My Fellow Shareholders

April 2011

This past year, the world continued to recover from the financial crisis and adapt to the changing dynamics among developed and emerging markets. Equity and bond markets extended their rally, but were highly volatile in the face of ongoing sovereign debt concerns, dissension over fiscal, monetary and foreign exchange policies, and uncertain and uneven growth prospects. While excess supply continued to plague the U.S. housing market, home prices in China soared amid worries of new asset bubbles in the fast growing emerging markets. Demand for commodities remained robust and gold appreciated sharply, enjoying its renewed status as a preferred store of wealth. Although investors took tentative steps to re-risk their portfolios with allocations to bonds, index equities and emerging markets, bank deposits and cash balances remained exceptionally high.

As always, navigating these markets as a fiduciary for our clients was BlackRock's first priority. For the most part, we succeeded: 70% of our active assets under management ("AUM") outperformed their benchmarks or peer medians last year, delivering positive alpha to our clients, and over 97% of our index AUM achieved tracking errors within established tolerances consistent with the market beta investors expected. Investment performance is, and always will be, the most important barometer of our success, the essential ingredient in building enduring client relationships and, as a consequence, shareholder value.

Our financial results were equally strong in 2010, as we captured the early benefits of the BGI Transaction. Revenue increased 83% to $8.6 billion, aided in part by performance fees of $540 million, a sharp increase from 2009, though still well below pre-crisis levels. Strong financial discipline enabled us to double adjusted operating income to $3.2 billion and increase adjusted operating margin by more than 2 percentage points to 39%. Earnings per share, as adjusted rose 53% to $10.94. Net new business in long-term products was $131.2 billion, helping to fuel an increase in AUM to $3.561 trillion at year-end. Demand remained strong for *BlackRock Solutions*, as crisis engagements gave way to longer-term mandates and higher quality earnings.

I am especially proud of our 2010 results given the significant focus on the BGI integration throughout the year. Our objectives in this regard were clear, though not simple: ensure continuity of investment focus and strengthen teams where necessary, communicate frequently with clients and work with them to resolve manager concentration issues, and bring our organization together into a more powerful, unified whole.

During the year, we worked together to define our core values and mission, the foundation upon which to build a robust culture. We modified our governance model to streamline our efforts and more broadly engage and empower our talented professionals. We made steady progress implementing our global operating platform, which underpins connectivity and the integrity and efficiency of our operating processes. Thanks to the hard work of many employees, much of our integration work is behind us.

Our message to employees is to embrace change as an agent for reinvention and renewal. That theme is equally fitting for the financial services industry, which needs to embrace change as a way to restore trust and to adapt to a new world order featuring greater balance between developed and emerging markets. The adjustments may be wrenching, but they are unavoidable. As H.G. Wells said, "adapt or perish." With technology hastening change, that imperative takes on even greater urgency. Who, for example, could have imagined populations across the Middle East texting and tweeting their way to uprisings and democratization?

As we become more interconnected globally, we should expect the pace of change to be faster, the impact to be more widespread, and the potential to be exhilarating. Many emerging markets have emerged. Middle classes are burgeoning; standards of living are increasing. There are whole new populations of consumers and savers to serve. They are driving economic growth at home and abroad (and financing developed markets). They are growing the global pie. This is not a zero sum game. It is, in my opinion, a cause for great optimism. It is also a warning shot: global perspective is absolutely critical no matter where you are doing business and where you are investing.

The implications of globalization are widespread. Consider, for example, Prada's recent decision to do their IPO on the Hong Kong stock exchange rather than in their home market, following L'Occitane and a growing number of international companies. Similarly, the dim sum (offshore yuan-denominated) bond market is gradually expanding, with non-Chinese issuers like McDonald's and Caterpillar coming to market in 2010. These firms recognized the need to build on their global brands, to be close to their fastest growing markets and, in the words of Prada CEO, Patrizio Bertelli, to "seize the best opportunities offered by the international capital markets."[1] Investors must do the same.

Every day, we work with clients to address these and other investment challenges and capture investment opportunities for them. That work is not one area of focus for us, *it is our only focus* and occupies all of our efforts every day. Let me share with you some of the specific ways we are working to bring BlackRock's best thinking and our full capabilities to bear for our clients.

Among the most talked-about challenges is persistent low rates. Yet, many investors remain over-invested in cash and deposits earning near zero. That is not sustainable if you need to meet earnings targets, satisfy liabilities or provide for the future. Clients are employing a variety of approaches to meet these challenges, but there is no magic bullet. We bring a unique set of products and services to the task, spanning alpha (active) and beta (index) strategies, as well as our *BlackRock Solutions* risk management offerings. We can offer them individually or in combinations tailored to clients' specific circumstances. Very few clients use only one of our offerings, and an increasing number seek to work with us as a strategic partner. That means different things to different clients, as highlighted in the examples below:

> For LPL Financial, a leading U.S. independent broker dealer, partnership means developing an integrated solution for LPL Financial advisors which leverages BlackRock's expertise across asset allocation, ETFs and mutual funds, combining both active and passive investments for their clients.

> For the Australian Government Future Fund, it means having our *BlackRock Alternative Advisors* team build an opportunistic portfolio of funds to complement Future Fund's direct hedge fund program and provide advisory services on niche segments of the industry.

> For Banca Fideuram, Italy's leading financial advisors network, it means making our product range available on their platform, sub-advising investment solutions to BlackRock and working with us to import and translate value-added tools to help their financial advisors better serve their clients.

> For The Equitable Life Assurance Society, it means developing a comprehensive investment and risk management program to maximize returns for policyholders while meeting regulatory solvency ratios.

> Across the *Aladdin*® client community, which crossed 40 organizations in 2010, it means leading the industry in preparing for regulatory reform. *Aladdin* was enhanced to support the new U.S. money market reporting requirements and a derivatives central clearing workflow.

> For Delta Air Lines, it means implementing the default target date fund option in their defined contribution plan, including coordinating mapping of assets, supporting communications with participants, and providing world class investment options for the long-term benefit of their employees.

> As an advisor to the Central Bank of Ireland in support of its Financial Measure Programme, it means performing a risk assessment of the six largest banks in Ireland having total loan books in excess of €300 billion, helping our client fulfill its

[1] Passariello, Chrisine and Alison Tudor. (2011, January 27) Prada to List on Hong Kong Exchange. *Wall Street Journal.* Accessed March 25, 2011, from http://online.wsj.com/article/SB10001424052748703399204576108183221548792.html

reporting obligations to the European Commission, the European Central Bank and the International Monetary Fund.

> For Registered Investment Advisors, it means partnering with firms like Sage Advisory Services, which runs tactical all-ETF portfolios, to help Sage gain new clients and broaden its distribution in both the 401(k) and independent broker-dealer channels.

> For SPMS, the $7.7 billion Dutch Medical Specialists pension plan, being a strategic partner means assuming a wide range of investment responsibilities, allowing the client to focus more on the scheme's strategic priorities. BlackRock advises on overall plan risk and on ways to realign fund investments to overall strategic objectives. We also oversee the manager structure, report on a range of fund risks and performance, and are responsible for implementing overlays, cash flow management and rebalancing. We deploy our global investment and liability capabilities on behalf of SPMS and deliver our services through a dedicated SPMS client team based in the Netherlands working alongside our London fiduciary management team.

Frequently, clients turn to BlackRock to adopt a more global approach to their portfolios. For investors seeking to achieve specific exposures, we offer a range of regional and country products that are ideal building blocks for their portfolios. Our Global Allocation and Global Ascent funds are examples of strategies where we allocate across geographies and asset classes to access the best investment opportunities for clients. We also work with clients to evaluate and implement strategic reallocation of their portfolios. For example, last year we helped ExxonMobil undertake a major reallocation to achieve greater consistency across plans and improve diversification. The new passive strategy shifted their portfolio from a developed market index with less than 1,500 securities to a broad global index with over 8,500 securities in 45 countries. The transition involved $18 billion of transactions across twelve plans in eleven countries. We achieved seamless execution through close coordination with the client, careful risk management and liquidity sourcing that saved the client considerable transaction cost.

The savings achieved for ExxonMobil were made possible partly by using our global trading platform, an internal crossing system that we are in the process of expanding to enhance our execution efficiency. In addition, we have built a fixed income capital markets desk to work directly with issuers on the structure of new bond offerings, enabling us to source better securities for our portfolios. This year, we are launching the BlackRock Investment Institute to facilitate information and idea sharing among our portfolio managers and other experts, fostering debate that can lead to better investment decisions. These are just three of the ways in which we are working behind the scenes to leverage our scale and capabilities to achieve better results for our clients.

Our government relations work has been another differentiator. Historically, banks have lobbied extensively to influence laws affecting their leverage ratios, capital standards and business activities. Given the very different business model of a fiduciary, asset managers have had no need for such lobbying activities. As a fiduciary, though, we

felt it was our responsibility to represent our clients' interests in the debate about the post-crisis reshaping of the financial system. In 2009, therefore, we launched a government relations effort to educate policymakers on market dynamics and the needs of investors as they considered sweeping financial reform. The team has had many meetings, submitted numerous letters and consultations, and prepared special reports for our clients on a wide range of topics, including Dodd-Frank, Basel III, derivatives clearing, MiFID, money market fund reform, the flash crash and SIFI designation criteria. Our goal is to ensure that unintended consequences and operational practicalities are carefully considered before our clients' ability to execute their investment strategies is impaired.

The extent and pace of regulatory change, lingering effects of the financial crisis, and more recent events all spell continuing uncertainty for markets. Debtor nations in the euro zone are facing tremendous political and social upheaval as they struggle to deal with the extensive fiscal adjustments required in the absence of a currency devaluation option. Even with the considerable help of their stronger neighbors, it is far from certain that debt restructuring can be avoided. Rather, the European Financial Stability Fund and its successor, the European Stability Mechanism, buy some time to cushion the impact at banks that hold substantial sovereign debt positions, all of which had been given preferential risk weightings under both Basel rules and the EU's stress tests.

On the other side of the Channel, David Cameron's coalition government in the U.K. has proposed a program of fiscal austerity that could sacrifice near-term GDP growth in order to achieve a balanced budget by 2015. The U.S. is effectively pursuing a hybrid approach: the federal government has provided fiscal and monetary stimulus to promote jobs and economic growth, while the states adopt austerity measures to balance their budgets (since, like euro zone members, they cannot print money). A number of states have already pushed through bold measures amid protests and lawsuits. This is democracy at work – messy to be sure, but the best system we have for driving the evolution, or revolution, needed to survive and thrive.

That same messy process makes the result of revolts in the Middle East, and attempts at democratization, volatile and uncertain. It is too early to predict the outcome, though the risk of an oil shock cannot be ignored. At the same time, imbalances in the standard of living in China have spurred demands for higher wages. China's government has done a magnificent job of engineering the economy, but the challenges will intensify as the country develops a presence on the global stage commensurate with its economic power. In particular, I would expect continued pressure to let its currency trade more freely, to open its markets to increased participation and competition, and to build its capital markets. These steps will be necessary if the central government is to establish the yuan as a reserve currency over time.

The recent events in Japan inspire both concern and respect. The world's largest creditor nation has already suffered a "lost decade" of economic malaise and is grappling with a rapidly increasing

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dependency ratio. Now they face the daunting task of rebuilding, which will most certainly impact insurance companies globally, may have negative repercussions for global supply chains, and could put pressure on markets to the extent that the government sells their foreign reserves to finance reconstruction. I would be remiss not to commend our team in Japan, who distinguished themselves and BlackRock throughout the tragedy. I also would like to welcome Mizuho Financial Group as a shareholder and business partner in Japan and Asia.

I look forward with great enthusiasm. I have never been prouder of our team or more excited by the potential of our platform. Over the past five years, we did two major mergers and endured a financial crisis of epic proportions. We were driven by a vision of what we believed would be needed to best serve clients as a fiduciary in a rapidly changing global landscape. Unlike Warren Buffett, my elephant gun is not loaded – we are not looking to do any significant transactions. We are happily focused on running our business – executing for our clients and our shareholders by refining and continuously improving our business practices, raising the bar on our operations and our people, and fostering global content and connectivity.

We have assembled a range of capabilities unlike any other asset manager anywhere in the world. And we have done so intentionally. We believe that investors will be best served by combining efficient market exposures (beta) with opportunities to enhance returns (alpha) and by employing dynamic risk management processes. We believe that investing, whether in home markets or abroad, is a global activity requiring insight into the world's capital markets, economies and regulations. We believe fervently in the merits of our business model as an independent, globally integrated fiduciary, as well as the importance of information sharing and the power of connectivity and collaboration to make more informed investment decisions, to develop more innovative products, and to provide thoughtful, independent advice to our clients.

Lots of firms claim to be global, but few try to achieve global connectedness, and even fewer do so for the sole purpose of serving their clients. That connectivity is at the core of who we are, and we think makes us the most differentiated financial services firm in the world. To sustain and build upon that position, we must be a fertile home for manufacturing of alpha and beta, and expand our manufacturing footprint. We also need to build our brand globally, as demographics and trends in retirement savings necessitate increased name recognition among retail investors worldwide.

Most importantly, we must invest in our people. We are committed to raising the bar and to ensuring that we have a deep bench for succession in each of our teams. We drew upon the depth of our bench when, for example, Evy Hambro and Robin Batchelor assumed leadership of the Natural Resources team, Rick Rieder was named global CIO of Fundamental Fixed Income, Ken Kroner took charge of Scientific Active Equities, Chip Castille was appointed head of our Defined Contribution platform in the U.S. and Canada, and Charles Prideaux was asked to lead the EMEA Institutional effort in our Global Client Group. At the same time, we have been able to attract world-class talent, such as Nancy Everett, head of U.S. Fiduciary Management Services, Chris Leavy, CIO of U.S. Fundamental Equities, Edwin Conway, head of U.S. and Canada Institutional in our Global Client Group, Tom Garside, head of *BlackRock Solutions* in EMEA, Lee Kempler, Executive Director of the BlackRock Investment Institute, and Jim Barry, CIO of our renewable power investment team.

During 2010, we completed a secondary offering of 58.7 million shares of common stock, raising gross proceeds of $9.6 billion for Bank of America and The PNC Financial Services Group and reducing their stakes to 7% and 20%, respectively. Both banks remain valued partners of BlackRock and active participants on our Board. We were very gratified by the warm reception we received from investors: the book was 1.8 times oversubscribed, with 48 existing and 164 new institutional investors coming into the deal. The offering increased our public float to over 50%, which led to BlackRock being added to the S&P 500* index on April 1, 2011. Going forward, we expect to generate substantial free cash flow, which will give us the flexibility to consider returning more capital to shareholders. In February 2011, we announced a 37.5% increase to our dividend.

Bringing two firms together is a huge undertaking. It requires tremendous planning and tireless contributions from every employee, not to mention patience and a sense of humor. We took people out of their comfort zones with new roles and routines. We collectively embraced a culture of performance and accountability. It wasn't for everybody – some employees chose to leave, but the vast majority chose to stay and many more joined the firm. We entered 2011 energized and focused on doing our jobs: delivering alpha in active products, achieving low tracking error in passive strategies, being good listeners so we can help our clients think about the markets and how to meet their investment objectives, and being good partners to each other.

I feel very fortunate to work with an incredibly talented team, over 9,000 strong in 25 countries around the world. They continue to make me proud and to inspire me. Thank you all. I also have the great fortune to be able to tap into the wisdom of an exceptionally strong, engaged Board of Directors. I rely on their guidance and am enormously grateful for their devotion to our Company. Finally, I would like to thank our clients for believing in BlackRock and entrusting us with their investments. Our goal is to meet your goals. It's that simple. Thank you for giving us the opportunity to do so.

Sincerely,

Laurence D. Fink
Chairman and Chief Executive Officer

*See Important Notes on page 140.