Intended for professional investors only.
Not to be distributed to consumers.

Corporate Governance Principles - Japan

2026

Contents

Introduction	3
Company Board	4
Board Structure	7
Board effectiveness	9
Stakeholder engagement	15
Audit, risk and internal control	16
Remuneration	19
Investor rights	25
Capital management and transactions	28

Introduction

Our investment philosophy and processes are focused on creating value over the long term. We believe that incorporating financially material sustainability criteria, when relevant to our clients, can create value and drive positive change.

Legal & General (L&G) recognises that the move towards strong corporate governance in Japan begins with compliance with Japanese legislative and regulatory frameworks. This policy goes beyond minimum compliance and reflects L&G's approach with respect to key topics we believe are essential for an efficient governance framework, and for building a sustainable business model. This is region-specific and therefore separate to our Corporate Governance Principles - Global, which provide a full explanation of L&G's approach and expectations.

We expect all companies in which we invest globally to closely align their practices to the fundamentals of good corporate governance. When developing our policies, we not only look at local market regulatory and best practice expectations, but also at broader global guidelines and principles, such as those provided by the United Nations Global Compact (UNGC), OECD guidelines and ILO conventions and recommendations as well as local market regulatory and best practice expectations.

Although there is no "one-size-fits-all" solution to building a sustainable business model, we believe companies should demonstrate that financially material governance and sustainability-related issues are effectively integrated into their long-term strategy and daily operations.

We publicly disclose our voting decisions, including the rationale for votes against management. This data is now accessible one day after the shareholder meeting, and it is available here.

Company Board

The board of directors is responsible for the management and long-term success of the company. It should always act as a steward of stakeholders' interests.

The board sets out strategy and direction, ensuring that the necessary resources are available to enable their implementation, and that appropriate risk management and internal controls are in place. It is also responsible for ensuring the integrity of accounting and reporting, and the effectiveness of internal control systems. Environmental, social and governance (ESG) considerations should be embedded in the operations of the business, and performance in these areas should be reported annually. Lastly, the board is ultimately accountable to investors and other stakeholders and should make sure its decisions are effectively communicated to them.

Board leadership

We believe that having the right composition at the top of a company is an essential element for its success. Board directors should exercise their duties to promote the long-term success of the company.

We expect the board's decisions and actions to demonstrate leadership in managing the company's responsibilities to its stakeholders and to limit any negative impact of its operations on the environment. As such, L&G will usually hold the board chair accountable for failing to meet our minimum expectations under key policies to safeguard the value of our client's assets in the context of material environmental and societal factors. More information on key environmental and social focus areas is available further below in this document and our website.

Board chair and chief executive officer (CEO)

The chair's responsibilities include leading the board, setting the agenda for board meetings and ensuring directors receive accurate and timely meeting information. Under their direction, there should be a good flow of information between the board and its committees. The chair is also responsible for leading the appointment process for the CEO.

The chair should be able to challenge the inside directors and encourage the outside directors to actively participate in board discussions. It is the chair's role to regularly assess whether board members have adequate skills, expertise, time commitment, and whether they are sufficiently diverse to make a positive contribution to avoid "group think".   We expect the board chair to be clearly named and identified in all relevant company disclosures, including in the English version of the annual report, in meeting documentation and on the website.

By contrast, the CEO has responsibility for executing the strategy agreed by the board and leading the business.

Given the importance of the chair's role, we expect the appointment of an independent director as board chair, who is separate from the inside-company chairperson. How we determine the independence of the board chair is detailed in the section below, *Board Structure - independence*

We would not expect a retiring CEO to take on the role of board chair. These two roles involve separate responsibilities and a different approach to board relationships and the company's strategy. We recognise the challenge for those who have had executive responsibilities to adequately distance themselves as a non-executive chair.

Where a company would find the presence of the former CEO on the board beneficial in times of transition, our preference is to allow the CEO to be employed as a consultant rather than as a formal board member, and we would stipulate that this should be for a maximum period of one year.

There are also instances where a company may, for a short period, be governed by an executive chair. This may be the case where a company is undergoing a shift in its structure or management or is under severe stress. In such circumstances, we would expect companies to commit to split the roles within a short, pre-set timetable. In addition, we would expect a deputy chair to be appointed to ensure that no person has unfettered decision-making powers

An important distinction for Japanese companies to note is that the board chair (Gicho) is different from the company chairperson (Kaicho). In Japan, it is common for a Kaicho[1], who is typically a former CEO, to be at the helm of the company. Nonetheless, from the perspective of an independent board chair, we focus on the Gicho rather than the Kaicho for companies in Japan.

The case of the combined chair and CEO

Although many Japan-listed companies do not separate the roles of the board chair and CEO, this section provides guidance on our views.

We believe that the roles of the chair and CEO are substantially different and require distinctly different skills and experience. This division of responsibilities also ensures that a single individual does not have unfettered powers of decision-making at the head of the company, thereby securing a proper balance of authority, responsibility and accountability on the board. Therefore, we will vote in favour of resolutions that separate the chair and CEO roles.

While L&G typically does not support the election or re-election of any individual who holds both a board chair and CEO role, this voting policy does not currently apply to Japanese companies. Nonetheless, we expect Japanese companies to appoint an independent director as board chair, and to provide disclosures in English regarding the individual chairing the board. We also expect Japanese companies to provide a clear explanation if they choose not to separate the roles of board chair and CEO.

For more details, please refer to our board guide on the nomination of the board chair, available here.

Senior or lead independent director

The position of senior or lead independent director may not yet be well established in Japan. We believe, that this is an essential role on the board and the senior independent director should lead the succession process for the chair and appraise the chair's performance. Additionally, they should meet investors regularly to stay well-informed of any concerns as a key contact for investors, especially when the normal channels of the chair, CEO or chief financial officer have failed to address concerns or are not the appropriate avenues.

We expect the senior or lead independent director to be an unquestionably independent outside director. How we determine the independence of the director holding the role of senior or lead independent director is detailed in the section below, Structure and Operation - independence

While the presence of a senior independent director should not be limited to cases where there is a

[1] Kaicho is not a legal term in the Companies Act and transparency around the responsibilities of the role is usually insufficient.

combined board chair and CEO, this is of extra importance when these roles are combined. Where companies have historically combined the positions of CEO and chair and have chosen to keep this structure, we expect a strong, senior independent director or deputy chair to be appointed and for a meaningful explanation to be provided in annual disclosures that justifies such an exceptional situation.

Please see our website for a thought piece on the role of the senior independent director, available here.

Outside directors

L&G expects these directors to use their skills and experience to constructively contribute to board discussions and help develop proposals on strategy. They are expected to oversee management performance and provide constructive challenge at board meetings.

We encourage boards to appoint one director who may not have previous board experience, but has a unique skill aligned with the company's strategy. We believe this can lend support to board discussions and grow the future pool of independent outside director talent.

Given the responsibility the roles involve, these directors must make sure they have sufficient time to perform their duties. This should be a factor considered when taking on outside board roles. Please refer to our section on board mandates below.

Outside directors should continually update their skills and knowledge and agree on their specific training and developmental needs, which should also include all aspects of the environmental, social and reputational risks faced by the business.

L&G

Board Structure

In Japan, listed companies can adopt one of three board structures.[2] Our voting policy may vary depending on the structure of the board.

Board committees

Audit, nomination and remuneration committees

Board committees ensure that specific directors are responsible for key board functions.
Globally, we ask for the nomination committee to comprise a majority of independent outside directors, and that the remuneration committee maintain at least two thirds majority independence. As the audit committee plays a vital role in safeguarding investors' interests, we expect all companies to have an audit committee comprising solely of independent outside directors. It is essential that these committees are able to freely discuss, and act on sensitive areas without an inside director in attendance. Non-independent directors may attend some or part of the meetings on occasion by invitation but should not be member of these committees where this would compromise the applicable independence expectations set out above.

Japan-listed companies with the statutory three-committee model are required to put in place three separate board committees responsible for the core board functions of audit, nomination and remuneration. For those companies, we will vote against the president or company chairperson if the candidate sits on the remuneration or audit committee.

By contrast, companies with the Kansayaku model or audit and supervisory committee model have the discretion to establish voluntary advisory committees on nomination and remuneration. For such companies with board structures not legally obligated to form such committees, we maintain our expectations regarding independence and expect the board to uphold the committees' recommendations.[3]

Additional board committees

Companies may consider it appropriate to set up additional board committees to assist the board in its discussions. These committees are useful where the board could benefit from an increased focus on an issue that is directly linked to its long-term success, or where the company operates in a high-risk sector.

A sustainability committee could be beneficial by providing sufficient time and expertise to focus on those key issues that are directly linked to long-term success and those environmental and social areas which may represent a material risks to the business model.

[2] Under the statutory auditor (kansayaku) model, the board of directors manages the company, while oversight is carried out by statutory auditors who are separate from the board. Statutory auditors monitor directors' execution of duties and oversee financial reporting and auditing, including the external audit. The statutory three-committee model is a one-tier structure in which the board establishes three legally mandated committees, responsible for audit, nomination, and remuneration. These committees must each be composed of a majority of outside directors. The board delegates day-to-day execution to executive officers. The audit and supervisory committee structure is a hybrid model in which an audit and supervisory committee is established within the board; its members participate as directors with voting rights while overseeing management and audit functions, including the expression of opinions on director nomination, removal, and remuneration.
[3] This currently applies only to companies with a statutory three-committee structure due to availability of public information.

In other cases, boards may consider the need for direct access to independent and external advice and expertise from third parties or stakeholders. We are supportive of companies setting up advisory committees. This is a flexible option to obtain specific and relevant information to assist the board and management in their decision-making without having to impact the size and composition of the board.

To enable investors to assess the effectiveness of board committees, we expect disclosure of the role and composition of all board committees and a report on their activities to be provided to investors in the annual disclosure documents.

Board size

We consider that board effectiveness is optimised when it comprises no more than 15 members and its composition should depend on the size and complexity of the company. By their nature, small boards that are suitably diverse are better equipped to facilitate active, constructive debate and agile decision-making processes. With the exception of companies that have a statutory three-committee board structure, we will vote against the most senior non-independent member of the board standing for re- election when the board exceeds 15 directors.[4]

[4] This applies to companies with a two-tier board with statutory auditors (Kansayaku) or the hybrid audit and supervisory committee structure.

Board effectiveness

Culture

Companies should maintain the highest standards of conduct towards all stakeholders. The board should promote behaviours and values that demonstrate integrity and respect. The board should assess at least on an annual basis, if the company's values and behaviours are understood, and respected throughout the organisation.

Boards should disclose information that helps investors understand their company's culture. Investors need assurance that the CEO and the senior management team are really driving the cultural message and setting the tone from the top.

We expect companies to disclose information including:

- How they measure culture and how that relates to the business strategy;
- How their mission statement and values are communicated and reinforced; and
- Any key performance indicators that are linked to culture.

Where there are situations, such as impropriety or general misconduct, L&G expects the board to conduct a thorough evaluation to determine the suitability of the connected directors as continuing members of the board. We will also conduct our own analysis to determine the appropriateness of a given director's continuation at the company and may vote against the re-election of directors who we believe have not demonstrated good business conduct.

Board diversity

We believe a diverse mix of skills, experience and perspectives within a board and its management team is essential for it to function and perform optimally.

We expect all companies in which we invest globally to have at least one woman on their board.[5] In Japan, we started voting against the appointment of the most senior member of the board (usually the company chair or president) or the nomination committee chair of TOPIX 100 companies with all-male boards in 2020. We currently vote against the most senior member of the board or the chair of the statutory nomination committee unless at least 15% of the board at TOPIX 500 companies are women. All other companies, including but not limited to Prime-listed companies, should have at least one woman on the board. We will continue to expand our policy to a greater number of Japanese companies and also look to require a higher threshold of board diversity over time.

We also expect companies to promote diversity below board level, namely at the executive and management levels, as well as throughout their entire workforce.

For more information, please refer to our Diversity principles - Global.

[5] We do not count Kansayaku as board members.

Re-election of directors

In Japan, directors' terms may be up to two years. We support proposals to reduce terms to one year and encourage broader adoption of annual re-elections.

To allow investors to assess the profile of the board directors proposed for election or re-election and to make sufficiently informed voting decisions, we expect companies to disclose the name of the directors proposed and to provide a detailed biography of each candidate. We also encourage disclosure of the attributes and skills that the director brings to the board and how these fit with the combined skill set of other directors and the long-term strategic direction of the business. In addition, investors benefit from companies providing information regarding the expected time commitment to the company, a record of attendance and an explanation if a director has missed a number of scheduled board or committee meetings

Re-election of Kansayaku

The Companies Act stipulates that at least half of the Kansayaku should be outsiders, but with no obligation for them to be independent. It is vital that true independence from the company is maintained in the Kansayaku board. Therefore, we vote against non-independent outside Kansayaku nominee members (regardless of the overall independence of the Kansayaku board). We also vote against inside Kansayaku nominee members unless the Kansayaku board after the meeting is at least 50% independent.

Independence

Independence is essential to ensure the board exercises sufficient oversight and consistently acts in the best interests of the company and its stakeholders.

We expect unaffiliated outsiders to bring an independent perspective to boardroom discussions and make observations and suggestions that are pertinent to the company, but which inside directors may not have thought of, or may be reluctant to address. A relevant and suitably diverse mix of skills and perspectives is critical to the quality of the board and the strategic direction of the company.

It is important that directors are independent of one another, and that any interlocking board relationships are disclosed and explained.

To remain competitive and attractive to foreign investors, Japanese companies should focus on establishing a board that meets the international best practice trends. Notwithstanding, we recognise that reaching the optimum level of independence will be a continuous, iterative process, and companies need time to test the dynamics of new board composition.

To balance these considerations, we call for a minimum of one-third of directors to be independent and ask companies to outline the steps to be taken to increase independence over time. We will vote against the chair or most senior member of the board if, after the shareholder meeting, the board is not at least one-third independent.

From January 2027, we will additionally vote against TOPIX 100 companies that do not comprise a majority of independent outside directors. We intend to extend this expectation to a broader set of companies in the coming years.

We additionally expect companies to comply with the Corporate Governance Code and in instances where the code requires a higher level of board independence. We will vote against the chair or most senior member of the board at companies with a controlling shareholder unless a majority of the board comprises independent outside directors.

An independent outside director under Japanese law is generally someone who:

- has not been an employee of the company or group within the last five years;
- is an outsider who represents less than 10% of the company's voting common stock;
- does not have close family ties with any of the company's advisers, directors, or employees.
- has not received or receives additional remuneration from the company, apart from a director's fee, such as options over the company's shares, performance-related pay or pension scheme.

In addition to the conditions above, we will consider candidates who fall under any of the following categories as non-independent:

- individuals who work or worked at major shareholders of the company;
- individuals who work or worked at the main providers of financial services to the company;
- individuals who work or worked at the lead underwriter(s) of the company;
- individuals who work or worked at business partners of the company and the transaction value is
- material from the recipient's perspective or is not disclosed;
- individuals who worked at the company's audit firm;
- individuals who offer or offered professional services such as legal advice, financial advice, tax advice or consulting services to the company;
- individuals who have a relative(s) working at the company as executives or employees in important positions;
- individuals who worked at the company; or
- individuals who work or worked at companies whose shares are held by the company as "cross-shareholdings" (this includes not only mutual shareholdings, but also unilateral holdings held for reasons other than pure investment purposes); or
- individuals who have served on the board for more than 12 years.

Advisory positions (Komon/Sodanyaku)

Advisory positions unique to Japanese companies, known as "Komon" or "Sodanyaku," are usually held by the former company president or another senior executive.

They are not held accountable to shareholders as they do not serve on the board. Still, they can apply pressure on the board and are often referred to as "ghosts in the boardroom" or "corporate backseat drivers". In cases where the former CEO remains as a senior adviser, they may exercise unreasonable influential power over incumbent management members, which could be detrimental to the board's functioning and dynamic.

With no basis in law, these roles vary from company to company. Furthermore, companies are not required to disclose details of these positions but are given the option to do so in the Corporate Governance Report required by the TSE. We expect companies to provide adequate disclosure on the presence of an advisory position, their role and responsibilities of the position, the duration of the appointment, and what the individual is paid. We also recommend that any company that does not have a “Komon” or “Sodanyaku” should make that known to investors. We expect these disclosures to be made in the corporate governance report and in English before the annual general meeting (AGM).

Board tenure

The regular refreshment of the board helps to ensure that its members remain independent from management and third parties, that different perspectives feed into board discussions, and that skill sets remain relevant. A regularly refreshed board is more likely to be willing and able to question established practices, avoid ‘group think’, and therefore exercise more efficient oversight over executives to stay ahead of market changes.

We expect all companies globally to put in place an individual director term limit of a maximum of 12 years.

Succession planning

Succession planning is a vital function of an effective board. It ensures continuity, provides individuals with the right skills to sit on the board and can help to avoid the dangers of “group think”.

We expect companies to put in place a formal and transparent procedure for the appointment of new directors. The annual board evaluation exercise should assist in this task. We expect the nomination committee, together with the board, to consider setting short, medium and long-term plans to ensure
there is an orderly replacement of board members and senior executives. The plans should map out potential successors in the short term for unexpected departures, in the medium term to replace directors who reach their tenure limits, and in the longer term to take account of future skills and diversity requirements.

We encourage companies to publish as much of this information as possible in their annual disclosures. In addition, we would expect to see a skills matrix linked to the strategy of the company, and an explanation of how the skills of newly appointed directors are complementary in relation to the matrix, along with the minimum time commitment expected of each director.

Board mandates

We believe it is important for inside directors to seek external board appointments as this will help broaden their skills and knowledge, enabling them to provide more input to board discussions. However, when taking up external appointments, they should be mindful of the time commitment required to exercise their duties on multiple boards.

As the number of companies a director serves on increases, so does the risk that they may become less effective. This risk increases further depending on the role and time commitment needed due to the size and complexity of the company itself. A director has a duty of care to ensure they have sufficient time to contribute effectively to each directorship.

We would encourage inside directors not to undertake more than one external directorship of an unrelated listed public company.

Although it is not yet a voting issue, in Japan we also encourage outside directors to limit their number of board positions to a maximum of five public company board roles. We consider an independent board chair role to count as two board roles due to the extra complexity, oversight and time commitment that it involves.

To help investors assess how directors with other board mandates are performing their duties, we would like the company to disclose the level of time commitment expected from outside directors.

Board meetings and attendance

Regular board meetings are vital for the board to effectively perform its duties.

We believe the board chair should hold separate meetings with independent directors to discuss the performance of the executives. In addition, the independent directors should have at least one meeting during the year without the chair present. For those companies that do not have an independent chair, we expect the senior independent director to hold a separate meeting of independent directors to discuss the performance of the chair and other executives.

Director attendance at board meetings is a vital part of the role to ensure contributions to board decisions and fiduciary duties to investors are fulfilled. We therefore expect companies to allow investors to assess directors' attendance at board and committee meetings by publishing attendance records in their annual disclosures. We expect directors to have attended no fewer than 75% of the board and committee meetings held. Where a director does not attend a board or committee meeting, the company is expected to report to investors the reasons for non-attendance. Where a director's attendance is below 75%, and the board has not provided an explanation for the absence, L&G may vote against the director's re-election.

Board effectiveness review – internal and external

The evaluation of directors is an essential way of improving board effectiveness.

Japan's Corporate Governance Code states that boards should conduct an annual board-effectiveness evaluation and disclose a summary of the results. We expect an internal board evaluation to take place annually. This should be led by the most senior independent director on the board.

External reviewers bring different perspectives on how the board functions, as well as experience of how other boards operate. Therefore, boards are advised to make use of this additional resource and carry out an external evaluation of the board at least every three years. This should be performed by an independent third party to avoid any conflict of interest. The same third-party reviewer should not be used for more than two consecutive reviews.

In the interests of transparency, we expect the process and general outcomes of such evaluations to be published in the company's annual disclosures, as well as any progress made on the outcomes of previous board evaluations. Any potential conflict of interest with external reviewers should also be disclosed.

Board responsiveness

Voting at company meetings is part of a shareholder's escalation strategy to signal concerns with aspects of governance. Where 20% or more of votes have been cast against a board-recommended resolution, we expect the board to engage with shareholders to determine their reason for voting against.

Similarly, if there is significant support by shareholders for a shareholder proposed resolution, we expect the board to consider the voice of its shareholders even it if is not the voice of the majority. This may involve engagement with shareholders to understand their views and concerns in more detail.

The next annual report should provide information on the steps taken to address shareholder concerns. We may vote against a relevant director's re-election if a company has not demonstrably undertaken such discussions.

Outside director induction

The chair of the nominations committee is responsible for ensuring that incoming outside directors receive a comprehensive induction to the company on joining the board, and that training is available on an ongoing basis. This will allow new directors to contribute to board meetings as soon as possible.

We believe that companies should hold regular briefings or presentations to the board from divisional executives to ensure that directors are kept informed on all aspects of the business.

Directors should be encouraged to continually update their skills and knowledge, and should agree on their specific training and developmental needs, which should include all relevant aspects of environmental, social and reputational risks faced by the business. One way to remain up to date is to regularly meet with investors, along with other relevant board members, to gain knowledge and to hear various perspectives.

Stakeholder engagement

We encourage all companies to have regular dialogue with key stakeholders so that relevant parties can have a comprehensive understanding of how companies are addressing material concerns. We expect companies to report in their annual disclosures how engagement with key stakeholders has fed into board discussions.

Employee dialogue

We acknowledge that different countries, through regulation or best practice codes, may have different approaches to how boards should consider the views of their employees.

Where hard or soft law does not provide any guidance, we encourage companies to set up an appropriate structure. Companies may prefer to appoint employee representatives to the board or use forums or advisory panels.

We do not consider any single model superior to another and encourage companies to select one that is most effective for their business model and current circumstances.
.

Investor dialogue

We believe that a two-way engagement provides an opportunity for directors to elaborate on company decisions so that they are well understood by the market, as well as to take market soundings, which can aid future board decisions.

Our stewardship activities focus on financially material issues that are not only important to our clients, but can also pose a risk to the long-term value of their assets, e.g., climate and nature, social resilience, and so forth.

That said, where the board has additional information that was not included in the annual disclosures and has reason to believe that shareholders do not have all the facts to cast their votes in a fully-informed manner, we encourage companies to proactively request engagements with their investors at the earliest opportunity.

L&G

Audit, risk and internal control

The board is responsible for determining and disclosing the company's approach to risk, its risk appetite, and monitoring the outcome and controls in place for effective risk management.

It is also responsible to its investors for presenting a true and fair view of the company's financial position and for setting out future capital management plans and near-term financial prospects.

The board is responsible for ensuring the independence and robustness of the internal and external audit functions and for assessing their effectiveness. Conclusions of this review along with bespoke narrative on the assessment and noted areas, along with actions taken to address any concerns are expected in annual disclosures.

Compliance with regulations

It is the audit committee's responsibility to ensure that all laws and applicable regulations are complied with and to avoid exposing the company to the undue risk of fines, censorship, and reputational damage.[6] We will hold the audit committee chair responsible for failing to detect breaches in accounting practices.

External audit

Auditors are an essential feature of an effective and transparent system of external supervision. To minimise potential conflicts of interest, the auditor's primary line of reporting should be to the audit committee, where one exists, and not to senior management. The auditors are ultimately employed to serve the shareholders, not the managers. Shareholders should be given an opportunity to vote on their appointment or re-appointment at each AGM.

High-quality audits are valued by investors and should be considered an asset rather than a cost to the business. It is important that the audit fee is reflective of the work involved, and that the auditor is selected based on quality rather than because it offers lower fees.

An external audit provides independent assurance of the financial statements of a company to its investors. The role of the auditor is to provide reasonable assurance that the financial statements give a true and fair view of the financial health of the company and that they have been prepared in accordance with appropriate accounting standards. Any significant audit matters raised by the auditors should be fully explained by the board, including how these have been addressed.

The external auditors are also responsible for producing the auditors' report, which is a formal opinion and evaluation of the financial statements.

The board is responsible for appointing the company's external auditor. The company is expected to clearly disclose the audit firm used, the partner who led the audit, the tenure of that firm, and why the board considers the auditor to be independent and how any potential conflicts are being avoided.

[6] In terms of regulations, L&G is in favour of streamlined disclosure requirements for the pre-AGM business report and financial statements (subject to the "first" audit based on the Companies Act) and the yukashoken hokokusho (subject to the "second" audit based on the Financial Services Agency's Financial Instruments and Exchange Act).

In Japan, audit firm rotations are not mandated by regulations. Furthermore, the appointment of an external audit firm is typically only put to a shareholder vote when companies intend to appoint a new audit firm. This is because an audit firm is deemed to have been re-elected at the AGM, unless otherwise resolved by the meeting.

We believe the role of the external audit firm should be put to tender on a regular basis to enhance the independence and quality of the external audit. Rotations should take place at least every 10 years, with the total tenure of the audit firm not exceeding 20 years. Within this timeframe we expect the lead audit partner to be subject to refreshment every five years. We expect the process of the tender to be disclosed, and the rationale for the appointment to be explained.

The fees for the external audit should be published in the annual disclosures. Where the external auditor provides non-audit services, these should be fully explained in the appropriate annual disclosures. We expect non-audit services provided to be incidental to the audit, with the primary purpose of improving the quality of the financial accounts. We do not expect excessive non-audit work to be conducted by the company's external auditor, as this will bring into question the independence of their judgement. Non- audit-related services are not expected to exceed 50% of the value of the total audit services in any given year. We expect companies to disclose audit and non-audit services fees as two separate amounts in their annual disclosures.

We believe auditor liability is an important and proportionate approach to supporting a high-quality audit. We are not supportive of fixed auditor liability or restrictions on that liability.

The audit committee, Kansayaku/Kansayaku board, or audit and supervisory committee (depending on the board structure) is responsible for explaining how it has assessed the quality of the external audit and recommendations arising from the external audit, and this should be reported to investors when considered material by the board and/or the audit partner.

Internal audit

Companies should have an effective and sufficiently resourced internal audit system in place, that is designed to take account of any new and emerging risks that will affect their business objectives and identify the severity of the risk. The process and procedures in place to manage such risks should be embedded in the risk-based control system of the company and summarised for investors in the annual disclosures.

The audit committee, Kansayaku/Kansayaku board, or audit and supervisory committee should have responsibility and oversight of the internal audit function.

Whistleblowing

We expect companies to establish a whistleblowing policy that is integrated into their code of conduct. The policy should be publicly disclosed and open to all employees including those within the supply chain. Every effort should be made to ensure that all employees and supply chain workers are aware of these procedures, and how to access them.

The whistleblowing reporting channels should be easily identified and channelled through an independent third party with a direct line to the audit committee, Kansayaku/Kansayaku board, or audit and supervisory committee to allow for appropriate oversight and independent escalation where necessary.

Companies should ensure their policy safeguards the identity of any whistleblower and that they are protected from harassment within the organisation. Companies should also report how the risks associated with bribery and other illegal behaviour are being monitored and addressed.

Digitisation

Artificial Intelligence (AI)

In our view, AI should drive long-term innovation, productivity and value creation. But in order to see these benefits over the long-term, it is equally important that such gains have appropriate governance and transparency to manage any down-side risks.

AI entails risks around data privacy and security; regulatory compliance; operational and critical infrastructure; workforce transitions; intellectual property; reputation; and trust in the information environment. There are also numerous ethical concerns as to its application.

We expect companies to meet baseline expectations around AI's governance, risk management and transparency. For companies more exposed to the development of AI systems, we will expect higher standards and additional resources to be applied to meet these expectations.

We expect the board to have clear accountability for AI strategy and risk oversight. The board should maintain knowledge of emerging AI risks and opportunities and provide transparency of the governance and risk processes in place on this issue.

Companies may wish to use product safety assessments for human rights risks, build trust by working with third party groups, establish baseline understandings of AI ethical expectations and processes for employee and user feedback, or remediation if required.

Cyber security

A vulnerability within a company's IT systems can lead to material financial and reputational damage. Therefore, we expect companies to take a risk-based approach to address the issue of cybersecurity and data protection. It should be integrated into the business's control functions and overseen from a strategic perspective by the board.

It is the board's role to understand the infrastructure needed in the business to protect valuable information assets, key intellectual property and customers' confidential data. Accountability should not be delegated. Cyber security should be a regular board agenda item. Any material data breach incident should be disclosed to customers and the market in a timely manner in line with regulatory expectations.

Climate risks

We expect companies with climate change as a material financial risk to appropriately reflect these risks in the scenarios, assumptions and estimates used to prepare their financial accounts. Companies should ensure, through transparent disclosure, that there is consistency between their narrative on climate change and their accounting determinations.

L&G

Remuneration

As a long-term and engaged investor, we entrust the board to ensure executive directors' remuneration is fair, balanced, and aligned with the strategy and long-term growth and performance of the business.
We believe it is important for investors to understand how internal directors are being remunerated and incentivised, and whether their remuneration is aligned to the delivery of sustainable business performance. Therefore, investors would find it helpful if companies disclosed all details of internal director's pay in their annual disclosures.

In general, Japanese companies are less prone to excessive remuneration structures than companies in other markets.

Cash retirement bonuses constitute a significant portion of executive remuneration, and the majority of these are not reflective of performance We believe that Japanese companies should adjust their executive remuneration structures to align with company performance and shareholder value creation.

Key pay principles

We apply a set of simple pay principles when looking at remuneration structures:

- The structure of remuneration and the payments awarded should be fair, balanced and understandable. This means fair in terms of what the company has achieved; balanced in terms of the amount paid to the executive, versus employees and investors; and understandable for the recipient, the board and investors.

- Awards should incentivise management to focus on long-term performance and be aligned with and support achieving the business's strategy and objectives.

- Executives should have meaningful direct equity holdings while employed and thereafter; buying shares is one of the best ways of aligning the interests of management and investors.

- Boards should retain the ultimate flexibility to apply discretion and 'sense check' final payments to ensure that they are aligned with the underlying performance of the business.

- Companies should be transparent on why rewards have been transferred to the executive, setting out targets, their relevance to meeting long-term goals, which targets were met and explain all adjustments made to accounting measures for remuneration purposes.

Fixed remuneration

We expect a base salary for executives to be commensurate with the size and complexity of the company. Although salary levels at peer companies may be considered, these should not set a definite benchmark.

Salary increases should not be automatic each year. Any increase in salary levels should not normally exceed what is offered to the general workforce, and its impact on total remuneration should be assessed before approval.

Incentive arrangements

Annual bonuses for directors and Kansayaku

Companies may choose to award an annual bonus to inside directors to incentivise the delivery of business strategy.

Investors expect companies to set out as a minimum the level of bonus that can be earned for target and maximum performance.

A majority of the annual bonus should be linked to the delivery of financial performance. It is helpful if companies explain why targets were selected. In addition, achieving a threshold level of financial performance should be a pre-requisite for the payment of any bonus that is based on personal or strategic objectives.

Where multiple performance conditions are set, investors welcome the disclosure of the weightings applied to each performance condition. Where a target is commercially sensitive to the business at the time when the award is made, disclosure a year later is acceptable. If this is not possible, an explanation of why the target continues to be commercially sensitive is expected.

The use of financial metrics that are reported in annual disclosures to determine performance is considered best practice. If these reported numbers are adjusted in any way, for example by excluding exceptional items, more disclosure is needed to explain why it is considered appropriate to make the adjustment.

Although there is more flexibility in the number of performance conditions being assessed under the annual bonus, we would ask companies to be mindful of the diluting impact that each additional measure brings to the overall assessment of performance.

Companies exposed to high levels of environmental, social, or reputational risk should consider including targets that focus management on mitigating these risks. These metrics should be meaningful, measurable, aligned to the company's strategy and subject to third-party verification.

For companies in high-risk sectors, where the health and safety of employees is key, we would expect a health and safety modifier to be introduced to the annual bonus to ensure that board members are held accountable for any loss of life within the workplace. Where a company is held responsible for any fatality within the workplace, we expect the remuneration committee to apply downward discretion on any performance-based pay earned.

Companies that want to demonstrate best practice would put in place contractual and statutory provisions that allow for a reduction or forfeiture of the annual bonus component in exceptional circumstances
(malus and clawback).

We do not expect outside directors, audit committee directors and statutory auditors to receive annual bonuses. Receiving a bonus can erode independence and negatively influence the veracity with which management is scrutinised.

We will oppose the approval of annual bonuses for directors/Kansayaku if:

- Recipients are outside directors, audit committee directors or statutory auditors
- There is clear evidence of mismanagement on the part of the recipient; and/or
- The company's performance has been poor.

Retirement allowance (bonuses) for directors and Kansayaku

With the exception of dismissal for cause and/or poor performance where awards should be lapsed, any outstanding awards of leavers should be time pro-rated and allowed to run their course subject to the same vesting conditions as those applied at grant.

Retirement allowances are standard practice in Japan and make up a sizable portion of lifetime remuneration for directors and Kansayaku and this is not necessarily judged on performance. The details of the amounts paid and the status of recipients, are seldom disclosed. This prevents shareholders from assessing the merits of retirement allowance and potentially undermines investor confidence in the company's capital management practices.

We will oppose the approval of retirement allowances or special payments if:

- Recipients are outside directors.

- Neither the individual payments nor the aggregate amount of the payments is disclosed, or it is disclosed, but it is not considered appropriate; and/or

- There is evidence of mismanagement on the part of the recipient.

Furthermore, we consider that outside directors should not receive special payments in connection with the abolition of a retirement allowance system. The receipt of special payments can erode independence, and act as a disincentive for outside directors or Kansayaku to speak out against management.

Long-term incentive plans (LTIP)

We believe that a company should incentivise and reward executives by granting long-term equity incentives that will align their interests with those of long-term investors. Incentives should be structured to motivate the management team to build a sustainable business that will generate positive returns for investors over the longer term. Therefore, the adoption of a long-term incentive plan that will deliver the reward in the form of shares is encouraged. We generally do not support cash-based long-term incentive plans. We do not expect outside directors, or statutory auditors, to receive share-based incentives that require some level of performance to deliver value.

In the interest of simplicity, we advocate the adoption of one long-term plan. We discourage the adoption of any additional incentive plans, including one-off plans, that would complicate the remuneration structure.

We encourage the use of at least two performance conditions but discourage the use of more than four, as each additional measure will dilute the importance of the other performance conditions, as well as increase the complexity of the incentive plan. We expect at least one measure to be linked to shareholder returns. Other measures should be linked to the business's strategy, such as key performance indicators (KPIs) that are selected by the board and reflect the company's material risks as well as target opportunities. Absolute share price measures used in isolation are considered insufficient justification for award vesting.

Where a relative total shareholder return (TSR) measure is used, we expect an appropriate benchmark group to be selected. Where any type of relative measure is used, L&G expects median performance to be the minimum performance level that may trigger a reward vesting. If used as a performance modifier, we would expect performance below median to trigger a reduction in the financial reward. Performance should be measured over a 3 year period and should not be retrospectively amended.

If share options are used, these should not be capable of exercise for a period of three years from the time of the award. Outstanding share options should not be re-priced.

Investors expect companies to disclose the performance metrics and as many of the performance targets under those metrics' as possible.

We will oppose deeply discounted option plans if:

- The total dilution from the proposed plan(s) and previous option plans exceeds 5% for mature companies, or 10% for growth companies;
- Recipients include individuals who are not in a position to influence the company's stock price, including employees of business partners or unspecified "collaborators;"
- The maximum number of options that can be issued per year is not disclosed; and/or
- No specific performance hurdles are specified.

Use of ESG metrics

Companies in sectors that can have a significant effect on climate change should link a proportion of their executive pay to delivering their climate mitigation goals. Ideally, the performance targets should be linked to SBTi-approved (or equivalent) transition plans aimed to achieve net-zero carbon emissions by 2050 or sooner. Targets should also be set to create new opportunities that not only improve revenue but also have a positive impact on climate.

By now, we expect most companies will have a clear idea of what must be done to hit these crucial targets. Therefore, for companies in L&G's Climate Impact Pledge, we expect climate reduction targets to be linked to the CEO's incentive pay programme. These targets should be in line with their stated transition goals to reach net zero or carbon neutrality. Climate Impact Pledge companies span 20 climate-critical sectors: autos, apparel, aviation, aluminium, banks, cement, chemicals, food, forestry, glass, insurance, logistics, mining, oil and gas, REITs, shipping, steel, technology & telecoms, and multi-utilities. Companies outside of these sectors are also encouraged to link long-term executive compensation to climate targets.

We believe linking climate mitigation targets to executive pay can act as a motivational driver to deliver on climate reduction goals.

We generally do not support the use of diversity targets within pay plans; however, we appreciate that for some sectors where it is much harder to recruit a diverse talent pool appropriate targets could be set.
We discourage the use of employee engagement targets, as we believe well-governed companies should have an inclusive culture in place that facilitate this on an annual basis. Financial incentives should not be necessary to drive such a programme. In our view, a better metric for companies, especially for those that have a high level of staff turnover, would be to set targets around full-time employee retention to gauge whether their internal human capital policies strategies to improve employee wellbeing and retention are working.

For oil and gas companies, remuneration should prioritise financial value over fossil fuel production volumes. The use of measures that directly encourage volume growth (such as reserve replacement ratios or production targets) risks incentivising overinvestment at a time when growth in demand seems increasingly uncertain and should therefore be avoided. L&G prefers financial measures (relating to total shareholder return and balance sheet strength) or other strategic metrics. The use of volume growth targets may result in a negative vote.

Discretion

Companies can build trust with investors if they can demonstrate restraint, consistency, and alignment with the shareholder experience. In exceptional circumstances, discretion applied to any earned award by executives is one way to demonstrate this alignment. We define discretion as anything that alters the monetary outcome of total remuneration.

We expect the company to state:

- The main reasons that might give rise to the application of discretion
- Whether their discretion policy applies to revising pay upwards as well as downwards
- The elements of pay to which discretion may be applied
- The effect that the application of discretion has had on the director's final pay outcome

Dividend accrual

Accrued dividends on share awards should only be paid on those shares that ultimately vest. L&G will vote against any share-based incentive plan's operation if it permits the payment of dividends on unvested awards.

Malus and clawback

Employment contracts and incentive plan terms should be designed to enable the application of malus and clawback, which should apply to all elements of variable remuneration.

To provide clarity for all stakeholders, remuneration committees should set out the circumstances under which malus and clawback will be applied. These circumstances should not be too narrowly defined.

Holding periods

We encourage the use of a two-year post-vesting holding period because we find this helps in aligning the remuneration structure with long-term performance. These holding periods should continue to apply even after a director has ceased employment with the company.

Equity dilution

We believe that strict guidelines should be adhered to in relation to the issuance of shares for incentive schemes to limit the potential dilution to shareholders. As a general rule, we expect no more than 10% of a company's equity to be used for all share schemes over a 10-year period. The annual run rate or burn rate should also be reasonable at about 1%.

Treasury shares should be included within these limits. Such restrictions should apply to all newly issued shares. We encourage companies to provide transparent explanations regarding the issuance of shares.

Shareholding guidelines

We expect companies to encourage their directors and senior executives to build up and retain a meaningful interest in the shares of the company they manage. This is an essential part of aligning directors' interests with

those of investors. The level of shareholding should be linked to the size of the company and the level of reward that the director receives under the long-term incentive. Ideally, these shares should continue to be ring-fenced by the company in a trust.

Shares held within an unvested incentive award, including those held in retention periods, should not be included in the calculation of shareholding guidelines.

Directors and Kansayakus' compensation ceiling

Japanese companies are less prone to excessive or misaligned remuneration structures than companies in other markets. This notwithstanding, further structural realignment is still needed, as performance-based remuneration continues to represent a relatively small portion of total pay. We will generally support proposals calling for an increase in the director compensation ceiling if this increase is intended to introduce or increase the performance-based pay component for inside directors. If proposals seek an increase in non-performance-based director pay, or it is unclear whether pay is performance based, we will examine these on a case-by-case basis. We will vote against proposals seeking to increase director compensation in cases where there are concerns of mismanagement.

We recognise that companies that disclose their remuneration structures may be penalised in this policy. In order for the policy not to act as a disincentive to disclosure, we will consider voting against company directors for inadequate disclosure.

Benchmarking

We discourage over-reliance on frequent benchmarking and would not expect pay to be increased automatically each year. Benchmarking on its own, should not be used to justify a substantial increase to pay levels.

When using benchmark data, the remuneration committee should take into consideration several factors: company size, its geographic spread and performance relative to the benchmark peers. The peer group should not be too large or too small as both extremes could produce misleading results. Companies should ensure they disclose meaningful information on the benchmarking data used and why it has selected the benchmark group, as well as any companies that may have been removed to arrive at the final benchmark group. Directors at underperforming companies should not expect to be remunerated as highly as directors of companies with outstanding performance.

Investor rights

The provision of shareholder and bondholder rights is a basic entitlement for investors. We expect companies to acknowledge and respect the rights of investors by adhering to the highest market standards. This includes providing high-quality disclosures and the equal treatment of shareholders. Below, we have outlined guidance on the topical issues that concern us as an investor:

Voting rights and share-class structures

L&G supports the 'one share one vote' philosophy and favours share structures where all shares have equal voting rights, and those rights are equal to the economic value held. We do not support the issue of shares with enhanced or impaired voting rights.

Transparency

We encourage companies to allow investors to be able to appropriately identify and assess their performance on material ESG issues.

We expect companies to adopt an open approach to the public disclosure of information, within the limits of what they can disclose. We would also encourage disclosures, in particular the main elements of the annual securities report (yukashoken hokokusho or "yuho"), to be made in English and disclosed well before the AGM to allow access to important information by a greater number of investors. This is particularly important so that voting decisions can be made, based on the latest information on governance issues such as cross shareholdings.

Improved transparency encourages informed voting, engagement and the integration of ESG issues into investment decisions.

Furthermore, we would like to see companies disclose their attempts to engage with investors (including minority shareholders) and who at the company undertook that discussion.

AGM timing

The Japanese market continues to have a highly condensed AGM season, with a large proportion of companies holding their AGMs within a short period toward the end of June.

We would encourage Japanese companies to reconsider the use and timing of the shareholder record date, including moving it away from the end of the business year. By separating the record date from the end of the business year, companies are no longer effectively constrained to hold the AGM within a short period after the close of the business year.

We believe this will help alleviate unnecessary time pressure on companies and audit firms, and contribute to a less concentrated the AGM season. This will also give companies time to publish the annual securities report ahead of the AGM, as well as to prepare English translations of key disclosure materials. Companies that set the record date closer to the AGM will also find themselves more in line with global practice.

Virtual/electronic general meetings

We believe that a company's general shareholder meeting is fundamentally important to the exercise of shareholder rights and integral to a good corporate governance system. Furthermore, we view in-person shareholder meetings to provide an important mechanism by which a board is publicly held accountable to all its shareholders, both institutional and retail.

Shareholder meetings provide an invaluable opportunity to raise concerns with a board in a public forum, and investors can use this mechanism as part of their stewardship activities. For example, they could be utilised as an escalation tool that enables shareholders to make statements and ask questions to the whole board.

We are cognisant that companies are keen to make sure that their shareholder communications keep pace with developing technology and conducting shareholder meetings electronically is an area of focus. We also agree that using technology, such as webcasts, to complement the in-person shareholder meeting could be beneficial and increase investor participation.

However, we believe such technology should be used in parallel with the in-person meeting and should not lead to companies adopting a virtual-only approach.

The shareholder meeting is the only time that the whole board is present and publicly accountable to its shareholders. The attendance of the board at that meeting is a demonstration of its commitment to hear and understand the views of shareholders. Virtual-only shareholder meetings remove this accountability due to the remoteness of participants. Companies that adopt a "virtual-only" approach may also risk giving the impression that they are attempting to filter questions or limit the participation of shareholders and that they do not want to be subject to the varied questions of their investors.

Any amendments to a company's constitution in relation to electronic meetings should confirm that an In-person meeting will continue to be held unless truly exceptional circumstances prevent this from happening, e.g., a pandemic or other safety concerns, etc.

Article amendments

It is common to see requests for amendments relating to various issues, including capital increases, changes to capital structures, board size and composition, as well as takeover and defence-related plans bundled together as a single voting resolution.

We expect these changes to be clearly outlined and disclosed in the notice of meeting. We do not support changes to a company's constitution that are introduced to curtail or reduce shareholder rights.

We would expect substantially different changes to a company's constitution to be proposed under separate resolutions and not to be bundled into a single amendment to the constitution. Where such a bundled resolution includes one or more changes that are not deemed supportable, this will lead to a vote against the entire proposal under the resolution.

Shareholder proposals

We consider all shareholder proposals tabled at a company's shareholder meeting in the wider context of the company's corporate governance practices, our thematic policies, and the long-term benefits for stakeholders.

We expect companies to provide a meaningful discussion of the proposals to enable shareholders to make an informed judgement.

We may support certain shareholder proposals on key topics where we want to draw attention to the importance of the topic for investors. The board can gain insight into what topics are considered material by shareholders by the level of shareholder support.

Where there has been significant support (20% or more), we expect companies to consider the benefits of the proposal and to discuss this with their shareholders and to include any outcomes in their annual disclosures.

We expect majority-supported shareholder proposals to be adopted, no matter whether these proposals are binding or merely advisory in nature. Where a company has not provided an acceptable explanation for not adopting a majority supported shareholder resolution, we may take voting action such as a vote against the re-election of the board chair or nominations committee chair.

L&G

Capital management and transactions

Balancing the long-term investment needs of the company with shorter-term returns to investors is a critical role of the board. The board has a key responsibility to ensure the company has sufficient capital; oversee its management to ensure efficient capital allocation; and, when additional capital is required, facilitate its raising in an appropriate way.

Therefore we support shareholders' rights to have a separate vote on the tools and authorities provided to the board to manage its capital structures. Such rights protect shareholder interests while balancing the need for board flexibility. For example, making sure that share issuances are not overly dilutive and capital is being raised in the long-term interests of investors.

We support the TSE's request, made in March 2023, for all listed companies on the Prime and Standard Markets to take "action to implement management that is conscious of cost of capital and stock price."

The TSE explains that "this starts with gaining a proper understanding of their cost of capital and profitability based on the balance sheet and continues with analysing and assessing the current situation around these and the market valuation at board meetings, preparing and disclosing plans for improvement, and then using dialogue with investors to update them on the progress of these efforts."
We expect actions to be directed towards these areas, rather than solely focused on share buybacks and dividend increases.

Share issuance

The current practice allows Japanese boards to have the discretion to issue shares within the authorised capital (a maximum of four times the current issued capital) on the condition that the issuance price does not constitute an advantage. If a price is considered advantageous, shareholder approval will be required. With this in mind, we believe that issuances should be limited to what is necessary to maintain business operations and should not expose minority shareholders to excessive dilution of their holdings.

We regard pre-emption rights as fundamental to protecting shareholders' investments in a company, and to fostering investor confidence. However, it is common for Japanese companies to undertake significant private placements without offering pre-emption rights to existing shareholders. Companies should consider alternative means of raising capital that do not expose minority shareholders to excessive dilution of their shares.

We may consider voting against the re-election of directors if there are serious concerns with capital management.

Share repurchases

Share repurchases can be a flexible way to return cash to shareholders. We expect the board to be transparent about how this share-buyback authority will be used in relation to other potential options (such as dividends, internal investment or externally for mergers and acquisitions).

However, the benefits of using this approach are dependent on factors such as the price at which shares are bought back, the company's individual financial circumstances and the wider market conditions at the time.

Japanese companies, when stipulated in their articles of incorporation, have the option of waiving the requirement for prior shareholder approval for share repurchases. We would expect a detailed rationale for any buyback authority that is greater than 10% of the issued share capital.

Cross shareholdings

While cross shareholdings - where listed companies hold the shares of other listed companies - are in gradual decline; in Japan, the practice is still prevalent. Cross shareholdings may serve a strategic objective, but they can also cause problems including poor corporate governance or the inefficient use of capital.

We expect companies to fully comply with the Corporate Governance Code's provisions on cross shareholdings, which call for companies to disclose their policies with respect to cross shareholdings, including their policy regarding the reduction of such holdings. The Code further requests companies to annually assess whether or not to hold each individual cross shareholding and to disclose the results of this assessment.

Therefore, management should be prepared to engage in an open dialogue with shareholders to demonstrate the value created through cross shareholdings, and to share plans for such holdings to be reduced.

We also examine cross shareholdings when we determine if an outside director is independent. In 2022, we started voting against the board chair if the company allocates 20% or more of their net assets to cross shareholdings with no clear rationale for this decision. We will continue to review this threshold and look to tighten our policy over time.

Mergers and acquisitions (M&A)

We will support proposals that are expected to create shareholder value for investors over the long term.

To make an informed assessment, we expect management to be transparent on the terms of the transaction and its financial and cultural integration implications on the long-term business strategy. We expect all companies to explain how the transaction is expected to yield significant long-term benefits for the company and its stakeholders, including investors.

We encourage the independent outside directors, together with the board chair (if they are independent), to hold separate meetings with their investors without executive management present, to explain the risks and opportunities of the transaction. In a contested takeover, we will aim to meet with both parties before making a final decision.

In addition, we believe that a strong governance framework is essential during any M&A activity. Companies should therefore make sure the independent outside directors are informed at an early stage and can obtain independent advice at the cost of the company, with advisers remunerated on a fixed-fee basis. A robust process should be in place to ensure there are no conflicts of interest.

The skillset of the board must also be reviewed, including past M&A experience, to ensure the board is appropriately equipped to successfully lead the transaction and manage its impact on the company. The board may consider putting in place a separate ad hoc committee of independent outside directors to consider the merits of the transaction, and to engage with their investors.

Takeover defence plans – poison pills

A “poison pill” is a tactic used by a company to deter takeover bids. Well-designed poison pills may strengthen the board’s negotiating position and allow it to obtain more favourable terms from an acquirer.

It is vital that this process is controlled by the independent members of the board, who are responsible for protecting the interests of minority shareholders.

We do not expect a poison pill to entrench management or protect the company from market pressures, as this is not in investors’ best interests. Any poison pill should only be used for a finite period.

We will also examine if there is sufficient independent board oversight in the use of such a mechanism. This means that we only support poison pill proposals when the board comprises a majority of independent directors.

Additionally, a poison pill should not be capable of activation until a threshold of 20% of the outstanding issued share capital is triggered. The duration of any poison pill (defined as the sum of the number of years the company has had a pill in place and the number of years the proposed pill will be effective) should not exceed three years; thereafter, shareholder approval should be sought. The bid evaluation committee should be composed of a majority of independent outside directors, or independent statutory auditors and who meet our guidelines on attendance.

We also expect the company to post its proxy circular on the stock exchange website at least four weeks prior to the meeting, to give shareholders sufficient time to study the details of the proposal and where necessary, engage with management about them.

Related-party transactions

Related party transactions (e.g., between the company and a controlling shareholder or director) are an important issue for minority shareholders as there is a risk that a related party may take advantage of their position.

Adequate safeguards must be put in place to protect the interests of the company and shareholders who are not part of the related party, including minority shareholders.

All transactions must be authorised by the board of directors. The audit committee should ensure that such transactions are conducted based on an independent assessment and valuation.

For material related-party transactions, we expect companies to provide additional information to shareholders in their annual disclosures. This should include information on whether board approval was unanimous or received majority support. In addition, shareholders should be given the opportunity to approve material related-party transactions, including any transactions undertaken with directors.

Political donations and lobbying activity

We will not support direct donations by companies to political parties or individual political candidates. We believe that companies should fully disclose all political contributions, direct lobbying activity, political involvement and indirect lobbying via trade associations. There should be full transparency regarding memberships of, and monies paid to, trade associations and lobbying groups, including:

- A breakdown of payments to political parties, candidates and associations, trade associations, and think tanks, and of direct and indirect lobbying activity on policy and legislative proposals etc;

- A clear explanation of how each of the above associations, contributions and actions would benefit the causes the company supports and how they are linked to its strategy;

- A public statement from the company outlining where it disagrees with the associations of which it is a member on a particular issue, and the reasons why it believes it is beneficial to remain a member; and

- Disclosure of where responsibility sits within the company for the oversight of such relationships.

Legal & General Investment Management Limited

One Coleman Street

London

EC2R 5AA

Authorised and regulated by the Financial Conduct Authority.

Legal & General Investment Management Limited does not provide advice on the suitability of its products or services.

Ultimate holding company - Legal & General Group plc.

Key Risks

The value of an investment and any income taken from it is not guaranteed and can go down as well as up, and the investor may get back less than the original amount invested.

Important Information

The views expressed in this document are those of Legal & General Investment Management Limited and/or its affiliates ('L&G', 'we' or 'us') as at the date of publication. This document is for information purposes only and we are not soliciting any action based on it. The information above discusses general economic, market or political issues and/or industry or sector trends. It does not constitute research or investment, legal or tax advice. It is not an offer or recommendation or advertisement to buy or sell securities or pursue a particular investment strategy. Past performance should not be taken as an indication or guarantee of future performance and no representation, express or implied, is made regarding future performance.
No party shall have any right of action against L&G in relation to the accuracy or completeness of the information contained in this document. The information is believed to be correct as at the date of publication, but no assurance can be given that this document is complete or accurate in the light of information that may become available after its publication. We are under no obligation to update or amend the information in this document. Where this document contains third-party information, the accuracy and completeness of such information cannot be guaranteed and we accept no responsibility or liability in respect of such information.

This document may not be reproduced in whole or in part or distributed to third parties without our prior written permission. Not for distribution to any person resident in any jurisdiction where such distribution would be contrary to local law or regulation.

© 2026 Legal & General Investment Management Limited, authorised and regulated by the Financial Conduct Authority, No. 119272. Registered in England and Wales No. 02091894 with registered office at One Coleman Street, London, EC2R 5AA.

L&G Global
Unless otherwise stated, references herein to "L&G", "we" and "us" are meant to capture the global conglomerate that includes:

- **European Economic Area:** LGIM Managers (Europe) Limited, authorised and regulated by the Central Bank of Ireland as a UCITS management company (pursuant to European Communities (Undertakings for Collective Investment in Transferable Securities) Regulations, 2011 (as amended) and as an alternative investment fund manager (pursuant to the European Union (Alternative Investment Fund Managers) Regulations 2013 (as amended).

- **Japan:** Legal & General Investment Management Japan KK (a Japan FSA registered investment management company).
- **Hong Kong:** issued by Legal & General Investment Management Asia Limited which is licensed by the Securities and Futures Commission.
- **Singapore:** issued by LGIM Singapore Pte. Ltd. (Company Registration No. 202231876W) which is regulated by the Monetary Authority of Singapore.

The L&G Stewardship Team acts on behalf of all such locally authorised entities.