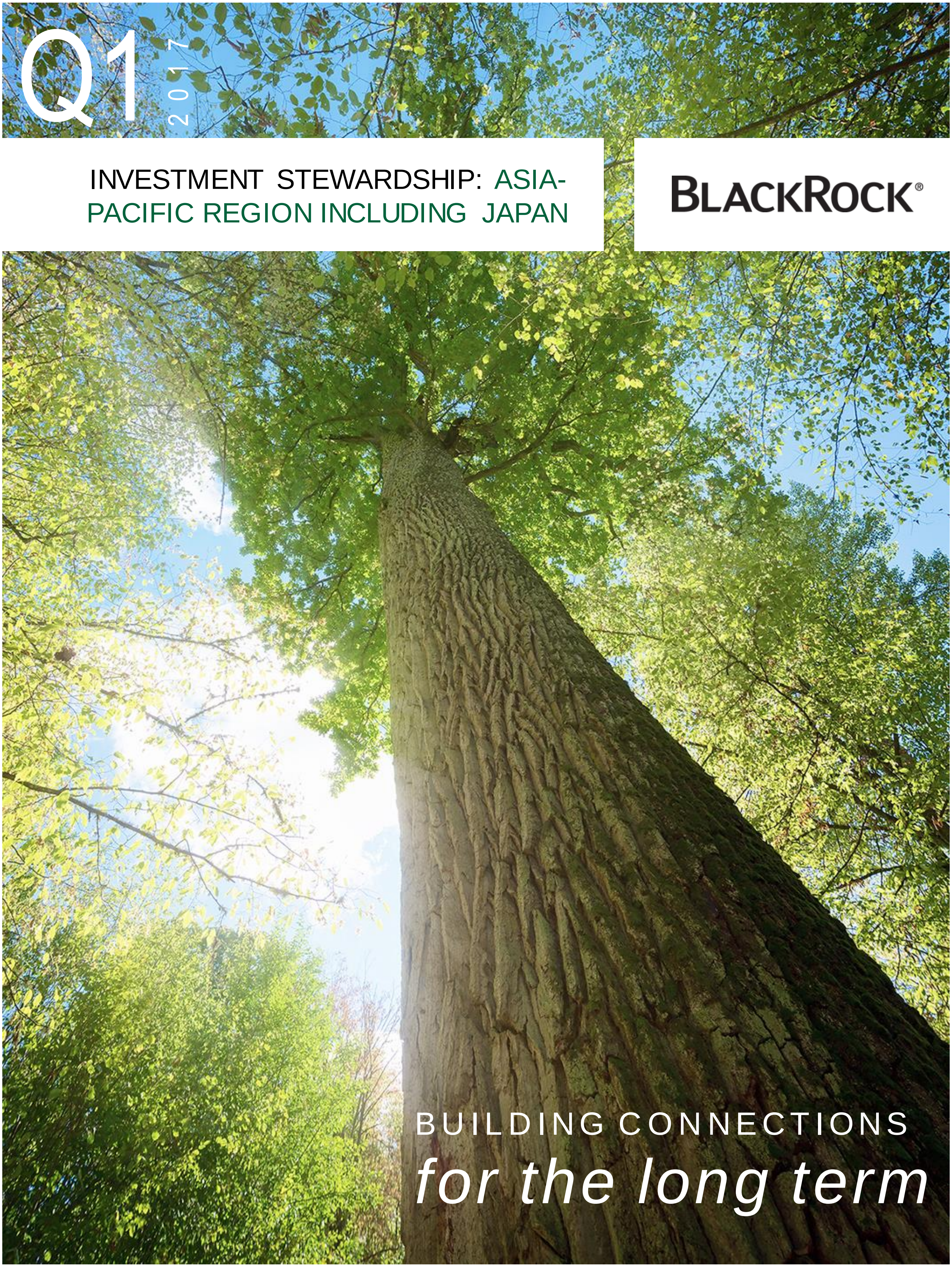
Q1 2017

INVESTMENT STEWARDSHIP: ASIA-PACIFIC REGION INCLUDING JAPAN

BLACKROCK®



BUILDING CONNECTIONS

for the long term

Table of Contents

Engagement with Issuers[1] and Statistics

Japan Engagement Statistics[2]

	Level of Engagement[3]			Topics Discussed		
Number of engagements	Basic	Moderate	Extensive	Environmental	Social	Governance
90	37	41	12	7	12	88

APAC ex Japan Engagement Statistics[2]

Number of engagements	Basic	Moderate	Extensive	Environmental	Social	Governance
25	3	16	6	5	2	25

The following examples from the past quarter demonstrate the wide range of issues our engagements cover and highlight our efforts to protect the value of client's assets invested in these and similarly situated issuers. The below examples reflect engagements that merited particular focus on environmental, social and governance ("ESG") considerations. We aim to frame our engagements in the context of long-term value creation.

Malaysia

1

BlackRock engaged with a Malaysian investment holding company which is primarily involved with plantations, industrial equipment, motors, property, and logistics businesses worldwide. Due to the company's significant involvement in palm oil, it has been heavily scrutinized on issues like biodiversity loss, deforestation, and community relations. Consistent with our engagement priorities relating to human capital and supply chain management, we expressed concerns regarding ongoing land holding disputes in Indonesia. The company explained that these disputes relate to a third-party land holdings acquisition dating back 10 years. The company stressed that it has been successfully engaging with land holders, noting that only two of the 13 communities remain without appropriate agreements. The company articulated that it remains focussed on resolving issues with these two communities. Our conversation gave us the opportunity to delve into the firm's oversight of bribery and corruption prevention and how the company's policies are

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

[2] The Asia Pacific including Japan Engagement Statistic Report is a reflection of 1st Quarter 2017.

[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.

communicated throughout the organisation. It was explained to us that the company subscribes to a "corporate integrity pledge" with the Malaysian government that aims to uphold anti-corruption practices, as well as an internal code of business conduct that concentrates on ethical business conduct. Such documents, the company noted, are part of the on-boarding process for new employees. It was clear from our engagement that the company took the issue of supply chain and human capital management seriously. We look forward to our continued dialogue with this company to evaluate the efficacy of its stated policies and commitments.

Hong Kong

2 BlackRock engaged the board of a Chinese industrial gas provider that was embroiled in a contentious battle that dated back to November 2016. The board initially sponsored a resolution that stripped two of its founding executive directors (with a collective ownership of close to 30%) of their CEO and COO designations. The board believed that the decision to remove their executive roles was justified based on extravagant pay and bonuses despite poor company performance, as well as questionable business practices such as the mismanagement of customer relationships (which resulted in certain customers occupying the company's gas plants), and these directors' use of company credit cards for personal expenses. A month later, the board announced a placement plan to issue new shares at a price slightly higher than the market price to a company that appeared to have little strategic relevance. The purpose of the placement was to repay a loan due at the end of December 2016. The placement was poorly received by investors due to the lack of strategic rationale and unsubstantiated financing needs. Then, in January 2017, the former executive directors (now non-executive directors) requisitioned a special shareholder meeting to remove the remaining board members with the exception of one independent director. At the same time, the remaining directors also requisitioned a special shareholder meeting to remove the two former executive directors from the board. Amidst this complex boardroom dispute, the company also became the acquisition target of a U.S.-based industrial gas provider that aimed to expand its business in China. BlackRock engaged with both sides of the board to understand their plans should they win full control of the board and to evaluate their respective stances on the takeover bid. Unconvinced by either side's position, BlackRock decided that the board should remain intact to ensure that the bidding process was not influenced by the agenda of any singular interest but was representative of the interests of all shareholders. Notwithstanding, the two former executives with 30% ownership won the vote, ousting five directors. The situation is still developing and we are keeping a close watch.

Australia

3 In September 2016, an Australian energy utility company received a 'first strike'[4] against its remuneration report at its 2016 annual general meeting when management's pay proposal garnered close to 37% opposition. Prior to our vote

[4] The Corporations Amendment (Improving Accountability on Directors and Executive Remuneration) Act 2011 (https://www.legislation.gov.au/Details/C2011A00042) – also known as the 'two-strikes' law – is designed to hold directors accountable in the event of significant shareholder opposition to remuneration packages. The 'first strike' occurs when the pay plan garners opposition from 25% or more of shareholders. The 'second strike' occurs when the remuneration vote at the subsequent annual meeting also receives opposition in excess of 25% of shareholders, thereby triggering a vote on all directors.

decision, BlackRock engaged with the chairman regarding the lack of disclosure of a number of issues. BlackRock did support the remuneration report at the time on the basis of our constructive engagement and assurances from the chairman to enhance future disclosure and to engage more widely with shareholders. In the wake of the annual meeting, BlackRock had a follow-up engagement in February 2017. At this meeting - which was attended by the company's chairman - there was extensive discussion revolving around shareholder expectations with respect to pay performance measures, the rationale for their respective inclusion in the remuneration plan, the calibration of these pay performance measures, and the importance of transparent disclosure of short-term incentive outcomes. Meeting with the chairman allowed us to hone in on some other important engagement priorities around governance and climate risk (see section below entitled "2017-2018 Investment Stewardship engagement priorities"). We discussed succession planning for the role of chairman, sharing our view that an incoming chairman is preferably selected from incumbent directors with at least three years' experience.

Voting Highlights and Statistics

APAC Region Voting Statistics[4]

Country	Number of meetings voted	Number of proposals	% of meetings voted against one or more management recommendations	% of proposals voted against management recommendation
Australia and New Zealand	11	50	8%	0%
APAC ex Japan, Australia and New Zealand	1206	7441	28%	9%
Japan	286	2592	36%	7%
APAC Region Total	1503	10083	29%	8%

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.

Indonesia

1

BlackRock engaged an Indonesian hospital in advance of its annual meeting on the basis of poor disclosure. Poor disclosure remains commonplace in the market presenting substantial challenges for shareholders wishing to vote. Most Indonesian companies, for instance, do not disclose the names of directors seeking election and rarely disclose information on the auditors when submitting proposals relating to auditor appointments. In this instance, the company was seeking shareholder approval for the election of directors and commissioners, as well as approval of their remuneration package. However, the company failed to provide publicly available meeting materials to shareholders identifying the names and qualifications of the directors and commissioners nor any information regarding the request for approval of the remuneration package. We succeed in making contact with the company secretary after substantial effort and procured the necessary meeting materials that allowed our team to make an informed voting decision. In the process, we conveyed to the company the importance of disclosure, particularly in relation to voting decisions on the election of directors and commissioners, the appointment of auditors, and executive remuneration.

[4] The Asia Pacific Region Voting Statistic Report is a reflection of 1st Quarter 2017 and sourced from ISS Proxy Exchange on April 4, 2017.

Japan

2 BlackRock has observed that several Japanese companies have started seeking shareholder approval to place treasury shares with a trust bank to provide funding for their philanthropic initiatives which support non-profit organizations (NGOs). The trust banks will pay the dividend proceeds from the shares held in these account to the designated NGO. Traditionally, such activities have been funded by annual donations from companies as part of their corporate social responsibility (CSR) programs. These donations were often susceptible to reductions in CSR budgets at times of lacklustre business performance making it difficult for NGOs to maintain their programs on a long-term basis. The companies submitting these resolutions explain that the new structure will strengthen their commitment to such activities and will benefit shareholders by making the company's commitments more sustainable over the long-term. BlackRock generally supports corporate charitable contributions; however, when evaluating these proposals from management we have taken into consideration such factors as the number of shares issued (to evaluate dilution) and reviewed the voting rights for the shares to be managed by the trust bank. BlackRock supported most of these management proposals given that the proposed number of shares was not excessively dilutive and because voting decisions would be made in accordance with publicly available proxy voting guidelines which we deemed market-appropriate. However, BlackRock will continue to evaluate these proposals on a case-by-case basis and will monitor the situation carefully to ensure that such placements of shares are being used effectively for their intended purposes.

3 A glass producing company sought shareholder approval for a private placement of preferred shares without voting rights in order to reinforce its balance sheet and accelerate its investment in growth areas. By improving its balance sheet the company expects to improve its credit and, by extension, reduce its cost of credit such as interest payments. After engaging with the company, BlackRock decided to support the proposal as the benefits from the improved balance sheet are expected to exceed the interest payment to the preferred shares. Additionally, the company intends to redeem the preferred shares before the conversion period to prevent the dilution of the common shares. The company plans to secure proceeds for the redemption through the increased profitability of its business.

4 Amid challenges in the Japanese beverage industry due to a shrinking market size (as a result of Japan's dwindling population pushing down sales) and increased competition pressuring margins, two Japanese beverage bottling companies recently sought shareholder approval to merge through an exchange of shares. The companies agreed to merge their operations to gain operational efficiencies to ensure that they remain a world-class, profitable bottling company. By streamlining the company's operations, the newly formed holding company expects to achieve synergies such as increased cost competitiveness and stronger bargaining power that should help improve the market conditions of the bottling industry in Japan. BlackRock decided to support the merger as it is likely to enhance the competitive advantage of both companies moving forward.

Kazakhstan

6 BlackRock proactively engaged a Kazakhstan-domiciled oil and gas company that was seeking shareholder support for increasing the remuneration for its non-executive directors, to include a retrospective adjustment of directors' fees paid in 2016. The structure of the proposed remuneration plan was to include an increase in annual base fees and to provide for supplemental fees for both physical and remote attendance of board meetings. The meeting materials provided few details or the rationale behind the proposed increases in remuneration. Our direct engagement with the company shed light on the matter – specifically, we learned that most directors lived outside Kazakhstan and travel to and from board meetings. Directors were often required to travel up to four days round-trip due to the paucity of flights to the region. As such, the additional directors' fees are intended to compensate directors for their extensive travel requirements. The company did agree with us that fees for remote attendances should be discontinued. Through this constructive engagement, BlackRock was able to glean important details that would support providing increased non-executive director remuneration. Just as importantly, our engagement also allowed us to propose the cessation of directors' fees for remote attendances, to which the company agreed. Considering these circumstances, BlackRock decided to support the remuneration proposal and looks forward to furthering our dialogue with this company.

Korea

7 BlackRock engaged a Korean steelmaker to better understand its rationale for proposing increases to its executive and non-executive director remuneration cap. While the approval of the director remuneration cap is a common proposal for Korean companies, few companies provide any explanation when seeking an increase in the cap. Hence, it is often difficult for investors to gauge if such increases are justifiable. As a result, we engaged with the company's investor relations team which explained that the company had undertaken a review of peer remuneration practices and determined that the company's director remuneration was below that of its peers. The company noted that total remuneration levels were already close to the current cap and anticipated increasing its remuneration levels in order to align it with that of its peers. As such, the company was of the view that the cap should be raised. Given the size and complexity of the company, its recent strong performance, BlackRock deemed the revised cap of US$9 million for five executive directors reasonable. Moving forward, we intend to maintain dialogue with this company and other Korean companies to improve these types of disclosure gaps surrounding remuneration.

Active Ownership and Responsible Leadership

Thought Leadership

Each year BlackRock's CEO Larry Fink sends a letter to the CEOs of large public companies on issues of corporate governance and long-termism. Last year, the letter urged companies to develop a strategic framework for long-term value creation, in order to give shareholders and the markets greater clarity about the company's plans for the future. The letter also asked that boards review those plans. The 2016 letter also noted that companies can also better report on, and explain how they are addressing the long-term risks and opportunities relating to the environmental, social and governance (ESG) factors inherent in their businesses.

This year's letter is written in the context of the significant upheavals that took place in 2016, including the backlash against globalization. The letter asks how these changes affect companies' long-term strategic plans and discusses how companies must be responsive to their full set of stakeholders, including employees.

As in past years, Larry Fink's letter stresses our role as fiduciaries acting on behalf of long-term shareholders and highlights our focus on issues of corporate governance. He writes, "We look to see that a company is attuned to the key factors that contribute to long-term growth: sustainability of the business model and its operations, attention to external and environmental factors that could impact the company, and recognition of the company's role as a member of the communities in which it operates."

In relation to the Stewardship team's work, this year's letter notes, "a long-term approach should not be confused with an infinitely patient one. When BlackRock does not see progress despite ongoing engagement, or companies are insufficiently responsive to our efforts to protect our clients' long-term economic interests, we will not hesitate to exercise our right to vote against incumbent directors or misaligned executive compensation."

Active Ownership and Responsible Leadership

Feedback suggest these messages resonate with corporate leaders around the world. The most consistent feedback is that it is helpful to companies to know they have the support of a long-term investor in taking decisions that will have a payoff down the road but require sacrifices in the near term.

2017-2018 Investment Stewardship engagement priorities

On March 13, 2017, BlackRock's Investment Stewardship team released its 2017-2018 engagement priorities, accessible within the "Engagement" discussion of the Stewardship homepage. We released these priorities due to increased level of interest in BlackRock's role as a large investor in public companies. By explaining the topics on which we intend to focus, we aim to better inform our clients on our Stewardship work and to help companies prepare for engagement with us to enhance the impact of our engagements.

The themes for our five engagement priorities have, to varying degrees, been mentioned in Larry Fink's recent letters to CEOs.

Governance - a perennial issue for the team is board composition, effectiveness and accountability. In particular this year, we will seek engagement where we believe boards have not adequately fulfilled their duties to shareholders as well as where there is insufficient diversity, particular in terms of women directors. We also explain our position on "climate competent boards" (a recent concept), namely that we expect the whole board to have demonstrable fluency in how climate risk affects the business, as we would with any material, business-specific risk.

Corporate strategy - as explained in Larry Fink's 2017 letter, we will engage to understand how a company might need to adapt its strategy in light of the changing business environment, especially where the explanation of the long-term business model is poor.

Compensation - we expect companies to persuasively demonstrate the connection between long-term strategy, performance goals in incentive pay and long-term value creation. Where this is lacking, we will engage and potentially vote against directors who have not credibly explained and justified the company's approach.

Climate risk disclosure - we explain our support for the recommendations of the Financial Stability Board's Taskforce on Climate-related Financial Disclosures and our intention to engage companies in sectors most exposed to climate risk to encourage them to consider reporting consistent with the recommendations in due course.

Concurrent to the publication of our priorities, we also released a supplemental document (within this section of the priorities) entitled, "How BlackRock Investment

Active Ownership and Responsible Leadership

Stewardship engages on climate risk" that elucidates how we have and will continue to engage boards on climate risk and sets forth our expectations.

Human capital management - we note that companies have responsibilities to their workforce and, in a talent constrained environment, managing human capital well is important. It includes robust employment practices and supply chain management. Ultimately, these factors can be material factors that contributes to a firm's competitive advantage but, more broadly, provide a signal of management's overall quality and effectiveness.

Organization for Economic Co-operation and Development (OECD) Advisory Group

BlackRock Investment Stewardship leadership has over the past two years been an active member of the OECD Advisory Group formed to work with the OECD Secretariat which recently published Responsible business conduct for institutional investors: Key considerations for institutional investors in carrying out due diligence under the OECD Guidelines for Multinational Enterprises.

The guidance articulates how investors (asset managers and owners, private equity investors, banks, and insurers) can meet the requirements of the OECD's Guidelines for Responsible Business Conduct for Multi-National Enterprises (or RBC for MNEs). These efforts reflect our continued active participation in developing a policy framework that enables the work of the Investment Stewardship team, in this instance in relation to engagements to promote sound business practices where companies have material social and environmental impacts.

Engagement with Regulators and/or other bodies

Japan

- A member of BlackRock's Stewardship team participated in the "Structural Reform Promotion Meeting: Corporate and industry structure reforms – Promotion of Long term Investment and industry consolidations," hosted by the Cabinet Office. The event focused on measures to enhance long term growth and profitability of Japanese corporations and provided forward-looking recommendations to the Japanese government for its next revitalization strategy.
- BlackRock also participated in the Study Group on Long-term Investment – Investment evaluating ESG (Environment, Social and Governance) Factors and Intangible Assets – toward Sustainable Group hosted by Ministry of Economy, Trade and Industry (METI). The workshop discussed how to integrate ESG and other intangible factors into the investment process and corporate disclosure. METI is expected to release a report based on these discussions and make key recommendations to promote long-term investment.

Active Ownership and Responsible Leadership

Speaking Events

Members of the 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:

- PwC's panel on non-executive director remuneration - Hong Kong

BlackRock participated in a panel discussion centered around recent PwC research on non-executive director remuneration in Hong Kong. PwC's research revealed that non-executive remuneration is lower than in other markets such as the U.K. and Germany. BlackRock presented the view that non-executive directors as representatives of shareholders should receive sufficient remuneration to attract and retain suitably qualified non-executive directors and encourage them to undertake their role diligently. The audience comprised non-executive directors from Hong Kong.

- International Organisation of Securities Regulators (IOSCO) panel discussion on Improving Governance in Emerging Markets - Kuala Lumpur

BlackRock participated in a panel on improving corporate governance standards in emerging markets. The discussion focussed on effective regulation and enforcement as well as the important role played by institutional investors discharging their stewardship responsibilities through effective voting and engagement.

- Securities and Exchange Commission of Thailand's launch of the iCode - Bangkok

BlackRock was invited to speak at the launch of the Thai iCode (Stewardship Code). The discussion centred on the role of institutional investors in an efficient capital market. The audience comprised members of the Thai Securities Commission as well as Thai asset managers and asset owners.

- Securities and Exchange Commission of Thailand - Thailand

BlackRock was asked to present to senior employees of the Thai Securities and Exchange Commission on active stewardship.

Active Ownership and Responsible Leadership

- **Mori Hamada & Matsumoto seminar hosted by Nagashima Ohno Tsunematsu Tokyo**

BlackRock participated in a seminar to present our views on recent developments regarding corporate governance in Japan. The panel attracted around 1,000 representatives from listed Japanese companies.

- **KPMG panel on Climate and environmental, social and governance (ESG) Investment Forum - Taiwan**

BlackRock participated in a panel discussion on ESG investment. The discussion focused on how investors look at ESG factors and how these issues are incorporated into the investment decision making process. The panel also discussed what ESG information was considered investment relevant.

Market Developments and Trends

Japan

The Tokyo Stock Exchange (TSE) held a public consultation regarding changes to the quarterly earnings report (Kessan Tanshin). The changes were based on the recommendation by the Disclosure Working Group (the Group) hosted by the Financial Service Agency. Currently three systems regulate corporate disclosure: (1) the Listing Rules of Stock Exchanges; (2) the Companies Act; and, (3) the Financial Instruments and Exchange Act. Each regulator has different policy purposes. The Group was established with a mandate to:

- streamline the existing overlaps of these three different disclosure requirements
- reduce the disclosure burden for companies, reduce the time pressure for the external auditors, and enhance the quality of disclosure including disclosure of non-financial ESG factors

Proposed changes to the summary section of the quarterly earnings reports mandated by TSE listing rules include: (1) downgrading the summary section to "request" from "mandatory" requirement; (2) allowing companies to delay the timing of the disclosure of the financial statement section as long as such delayed disclosures are not mislead investors; and, (3) moving "the information relevant to investment decisions" section to "voluntary" section.

While the proposed rules provide Japanese companies with greater discretion over disclosure of relevant information, BlackRock believes that companies are likely to maintain existing disclosure practices given that the TSE still requires disclosure of the majority of information within quarterly earnings reports. Also, there seems to be limited incentives for companies to disclose the "summary section" first and then later file the full version as soon as the "financial statement section" is ready.

Market Developments and Trends

Specifically, such partial disclosure of information could potentially mislead investors and could breach provisions of the Companies Act. BlackRock believes it is important to carefully monitor these evolving disclosure developments. Given the extensive auditing requirements of issuers, such changes are of particular importance at fiscal year-end when the timing of the filing between the quarterly earnings report and the annual securities report can be more than a month apart.

Korea

South Korea followed in the footsteps of its Japanese and Taiwanese peers in the region by recently introducing its own stewardship code (the Code) on December 19, 2016. The final version of the Code came a year after the South Korean Government published a draft code in December 2015. The Code was published by South Korea's Corporate Governance Service (CGS), which is a Seoul-based institution formed by the Korea Exchange and the Korea Financial Investment Association and aims to promote enhanced corporate governance practices of companies in the country. Adoption of the Code is voluntary for both domestic and global asset owners and managers. Korea's largest pension fund, the National Pension Service (NPS) announced in late January that it would consider adopting the Code.

Thailand

In February 2017, the Securities and Exchange Commission of Thailand launched the Investment Governance Code (iCode) as voluntary guidelines for responsible and sustainable investment management for institutional investors. The seven core principles take into account ESG factors in the business practices of investee companies, offering institutional investors a balanced focus apart from seeking maximum returns and managing investment risks. The iCode aims to build institutional investors' long-term credibility, and protect the best interests of asset owners and the capital market at large.

Singapore

The Singapore Exchange Limited (SGX) has issued a consultation paper regarding adoption of a dual class share (DCS) structure, which is a governance structure that gives certain shareholders voting power or other related rights disproportionate to their shareholding. BlackRock will submit a response to the public consultation and we will provide more details in our 2017 Q2 commentary.

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

BLACKROCK®