INVESTMENT STEWARDSHIP REPORT: EUROPE, THE MIDDLE EAST AND AFRICA

Q1 2018

MARCH 31, 2018

Contents

The BlackRock Investment Stewardship (BIS) team publishes quarterly reports to explain BlackRock's approach to corporate governance engagement that supports long-term value creation for our clients. The examples reported give a sense of the wide range of issues our engagements and voting analyses cover. We aim to provide examples that highlight particular environmental, social and governance ("ESG") considerations, emerging practices or issues and notable company-specific developments. We also provide examples of our engagement in the public domain, such as responses to formal policy consultations and presentations or informal discussions at conferences.

Engagement and Voting Highlights

Board composition and board effectiveness

As specified in our engagement priorities, board composition, effectiveness, and accountability remain key engagement topics for our team. In our view, having the appropriate mix of diversity gender, ethnicities, career experiences, skills and expertise on the board is crucial to a board's overall effectiveness. We expect boards to comprise a diverse selection of individuals who bring their personal and professional experiences to bear in order to promote more robust boardroom discussions that can lead to more resilient long-term business decisions. In light of the rapidly changing regulatory landscape, it is particularly important for boards to review their existing structures. This review should take into consideration board turnover and its composition in the context of the company's long-term strategy. We expect boards to develop a medium-to long-term succession plan for their board membership to ensure such effective decision-making and management oversight.

Over the past few years we have regularly engaged with board members and executives of Swiss companies regarding board composition in relation to gender diversity. The Swiss market generally lags behind other European markets on this boardroom dimension. This is likely attributable to the lack of gender diversity requirements in the regulatory framework and in best practice codes. What we typically hear during our engagements with Swiss companies is that boards focus on skillsets and experience, and not gender, when looking for new board candidates. In principle BlackRock agrees with this approach and does not favor the appointment of a "token" woman on the board. However, we also believe that by defending the status quo these boards are not making the effort to look for more diverse and equally qualified candidates outside of their traditional recruitment circles. We continue to engage with these boards to assess whether and how their recruitment process can evolve to meet the changing business landscape and investor expectations on this topic.

In our most recent engagement with the board of a Swiss real estate company we were pleased to witness a shift: the board had appointed a second woman with a different profile from current board members and with relevant expertise.

At the executive level, progress on gender diversity remains mixed. We recently engaged with two real estate companies where we discussed the importance of senior management buy-in and programs that promote diversity. Both companies had implemented similar approaches that involved setting goals to develop diversity of talent from within. At one of the companies, this initiative is part of senior management's objectives and there is a clear commitment to demonstrating progress. At the other company, the approach appears less structured and it is unclear whether there is a link to management's objectives. During our engagement, the latter company's board acknowledged that it would not achieve the goals it had put in place within the desired timeline. Worryingly, it did not comment on any specific plans to address this. In this instance, we communicated that we would continue to monitor management's performance and that we might signal our concern by voting against management should the company not improve its plans to address our concerns.

Extending the diversity conversation beyond gender, we recently engaged with the chairman of a Swiss consumer staples company to receive an update on their corporate strategy. We discussed the challenges the company and the industry are facing from changing consumer behaviors, such as the shift to healthier lifestyles, and the growth of e-commerce. We shared our observation that relevant industry experience relating to distribution, branding, marketing, or digital expertise – which are key skillsets needed in their sector – were not readily identifiable on their board. Additionally, given the company's focus on e-commerce as a key pillar for the future, there was a distinct lack of diversity in age range on the board. We encouraged the company to consider these gaps in the context of board refreshment. It appears the board was receptive to our feedback – the company subsequently announced new appointees to the board as part of its scheduled refreshment. We are pleased to see a more direct relevance of skills and experiences brought by these individuals, as well as increased diversity of age.

Automobile manufacturers: industry revolution or business as usual?

2 We continue to engage with investee companies to understand how they are preparing for and managing the risks and opportunities arising from broad, structural trends such as the impact of technology, shortages of skilled labour, and evolving consumer preferences. When we engage with companies on these matters it provides an opportunity to assess how well-prepared they are to weather changes, and to share our perspective on various industry challenges.

In this context, in Q1 we had the opportunity to engage with a number of the chairmen of European automobile companies. The industry is facing the dual pressures of increased regulatory scrutiny on vehicle emissions and shifting consumer preferences towards cleaner vehicles. Recent events suggest that governments are starting to crack down on diesel vehicles. In some markets, municipalities are imposing additional levies on the consumer which will make diesel vehicles less attractive options. All companies we engaged with have included a commitment to mobility services and electric vehicles within their strategies, and during our engagements there was widespread recognition of the significance of the revolution the industry is currently facing.

Through our engagements we learned that there are still significant discrepancies over how readily companies are embracing these changes. We discussed the influence of culture on a company’s ability to successfully navigate these industry shifts, as well as the need to retain workers and provide retraining on new technologies. One company is an outlier in that it does not consider worker retraining to pose any hurdles, leading us to believe this company is unwilling to recognize a need for change, which could be indicative of an entrenched culture. Conversely, another company had identified concrete areas where a change in culture was needed, as well as solutions to effect this change. In our view, this is a strong message from the top on how the company needs to evolve in the face of a changing environment. Two companies were able to demonstrate how management and, to different degrees, the board are involved in the talent development process. This is consistent with our expectation that companies view human capital management as core to the successful implementation any long-term corporate strategy.

Shareholder activism

3 Shareholder activism has been on the agenda of a number of our engagements with industrials companies this quarter. In light of the increase in activists' investments in Europe due to comparatively more attractive valuations, we expect this topic to remain on our agenda in the coming year.

As part of our commitment to protect and enhance the value of our clients' assets over the long-term, BIS monitors activist campaigns and engages with companies to understand whether the issues identified are substantive and, if so, how management plans to address them. We may engage with the activist investor if we believe doing so would provide a better understanding of their proposals. When an activist situation arises, we seek to understand the investment thesis and the intentions of the activist with a particular focus on strategy, management, governance and capital structure. We apply a similar approach during hostile takeovers, meeting with both sides to inform our perspectives and our voting decisions. Because the situations are as diverse as the activists themselves, we do not have a pre-determined view on shareholder activism; rather, we adopt a case-by-case approach.

An activist investor has the potential to be highly disruptive to a target company’s governance structure and its business models. When BlackRock examines activist recommendations – ranging from changes in the management or board composition, the simplification of a company's structure, and/or the divestment from non-core or underperforming business unit(s) – we ultimately aim to determine which outcome best aligns with the long-term economic interests of our clients.

We have heard during recent company engagements that, in some circumstances, some activists' board candidates can provide valuable inputs and skills to the existing board of directors. Activist nominees can provide a fresh perspective by supplementing the board's view of the company's competitive landscape and increasing its understanding of the capital markets. We view these contributions positively as we firmly believe that all directors should, first and foremost, strengthen the competency of the board by providing a breath skills and expertise. Equally important, activist nominees should be able to demonstrate that they are representing the interests of long-term shareholders, rather than serving the interests of an individual investor. To that end, should we meet with activist nominees, we will seek to understand if/how they may the balance the interests of the activist with the interests of all long-term shareholders.

Larry Fink's annual letter to CEOs

4

Each year BlackRock's Chairman and CEO Larry Fink sends a letter to the CEOs of leading companies in which our clients are shareholders on issues of corporate governance and long-termism. In these letters he has for several years explained our expectations of companies in relation to long-term thinking:

"We are asking that every CEO lay out for shareholders each year a strategic framework for long-term value creation. Additionally, because boards have a critical role to play in strategic planning, we believe CEOs should explicitly affirm that their boards have reviewed those plans. BlackRock's corporate governance team, in their engagement with companies, will be looking for this framework and board review."

This year's letter details how BlackRock will be engaging with companies in 2018 and what we are asking of them on behalf of our clients. The letter addresses the role of companies and their shareholders in light of two major trends: (i) the retreat of government from trying to solve many long-term social issues, and (ii) the continued rise of index-based investing. Against this backdrop, public expectations of companies are growing and society is demanding that companies serve a social purpose. The time has come for deeper and more complete engagement between shareholders and companies, moving towards year-round conversations about improving long-term value.

In order to help companies understand how we engage on issues in relation to strategy, culture and purpose, we have published a document that outlines our approach and previews examples of the questions that we will be posing to the companies. Although it is premature to draw any conclusions at this early stage, our observations to date indicate that many companies are not able to fully explain their own culture and purpose. We will continue to report on our findings in the following quarters.

It is premature for us to draw any general conclusions given the number of engagements we have had in the EMEA region specific to strategy, culture and purpose. These engagement topics are indeed more nuanced than many aspects of governance. Some companies publish clear and insightful explanations of their long-term strategy, purpose and culture; we would like that to be the norm. Where necessary, we hope that our engagements on this topic can help achieve this outcome. We will continue to report on our findings in the following quarters.

List of recently published engagement commentaries:

- Engagement on strategy, purpose and culture
- How we engage on climate risk
- How we engage on board diversity
- How we engage on human capital
- Our approach to executive compensation

Engagement and Voting Statistics

United Kingdom Engagement Statistics[1]

	Level of Engagement[2]			Topics Discussed*		
Number of engagements	Basic	Moderate	Extensive	Environmental	Social	Governance
76	65	9	2	4	5	75

EMEA ex United Kingdom Engagement Statistics[2]

	Level of Engagement[2]			Topics Discussed*		
Number of engagements	Basic	Moderate	Extensive	Environmental	Social	Governance
107	93	14	0	21	17	99

*Most engagement conversations cover multiple topics. Our engagement statistics reflect the primary engagement topic for which the meeting was called.

EMEA Region Voting Statistics[1]

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	120	1,419	18%	4%
EMEA ex United Kingdom	402	5,298	53%	11%
EMEA including United Kingdom Totals	522	6,717	46%	9%

[1] The EMEA including the United Kingdom engagement statistics are sourced from BlackRock and the voting statistics are sourced from ISS Proxy Exchange on April 5, 2018 and both are a reflection of 1st Quarter 2018.

[2] 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. Source: BlackRock as of 1st Quarter 2018.

Active Ownership and Responsible Leadership

Speaking events

Members of the Investment Stewardship EMEA team spoke at or participated in a number of events over the past quarter, with the objectives of furthering the debate on matters deemed important to investors and/or promoting an increased understanding of BlackRock's approach to Investment Stewardship. 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.

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

BIS Seminar with Executive Remuneration Consultants — London

BIS hosted a breakfast seminar with UK remuneration consultants ahead of the 2018 proxy season. As in prior years, we continue to receive large volumes of requests to hold remuneration consultations, often with the same companies. To put the scale of this outreach in perspective, in the first quarter of this year alone, we responded to over 100 company remuneration consultations.

Recognizing that many remuneration committees utilize remuneration consultants to develop their executive remuneration plans, we developed a BIS seminar on the topic in order to share our perspectives on executive remuneration arrangements as reflected in our approach to executive compensation in EMEA and in our proxy voting guidelines. In this interactive session, we discussed our expectations on executive remuneration structures and shared updates to our voting guidelines. We also set out our approach to engaging on remuneration consultations more broadly. We highlighted the following key points:

1. We expect engagement to be a year-round process focused on the company's long-term strategy, rather than just an annual discussion focused on getting shareholder support at the annual meeting
2. It is our intention to have a much more holistic conversation on executive remuneration that links to our other engagement priorities, such as corporate strategy for the long-term.
3. In our opinion, performance metrics should align to this long-term corporate strategy. Additionally, we prefer measures that reflect management input rather than the influence of external events.
4. We encourage greater disclosure regarding the use of remuneration committee discretion. We will also look closely at the quality of disclosures to ensure that new pay models are not being used for the wrong reasons.

French Institute of Directors: Club of Chairs of Remunerations Committees — Paris, France

We participated in a private roundtable organized by the French Institute of Directors' Club of Chairs of Remuneration Committees with representatives of proxy advisory firms and asset managers. It was an opportunity to reflect on the 2017 proxy season and for us to share some of our concerns relating to executive remuneration in the French market. We explained that the use of year-over-year annual salary increases for executives had driven some of our votes against management. Another issue we discussed related to our observation that remuneration committees were using insufficiently challenging performance targets for their management teams. The forum provided an opportunity to reiterate a message we have consistently share, namely that remuneration must be used as an incentive mechanism, not just an instrument for retention.

Association Française des Entreprises Privées (AFEP) — Paris, France

BlackRock was invited by the AFEP, a French association of private sector companies, to discuss the evolution of our proxy voting guidelines to a group of large French corporate issuers. We shared our concerns relating to companies choosing to comply with the *Sapin 2 Act* and the insufficient disclosure of executive remuneration policies. During our presentation we also explained the benefits of having a dialogue with board members. While BlackRock has seen an improvement in our ability to meet more directors of French companies in the last year, we expect this practice to continue to evolve as it allows a more meaningful discussions.

Organization for Economic Co-operation and Development (OECD) — Paris, France

BlackRock presented at the OECD's *March on Gender* International Women's Day event. The panel, entitled "Shareholder Activism: A tool for women on boards?" centered on the panelists' perspectives in relation to progress towards increasing female representation on boards and in senior executive positions. We shared our views on the varying speed of progress in different markets and how we used our voting rights to influence companies where progress is slow or lacking. We also shared our observation that after the initial progress in certain markets (such as the UK), the rate of progress is slowing down. Diversity, in its broadest sense, is one of BlackRock's five engagement priorities, and we will continue to engage with companies on this topic.

Market Development and Trends

2018 EMEA Proxy Voting Guidelines Update

In February 2018, the EMEA Investment Stewardship team published updated Proxy voting guidelines for European, Middle Eastern, and African securities. The guidelines are reviewed each year and updated as necessary. The most significant update relates to director elections when the board is insufficiently independent. Rather than voting against the re-election of non-independent candidates, we will now vote against the re-election of the nomination committee members or the board chair. Another important topic where our thinking has evolved concerns overboarded directors. We believe the role of board chair requires a significant investment in terms of time commitment. Therefore, we expect the chair not to hold any other chair or executive positions in external listed companies. We will engage with companies who do not meet these expectations. This change in policy is in line with BlackRock's view that board directors should be directly held to account for the roles and responsibilities for which they perform.

French Government Consultation on the Action Plan for the Growth and Transformation of Enterprises (PACTE)

The PACTE legislation is the French government flagship reform of French companies. BIS has consulted informally through engagement meetings. In our discussions, we highlighted the following points which could improve the French corporate governance framework:

- Reduce length of director mandates
- Introduce a periodic shareholder vote on the "one vote, one share" principle in companies granting double voting rights
- Support shareholder-director dialogue
- Involve investors (domestic and foreign) in the drafting of the French corporate governance code
- Simplify the executive remuneration regulatory framework by reducing the number of items shareholders have to vote on and align the French regulation with the EU Shareholder Rights Directive II

UK Financial Reporting Council (FRC): Consultation on the UK Corporate Governance Code and pre-consultation on the UK Stewardship Code

Earlier this year we responded to the first of several consultations expected to be launched by the FRC on revisions to the UK corporate governance and stewardship regime. Our key messages to the FRC on revisions to the UK Corporate Governance Code were as follows:

- Support a return to principles, and to re-establish a true and flexible 'comply or explain' approach for boards in designing governance models and oversight practices
- Continue to focus on board competency and accountability, reinforcing the role and responsibilities of the board and directors' duties
- Encourage an approach to shareholder engagement which is meaningful, productive and focused on the company's strategy for delivering sustainable long-term financial performance

We provided the following points of feedback on the pre-consultation to revisions to the UK Stewardship Code:

- Support for a greater harmonisation of stewardship codes, with alignment to the EU Shareholder Rights Directive II providing a good starting point

- Improve the effectiveness of the Stewardship Code by strengthening its focus on the quality of stewardship, rather than being overly prescriptive by trying to define what should be on the agenda for engagements between companies and their investors
- Keep the scope of the Stewardship Code limited to engagements between companies and their investors

Kingdom of Saudi Arabia Capital Markets Authority Corporate Governance Consultation

We responded to a consultation by the Capital Markets Authority of the Kingdom of Saudi Arabia covering aspects related to the composition and attributes of Saudi-listed companies, with particular focus on board independence and related party transactions. In our response we outlined the various aspects we take into consideration when assessing the overall independence of boards, key committees, and individual directors. We also shared our views on related party transactions and our expectations for robust disclosures on these. Lastly, we took the opportunity to explain BlackRock's approach to corporate governance and stewardship more broadly – from the perspective of a fiduciary asset manager investing as a minority shareholder in Saudi companies on behalf of clients. In our view, this consultation marks an encouraging potential move towards greater internationalization of the shareholder base of Saudi-listed companies.

Prepared by BlackRock, Inc.