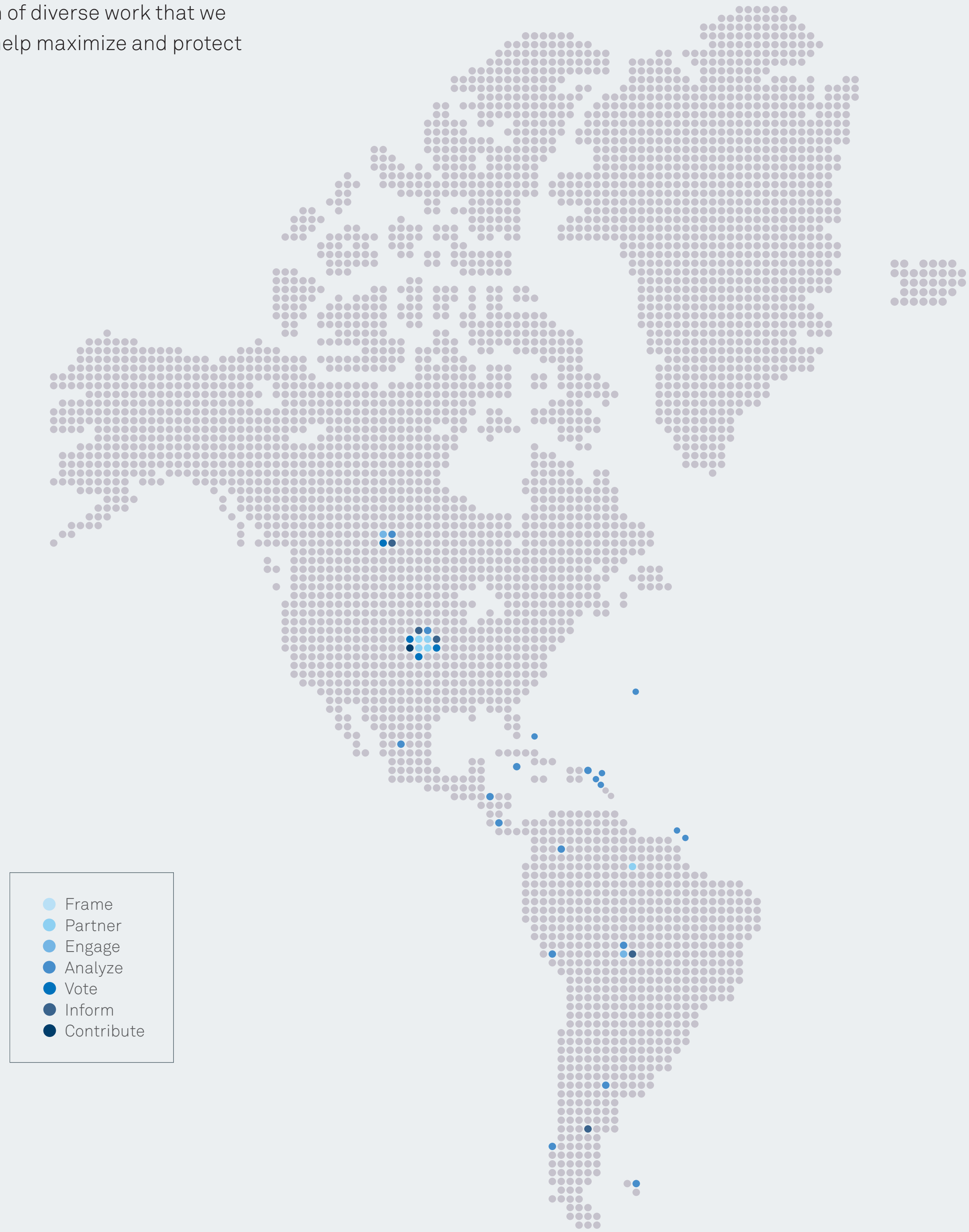
The six aspirational statements of the United Nations-backed Principles for Responsible Investment provide a framework within which environmental, social and governance (ESG) issues can be taken into account in investment decision-making and engagement with companies, clients and others. BlackRock has been a signatory since 2008. This table sets out the work of the CGRI team in the context of the Principles.

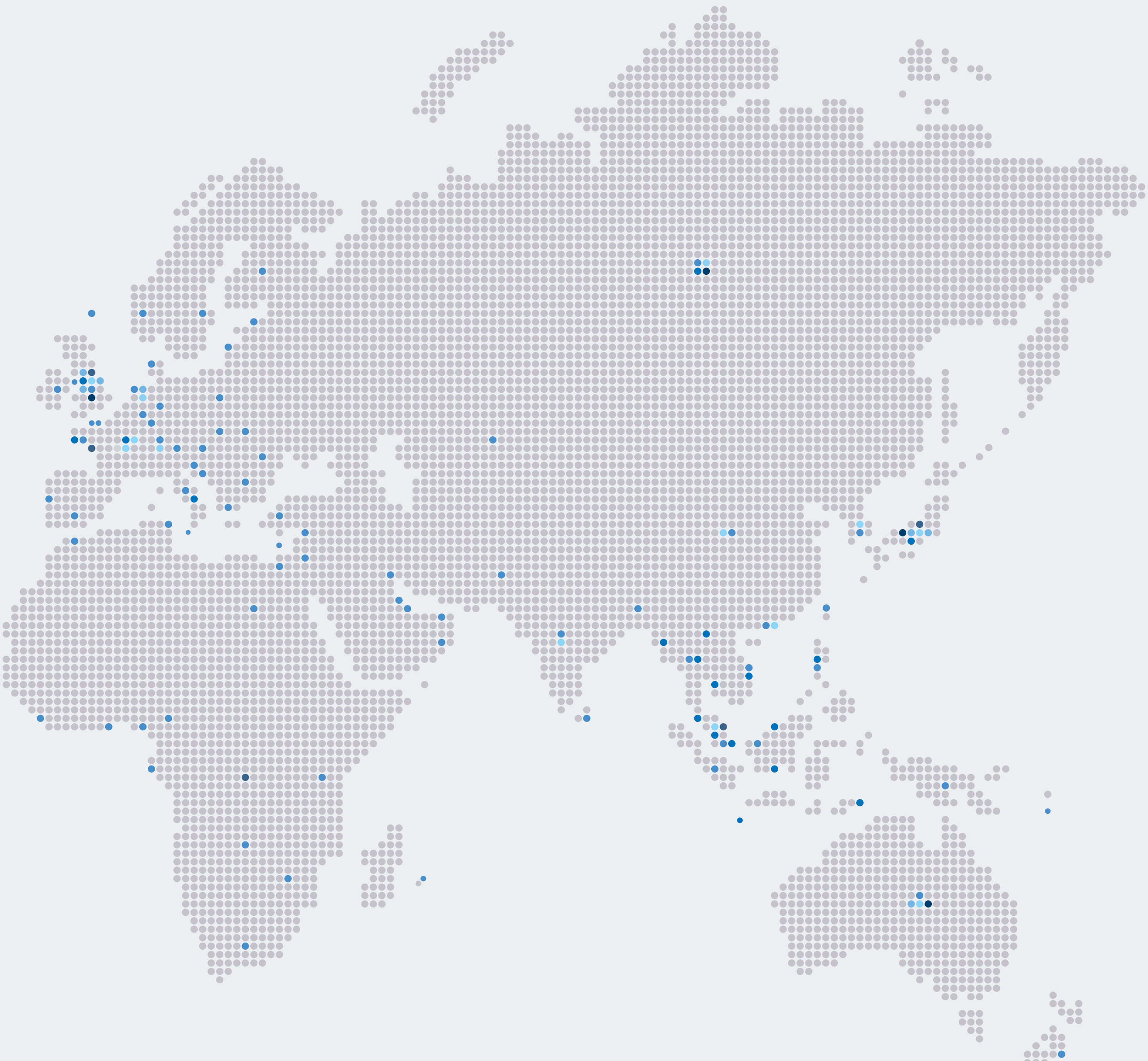
Principle	In support of this Principle for Responsible Investment, BlackRock:
1 **We will incorporate ESG issues into investment analysis and decision-making processes**	▸ Has developed a proprietary model to provide fundamental portfolio managers with an ESG risk signal for each company in their investible universe ▸ Uses its proprietary ESG-risk mod el to identify companies in index-tracking portfolios that lag their peers and prioritize them for engagement ▸ Offers index-based funds with screens on environmental and social factors including tobacco, alcohol, defense, gambling and human rights ▸ Provides tailored ESG screens to clients' specifications ▸ Invests more than US$200 billion in ESG strategies globally as of June 2012 ▸ Supports research into ESG matters, in particular through partnerships with academic institutions (e.g., Stanford University) ▸ Provides training internally on ESG considerations
2 **We will be active owners and incorporate ESG issues into our ownership policies and practices**	▸ Publishes and updates annually our Global Corporate Governance and Engagement Principles and suite of region-specific voting guidelines ▸ Engages with over 1,500 companies a year, prioritizing those where we assess there is potential for material economic ramifications for investors that may not be being fully addressed by the board ▸ Votes at approximately 15,000 shareholder meetings a year ▸ Participates in the development of market policy, regulation and standard setting globally ▸ Contributes to collaborative engagement initiatives (where allowed by law)

Principle		In support of this Principle for Responsible Investment, BlackRock:
3	**We will seek appropriate disclosure on ESG issues by the entities in which we invest**	▸ Encourages companies to report on ESG issues where appropriate and material to the economic viability of the business and the long-term economic health of the company ▸ Encourages companies to communicate promptly and clearly when there are incidents stemming from ESG factors ▸ Requests information from companies regarding adoption of and/or adherence to relevant market best practices or international initiatives ▸ Supports where appropriate shareholder initiatives that do not seek to micromanage a company's business or that promote the long-term economic interest of fund investors
4	**We will promote acceptance and implementation of the Principles within the investment industry**	▸ Supports regulatory or policy developments that enable implementation of the Principles (e.g., initiatives to guarantee shareholders a meaningful vote in corporate elections and policies to ensure shareholders can collaborate) ▸ Raises awareness of PRI through our public speaking and private dialogues ▸ Engages clients on ESG issues, as required, including offering education on developments in the marketplace and how our work is consistent with the PRI ▸ Actively engages the PRI Secretariat to raise awareness of implementation issues
5	**We will work together to enhance our effectiveness in implementing the Principles**	▸ Supports and participates in networks and similar initiatives to enhance our effectiveness and understanding (e.g., Institutional Investor Group on Climate Change, Council of Institutional Investors, International Corporate Governance Network, Eumedion, Aspen Institute, etc.) ▸ Considers opportunities to collectively address relevant emerging issues at a market-wide or policy level ▸ Considers supporting collaborative initiatives
6	**We will each report on our activities and progress towards implementing the Principles**	▸ Discloses how ESG issues are integrated within the investment process ▸ Discloses our active ownership activities (voting, engagement and policy work) ▸ Participates in the annual PRI survey and, in 2012, provided input into the review process ▸ Reports to clients on proxy voting and engagement

Our Global Governance Impact

This map illustrates the breadth of diverse work that we perform on behalf of clients to help maximize and protect the value of their assets.





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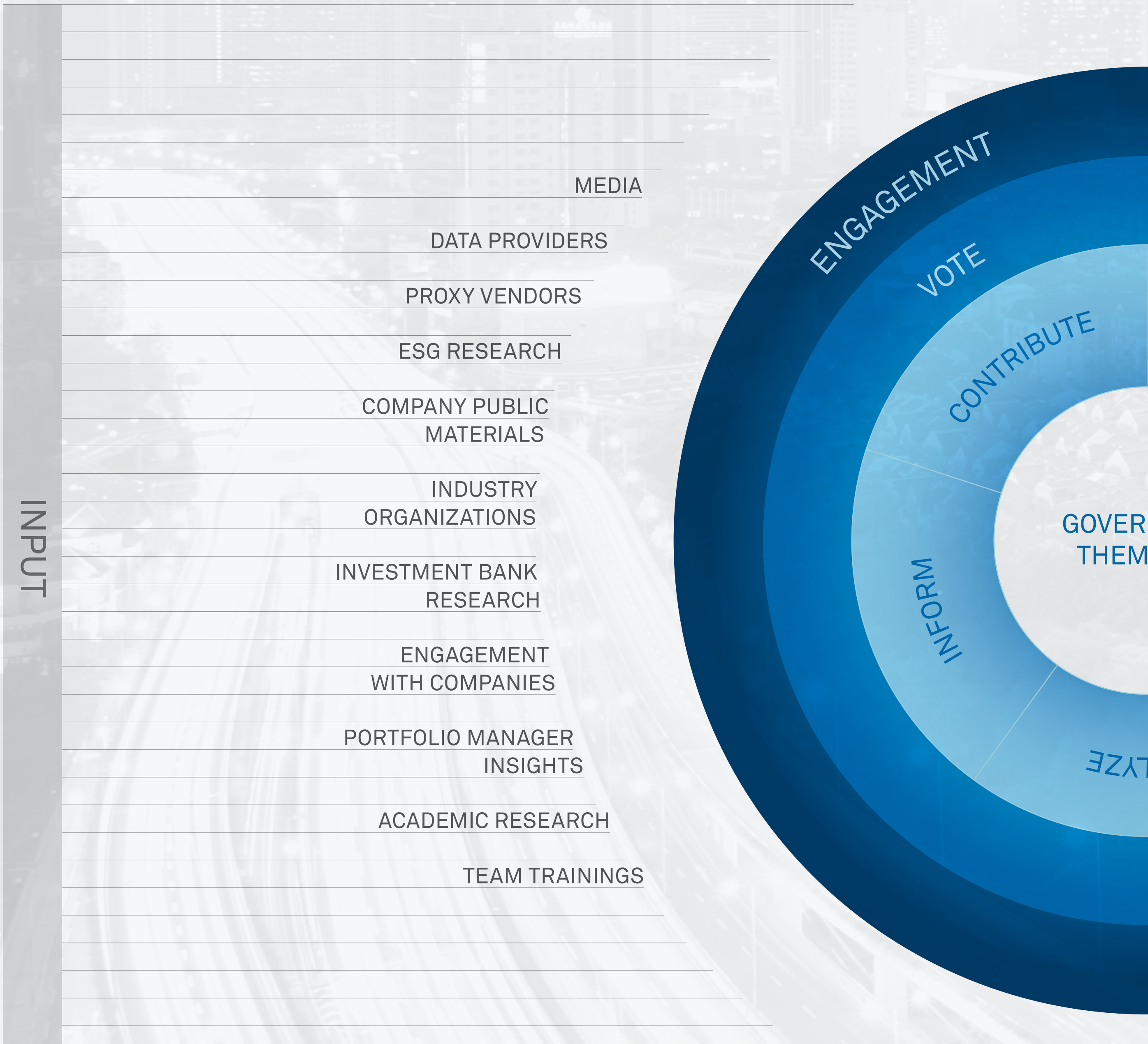
A Process That Builds Results

Our fundamental purpose is to help protect and enhance the value of our clients' assets, through corporate governance.



OUTPUT

- PORTFOLIO MANAGER DISCUSSIONS
- ANNUAL REPORTING
- COMPANY ENGAGEMENT
- ESG RISK IDENTIFICATION
- PROXY VOTING
- CLIENT REPORTING
- CASE STUDIES
- PUBLIC POLICY
- PUBLICATIONS
- PUBLIC SPEAKING
- PORTFOLIO SCREENS
- GOVERNANCE GUIDELINES
- MARKET REFORM
- RESPONSIBLE INVESTMENT PRODUCTS
- CUSTOM CLIENT SOLUTIONS
- UNPRI REPORTING

To learn more about how we are shaping global governance and protecting our clients' assets, visit www.blackrock.com/responsibleinvestment

BLACKROCK®