



Q4
2016

INVESTMENT STEWARDSHIP:
EUROPE, THE MIDDLE EAST AND AFRICA

BLACKROCK®



BUILDING CONNECTIONS
for the long term

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Engagement with Issuers¹

United Kingdom Engagement Statistics²

Number of engagements	Level of Engagement ³			Topics Discussed		
	Basic	Moderate	Extensive	Environmental	Social	Governance
51	38	8	5	2	1	50

EMEA ex United Kingdom Engagement Statistics²

Number of engagements	Basic	Moderate	Extensive	Environmental	Social	Governance
51	33	15	3	8	8	51

We continue to engage with companies on matters of long-term value and board leadership, and BlackRock's European based Investment Stewardship team conducted approximately 99 company engagements in the fourth quarter. These discussions typically focused on business strategy, compensation, board composition and skills, sustainability, and capital allocation, among other matters. We believe that this private, issues-based dialogue is helpful in building mutual understanding, and can better position us to effectively engage on behalf of clients in the event of some future concern regarding a particular corporate governance issue or proxy proposal.

¹ The companies referred to are for illustrative purposes only and not as a recommendation of any particular securities.

² The EMEA including the United Kingdom Engagement Statistic Report is a reflection of 4th Quarter 2016.

³ Basic engagement is generally a single conversation on a routine matter; Moderate engagement is technically more complex and generally involves more than one meeting; Extensive engagement is technically complex, high profile and involves numerous meetings over a longer time frame.

Voting Highlights and Statistics

EMEA Region Voting Statistics⁴

Country	Number of meetings voted	Number of proposals	% of meetings voted against one or more management recommendations	% of proposals voted against management recommendation
United Kingdom	128	1,386	21%	3%
EMEA ex United Kingdom	305	3,123	38%	5%
EMEA including United Kingdom Totals	433	4,509	34%	4%

Highlighted below are several high profile shareholder meetings and/or engagements that particularly demonstrate our efforts to protect the long-term value of clients' assets.

1 We continue to focus on customer experience as a central indicator for a Netherland based bank's long-term sustainability. In this context, we met with senior management representatives which shared that - within the retail space - the bank's approach to sustainability is to raise awareness of market-level issues (e.g., the repayment risks associated with student loans) or through developing tools to help individual investors better manage their finances (e.g., budgeting). The bank representatives explained that it has also streamlined its own product offering to remove complex or riskier products. This also supports its increasing digital offering, for which complex products are not suitable. For corporate financing, the bank takes a two-pronged approach. Specifically, they identify a top tier of less risky clients for whom to provide funding, while at the same time identifying high-potential laggards with whom to partner to help strengthen their business plan through providing guidance on best practices, access to networks and information on opportunities, in addition to potential financing. We see this as an integrated strategy which strengthens the sustainability of both the bank's clients and its products.

2 BlackRock engaged with the board and senior management of a French based telecommunications company to discuss the challenges of managing the company's rather lengthy product lead time and life cycle, and the over-capacity now seen in the sector. With this in mind we sought to understand the culture the chairman strives to foster in the boardroom so directors remain engaged. The chairman considers the ability to understand strategy and the challenges of running a company to be the most valuable – and therefore absolutely requires a clear evidence of competencies a director brings to the board. The ability to listen thoughtfully in addition to speaking, and to be strong without being intimidating, are

⁴The EMEA including the United Kingdom Voting Statistic Report is a reflection of 4th Quarter 2016 and sourced from ISS Proxy Exchange on January 3, 2017.

also important. A review is conducted every year to ensure this desired culture is being achieved and maintained. Diversity and regular refreshment ensures the board does not become too cosy. The approach taken by the chairman to boardroom design is very much aligned with BlackRock's views on director competencies and we are encouraged by the proactive approach taken to designing culture.

3 We engaged with two members of the board of directors of a UK based online payment solutions provider. Given the sector in which they operate and their operations in a number of emerging markets, the company is significantly exposed to compliance risks, especially in countries where betting is illegal. We were therefore concerned that the company could face serious litigations or regulatory fines in the future. Board members recognized the issue and indicated that compliance is at the top of the board's agenda at the moment. The company has strengthened its compliance department by recruiting more than 20 new employees and have explained the internal due diligence process to assess the legal context before entering any new market. The company is also working closely with regulators and other market players in each country of operations. The chairman indicated that the company needs to find the right balance between taking reasonable/understood risks and looking for growth opportunities. We reiterated the importance of conservative approach in their risk assessment.

4 For the first time the team met with representatives of a metal manufacturing company based in Spain. We asked to meet the company as we had concerns regarding its executive remuneration policy. Indeed, the company does not utilize any long-term incentive plans and its bonus plan consists of a bonus pool based on a percentage of the gross cash flow. We explained our expectations regarding executive remuneration and the need for the policy to be aligned with the strategy of the company and the creation of sustainable long-term value. The company is aware of the issue and it communicated that the remuneration committee will be working on revamping its pay policy in the future. We also addressed the question of gender diversity. Even though we appreciate the difficulty to recruit women in the sector, we explained it is even more important for the company to have robust diversity policies and internal programs to support women in their careers. We will monitor the evolution of the company's practices in this regard.

5 We held and attended a number of meetings in the quarter with a UK oil and gas major to maintain the dialogue on a number of key topics that are critical for the company and the industry as a whole. Management and the board couched these conversation in terms of a dynamic operating environment and need for agility. In one meeting, focussed on the company's transition to a low carbon economy, we considered its ongoing aspirations in terms of its strategic outlook, product mix, and the global socio-economic challenges that lie ahead. We also discussed how the company is positioned in terms of its new energy strategy and to take advantage of the opportunities arising from digitalisation, which the company recognises will be transformative. The company shared its views about the need for carbon pricing to develop workable solutions such as Carbon Capture and Storage at scale and to achieve net zero emission targets. We discussed how existing scenarios for a two degree world which focus on the attractiveness and resilience of the portfolio could be enhanced post the Paris summit in 2015, which the company acknowledged.

6 BlackRock engaged with both the chairman of the supervisory board and the CEO of a large German chemicals company to discuss the supervisory board composition, executive pay and the recent accident at the company's plant in Germany which resulted in two fatalities. We shared BlackRock's views on the importance of board skills/competencies in considering additional/new board appointments, over-boarding considerations and the tenure of individual board members. We further discussed the events that led to and followed the accident including a number of internal and external investigations that are taking place in response to the accident. The company reinforced their strong focus and commitment to high standards of health and safety given the nature of their business and industry. We will engage again with the company once the results of the investigations are published and in advance of their shareholder meeting.

7 We engaged with the chairman of the supervisory board of a large German financial institution. We were looking to get a better understanding of the succession plan that is being implemented as the chairman has announced his departure in H1 2017 and the successor has been named. We used the opportunity to get an update on the strategy and execution plans further to the announcement in September 2016 on the major restructuring plans that will involve substantial staff reductions in Germany and suspension of dividends. The chairman explained the vision for the future of the bank and the associated plans that would put the bank in the strong position to face the transformational challenges, driven by technology and shifts in consumer/savers behaviours that are affecting the sector as a whole. While in our view the plans are likely to have a positive impact on the business over the medium and long term, we also recognise the scale and time that will take to implement the overhaul. We will continue to engage with management and the board of the bank to monitor the progress.

8 As part of our ongoing engagement activity with a leading Swiss provider of insurance and reinsurance, we met with the chairman and CFO ahead of the 2017 proxy season. It was an opportunity for us to continue our discussions on succession planning given the chairman's tenure and changes at the group executive level during the year, including the appointment of a new CEO in July. We discussed the smooth transition in CEO and probed the company's plans to develop the internal bench for the next generation of leaders, which includes a focus to develop female talent in commercial positions. We discussed potential changes to the board as certain members retire and the new skills and refreshment this would bring to the board. Turning to other matters, we discussed the company's strong data security and privacy policies and encouraged the company to increase disclosure about how it manages these aspects of its business. We also discussed the company's strong risk management towards potential reputational issues associated with the environmental and human rights aspects of its corporate solutions activities.

Active Ownership and Responsible Leadership

Speaking Events

Members of EMEA team spoke at a number of events over the past quarter, with the objectives of furthering the public policy debate on matters deemed important to investors and/or promoting an increased understanding of BlackRock's approach to corporate governance. We target events that enable us to connect with key stakeholders and thought leaders, including corporate directors, senior members of management teams, and other shareholders.

The following is a list of select speaking events from the quarter, and subject matter covered:

- BlackRock participated in the bi-annual event organised by Deutsche Schutzvereinigung für Wertpapierbesitz e.V. (DSW) - Wiesbaden

The event focused on European Capital Markets Union (CMU) and the challenges for German companies in the context of CMU. BlackRock participated in the panel that debated the importance and need for the supervisory board chairman to directly engage with company's investors. BlackRock highlighted that the conversation between the largest German companies and the supervisory board members has taken place for some years already but recognized the need for clarity, particularly for mid-size and smaller companies, in relation to what/how/when the dialogue should be established. BlackRock also highlighted the misperception that exists in German market that the dialogue is only useful for investors. Based on BlackRock's experience the dialogue is as useful and beneficial for companies and their boards as it is for investors as it provides the board with an opportunity to get a clear sense of the topics that are on the forefront of investors' minds.

Active Ownership and Responsible Leadership

➤ BlackRock participated in the Italian Corporate Governance annual event – Milan

The event attracted a number of key investors, corporates and policy makers from across Europe. The group debated a range of corporate governance issues critical to Italian market, as well as the broader European context. BlackRock participated in the panel on the role of corporate governance in focusing on the long term. We explained BlackRock's focus on the long term and highlighted a number of key initiatives that we continue to lead on, such as Larry Fink's annual letter to global companies asking the management teams to clearly set out strategies for long term growth and BlackRock's founder role in the organisation Focusing Capital on Long Term. The Capital Markets Union (CMU) was also discussed. BlackRock highlighted that the success of the CMU will ultimately depend on the ability of different legislative initiatives to reflect the interests of the savers and investors that represent the 'Capital' in the CMU.

➤ Instituto de Consejeros-Administradores – Shareholders and Board Directors' Engagement: The Vision of Institutional Investors - Madrid

BlackRock was invited to participate to a panel by the Spanish Institute of Directors regarding the direct dialogue between board members and investors. As many Spanish companies had to appoint a lead independent director, we believe it should be part of their role to be a contact point for shareholders. We used this opportunity to present the benefits of this approach. We see the role of lead independent director as highly important as it would help in exchanging views, build trust and create long-term relationships between the board and the investors. Although the practice is gradually progressing in Continental Europe, it is still very rare in Spain.

➤ Kepler Chevreux – Engagement with your Passive Investors – London

During the last Kepler Chevreux IR Summit with more than 250 attendees, we participated in a roundtable where we explained BlackRock's stewardship activities. More specifically, we explained why index-tracking investors care about engagement and how we do it at BlackRock. It is part of our fiduciary duty to our clients to protect and enhance the value of their assets that they entrusted to us. We must engage with companies both in direct dialogue, where appropriate, and through exercising voting rights on our clients behalf. By promoting good corporate governance practices in our engagements with companies we hope to minimise risks and thus protect our clients' economic interests.

➤ Deutscher Investor Relations Verband – Integrating Thinking in Investment - Essen

We were invited to participate in a panel discussion as part of the German Investors Relations Association members' assembly. This repeated a similar session we joined as part of the International Integrated Reporting Council's April meeting. The event was well attended by German corporates and it was an opportunity to

Active Ownership and Responsible Leadership

discuss panellists' different approach to ESG integration, investors' expectations of companies reporting on ESG matters, opportunities for improvement, and a consideration of related regulatory developments. We highlighted the need for companies to develop a reporting framework that best reflects its material risks and strategy. As an interactive session, corporates also had the opportunity to share their experiences and lessons learned.

Thought Leadership

Paris Europlace – Working Group on Integrated Reporting - Paris

Last November BlackRock's Investment Stewardship team was auditioned by a working group organized by Paris Europlace regarding integrated reporting. The objective of this working group was to develop a common marketplace position regarding integrated reporting. BlackRock presented an investor's perspective on the issue, highlighting our support to the "integrated thinking" approach while also recognizing the need to let companies choose the reporting framework which best suits them. Paris Europlace position paper can be found [here](#).

The Business, Energy & Industrial Strategy (BEIS) Committee – London

BlackRock was asked to provide oral evidence to the Business, Energy & Industrial Strategy (BEIS) Committee in public hearing at the UK House of Commons on executive pay. Our evidence was directly linked to the response that BlackRock provided to the BEIS consultation on corporate governance in October 2017. The link to the full submission can be found in the Market Development section. Our key messages in the hearing were: (i) there are issues in relation to executive pay that continue to be problematic and should be addressed at market level; (ii) we believe in "pay for performance" but it needs to go hand in hand with "how much companies need to pay to get a job done" and the answer is not always "the most"; (iii) we reinforced the message about boards' responsibilities for setting executive pay. The government has since published "The BEIS corporate governance green paper" on a number of corporate governance issues that BlackRock will be providing a response to, with a deadline in mid-February.

Market Developments and Trends

United Kingdom

The Business, Energy and Industrial Strategy Committee launched an inquiry into UK corporate governance, focusing on directors' duties, executive pay, and board composition. BlackRock submitted a response outlining our views on directors' competency and accountability based on our practical experiences, and offering some possible solutions. Our key messages are summarized below:

- Directors' competency is an important, if not the most important, measure of quality. Competent directors are able to make critical judgments, and to ensure healthy and robust discussions
- All directors should first and foremost strengthen the competency of the board. Directors therefore should bring skills and expertise in more than just one area. Equally, directors should act in the best interests of long-term shareholders as a whole, rather than one particular subset of stakeholders
- Executive pay is an output of corporate governance. Misalignment of pay with performance is indicative of a weakness in directors' competency
- The market should understand and accept that it is the board of directors which is responsible for setting executive pay. Shareholders should more consistently hold directors to account for their decisions through engagement and the voting process

BlackRock's full response can be found [here](#).

Market Developments and Trends

Switzerland

In the legal fight opposing Sika and its controlling family, the Burkard, the former got the support of the Cantonal Court Zug which declared that the share transfer restriction (in the art. 4 of Sika's articles of association) applies to the sale of the Sika shares held by the family to Saint-Gobain. This article gives the power to the board of directors to refuse the registration of a shareholder holding more than 5% of the capital. This sale would have allowed Saint-Gobain to acquire the control of Sika with only a minority of shares due to the multiple voting rights attached to them. The Burkard family has already appealed this judgment so the judicial process could continue for two more years. Sika is looking for a solution with the family, offering to purchase their stake. This legal decision is important for minority shareholders who might face similar situations in other Swiss companies.

France

A new version of the French Corporate Governance Code was released in November. It was the first time that the two organisations behind the Code, the Association Française des Entreprises Privées ("AFEP") and Mouvement des Entreprises de France ("MEDEF"), organised a public consultation regarding the proposed amendments. Investors seem to have had little impact on the outcome though. We are broadly supportive of the new Code which makes many welcomed clarifications, especially on the topic of executive remuneration. BlackRock's full answer to the consultation can be found [here](#) and version (in French) of the Code can be found [here](#).

Germany

The Commission of the Deutsche Corporate Governance Kodex (hereafter 'the Code') presented its proposed amendments to the Code for public consultation. We are broadly supportive of the amendments to the code, one of which seeks to clarify the role and responsibilities of the chairman of the supervisory board, in particular the role to engage with institutional investors (asset owners and asset managers). We also support the Commission's aim to enhance disclosure requirements regarding board composition which would include the disclosure of detailed and up-to-date director credentials. Finally, we also support the Commission's view that executive variable compensation awards should not be paid out ahead of schedule, such as accelerated vesting, in the case of premature termination of a management board member's contract. The proposed amendments to the Code can be found [here](#).

To learn more about how we are shaping global governance and protecting our clients' assets, please visit <http://www.blackrock.com/corporate/en-us/about-us/investment-stewardship> and in the Netherlands, please visit www.blackrock.nl

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