



May 10, 2022

To All Stakeholders:

Company	USS Co., Ltd.
Representative	Yukihiro Ando Chairman and Representative Director
Stock Code	4732
Listings	Prime Market, Tokyo Stock Exchange Premier Market, Nagoya Stock Exchange
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Notice of Revisions to Officer Remuneration Plan and Start of Restricted Stock Remuneration and Performance-linked Stock Remuneration

The Board of Directors of USS Co., Ltd. approved resolutions today to review remuneration for eligible officers (directors) and to start using restricted stock remuneration and performance-linked stock remuneration for these officers. Proposals for the establishment of these two categories of remuneration will be submitted at the shareholders meeting to be held on June 21, 2022.

1. Explanation of revisions to remuneration of officers

USS plans to revise remuneration for eligible directors, which are directors other than outside directors, primarily by using restricted stock remuneration as a long-term incentive, performance-linked stock remuneration as a medium-term incentive, and bonuses as a short-term incentive. Establishment of the two stock remuneration plans will require the approval of shareholders and proposals for these plans will be submitted at the June 2022 shareholders meeting.

An overview of the new remuneration structure, if approved by shareholders, is in the reference section titled “Revisions to Remuneration for Officers.”

2. Summary of the new stock remuneration plans

(1) Purpose and requirements for approval

a. Purpose of the new remuneration

By enabling eligible directors to continuously hold USS common stock, the restricted stock remuneration aims to have these directors share with other shareholders the potential benefits and risks involving USS stock price movements as well as to serve as a long-term incentive that motivates directors to raise the stock price and corporate value. Performance-linked stock remuneration aims to establish a stronger link between remuneration and the results of operations and the stock price in order to create an even stronger medium-term incentive for eligible directors to achieve the steady growth of corporate value.

b. Requirements for approval

Both of the new stock remuneration plans will distribute monetary remuneration claims as remuneration to eligible directors for the purpose of receiving allocations of USS common stock. The plans will start if proposals for this new stock remuneration are approved by shareholders.

Shareholders approved a proposal to limit the annual remuneration of all directors to 500 million yen at the shareholders meeting held on June 28, 2006 and to start a stock option remuneration program for directors (except outside directors) with a separate annual limit of 150 million yen at the shareholders meeting held on June 26, 2007. At the June 2022 shareholders meeting, USS plans to ask shareholders to approve resolutions for remuneration limits separate from these existing limits. For restricted stock remuneration, the proposed annual limit is 150 million yen for monetary remuneration claims distributed to eligible directors as remuneration. For performance-linked stock remuneration, the proposed limit is 150 million yen for each applicable period (as defined in (3) a.) for monetary remuneration claims. If shareholders approve these proposals, USS will no longer specify the monetary value of remuneration involving the preceding stock acquisition rights distributed as stock remuneration stock options. Furthermore, USS will no longer distribute stock acquisition rights as stock remuneration based on a fixed monetary value of this remuneration.

(2) Summary of restricted stock remuneration

a. Distribution of restricted stock and payments

In accordance with a resolution approved by the USS board of directors, USS plans to distribute restricted stock to eligible directors by providing these directors with monetary remuneration claims within the annual limit explained in the preceding section. All of these directors will receive these claims in the form of a payment in kind.

The amount paid for the restricted stock is based on the closing price of USS common stock on the Tokyo Stock Exchange on the trading day prior to the USS board of directors resolution to issue or distribute this stock (or the most recent prior closing price if USS stock was not traded on that day). The USS board of directors will determine the price of restricted stock within a range that is not particularly advantageous for eligible directors receiving this stock.

The monetary remuneration claims will be distributed only to eligible directors who agree to the payment in kind and who sign a restricted stock allocation contract that includes the terms in the following item c.

b. Number of shares of restricted stock

The limit in each fiscal year for the number of shares of restricted stock distributed to eligible directors is 300,000.

However, after the day of the resolution approving the new stock remuneration plans, if there is a split of USS common stock (including a gratis stock distribution, same hereafter), stock consolidation or some other similar event that requires an adjustment of the number of shares of restricted stock distributed, the total number of these shares can be adjusted in a reasonable manner.

c. Terms of the restricted stock allocation contract

Based on a resolution approved by the USS board of directors, contracts signed by eligible directors with USS for receipt of restricted stock must include the following terms.

i. Restriction on sale or other transfer of ownership

Eligible directors who receive restricted stock are not allowed to sell to a third party, submit as collateral, use as a mortgage, give as a gift prior to death, transfer upon death or dispose of this stock in any other way during the period starting on the day the restricted stock is received and ending on the day the individual is no longer a USS director.

ii. Acquisition of restricted stock with no payment

If a director who has received restricted stock leaves the USS board of directors for a reason other than a reason determined to be legitimate by the director between the beginning of the stock transfer restriction period and the day before the first annual shareholders meeting after that day, USS can acquire that director's restricted stock with no payment.

In addition, if at the completion of the stock transfer restriction period specified in the preceding section i an eligible director holds restricted stock that is still restricted due to the restriction ending provisions in the following section iii, USS can acquire the stock that is still restricted with no payment.

iii. End of stock transfer restriction

The restriction on the transfer of restricted stock ends at the completion of the stock transfer restriction period for all stock received by eligible directors who were continuously directors during the period beginning on the first day of the stock transfer restriction period and ending on the day of the first annual shareholders meeting after the first day of the restriction period.

However, if an eligible director leaves the USS board of directors during this period for a reason determined to be legitimate by the board of directors, there can be reasonable adjustments as needed in the number of shares of restricted stock that are no longer restricted and when the restriction ends.

iv. Reorganization or other event

During the stock transfer restriction period, if a resolution for a merger in which USS is dissolved, an exchange of stock or stock transfer plan where USS becomes a wholly owned subsidiary, or some other reorganization is approved at a shareholders meeting (or the board of directors if the proposed reorganization does not require shareholder approval), the USS board of directors may approve a resolution to end this restriction period prior to the date of the reorganization for a reasonable number of shares of restricted stock based on the length of time between the start of the restriction period and the reorganization approval date.

If this action is taken by the USS board of directors, in accordance with the preceding provisions, USS will immediately after the end of the transfer restriction acquire all restricted stock for which the transfer restriction is still in effect with no payment.

(3) Summary of performance-linked stock remuneration

a. Structure of performance-linked stock remuneration

Performance-linked stock remuneration is for the period beginning at the end of an annual shareholders meeting and ending on the day of the following annual shareholders meeting. The

first period for this remuneration begins at the end of the June 2022 shareholders meeting and ends on the day of the annual shareholders meeting in 2023. Remuneration is based on the degree to which performance targets are achieved during three consecutive fiscal years. The first performance evaluation period is the three fiscal years ending in March 2023, 2024 and 2025. Subsequent evaluation periods are the three-year periods beginning with the fiscal year ending in March 2024, March 2025 and so on within the limit approved by shareholders. A number of shares of USS common stock is calculated based on the degree to which targets were achieved and stock remuneration (so-called performance share units) is distributed after the completion of the three-year period used for the evaluation of performance.

The following calculation method is used for the distribution of stock. Following the completion of a three-year evaluation period, eligible directors receive monetary remuneration claims. Then newly issued or existing USS stock is used as a payment in kind for all of these monetary remuneration claims in order to distribute this stock.

b. Total amount of monetary remuneration claims for performance-linked stock remuneration and maximum number of shares

The total amount of monetary remuneration claims that can be distributed to eligible directors cannot exceed 150 million yen for each three-year performance evaluation period. In addition, an eligible director can receive no more than 300,000 shares of USS stock for each three-year performance evaluation period. If the number of shares of stock issued by USS changes because of a stock consolidation or split, the maximum number of shares will be adjusted proportionally. In addition, if the calculation in the following section c may result in the distribution of a number of shares of USS stock that exceeds the limit for monetary remuneration claims or for the number of shares of stock, the USS board of directors will use a suitable method, such as a proportional reduction of shares distributed, in order to remain below these limits.

c. Calculation of number of shares and amount of monetary remuneration claims

Based on the degree to which performance targets were achieved in each performance valuation period, the number of shares and amount of monetary remuneration claims are calculated as follows and distributed to the eligible directors.

(Formula for monetary remuneration claims)

Monetary remuneration claims for eligible directors = Number of shares distributed (i) x Closing price of USS stock (ii)

i. Number of shares distributed to each director

The number of shares distributed to each director is calculated as follows. Any fraction of one share resulting from this calculation is discarded.

(Formula for the number of shares distributed to each director)

Number of shares = Number of stock units (A) x Stock distribution ratio (B)

(A) Number of stock units

The number of stock units is calculated as follows.

(Formula for the number of stock units)

Number of stock units	=	$\frac{\text{Standard amount of performance-linked stock remuneration (a)}}{\text{Stock price for stock unit formula (b)}}$
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(a) Standard amount of performance-linked stock remuneration

The standard amount for each director is determined by the Nominations and Remuneration Committee, where the majority of members are independent outside directors, as authorized by the board of directors.

(b) Stock price for stock unit formula

The stock price in this formula is the higher of the closing price of USS stock on the final day of the fiscal year prior to the first fiscal year of the applicable three-year performance evaluation period (or the most recent prior closing price if USS stock was not traded on that day) or the average stock price for the entire fiscal year prior to the first fiscal year of the applicable evaluation period.

(B) Stock distribution ratio

This ratio is calculated by using the TSR* evaluation coefficient and ROE evaluation coefficient, which are financial coefficients, and the ESG evaluation coefficient, which is a non-financial coefficient. If this calculation results in a negative figure, the result is revised to 0%. The TSR evaluation coefficient and ROE evaluation coefficient are figures between 0% and 200% depending on the degree to which performance targets established for each performance evaluation period were achieved. The ESG evaluation coefficient is a figure between -10% and +10%.

The TSR is a figure calculated as follows for each performance evaluation period.

TSR	=	$\frac{\text{Average closing price of USS stock during last 3 months prior to end of performance evaluation period} + \text{Total dividends paid during performance evaluation period}}{\text{Average closing price of USS stock during last 3 months prior to start of performance evaluation period}} - 1$
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ii. Closing price of USS stock

The closing price of USS stock is the closing price of USS common stock on the Tokyo Stock Exchange on the trading day prior to the day of the board of directors resolution for the issuance or use of treasury stock for the distribution of USS stock (or the most recent prior closing price if USS stock was not traded on that day), which must be within two months after the end of the applicable performance evaluation period.

d. Requirements for distributing stock to individual eligible directors

Once all of the following requirements for distributing stock have been fulfilled following the end of a performance evaluation period, monetary remuneration claims are distributed to individual eligible directors and payments in kind are made for all claims in order to distribute USS stock to these directors.

- a. The eligible director must be a director continuously during the applicable performance evaluation period.

- b. The eligible director must not have engaged in any illegal activities as prescribed by the board of directors.
- c. Fulfillment of other requirements designated by the board of directors that are necessary for the accomplishment of the goals of the performance-linked stock remuneration plan.

However, if there is an eligible director who was elected a director or who changed to a different executive position at USS during the applicable performance evaluation period, the number of shares of USS stock distributed to this individual will be adjusted in a reasonable manner.

If a director leaves the board of directors during the performance evaluation period due to death or some other legitimate reason, the board of directors can decide to make a cash payment (including a payment to a designated beneficiary in the event of a director's death) calculated in a reasonable manner during an appropriate period following the time the individual ceased to be a director.

e. Reorganization or other event

During the performance evaluation period, if a resolution for a merger in which USS is dissolved, an exchange of stock or stock transfer plan where USS becomes a wholly owned subsidiary, a divestiture of a USS business to establish a new company, an absorption divestiture (only divestiture-type spin-off), a stock consolidation where USS becomes controlled by a specified shareholder, or for the acquisition of a class of stock (requiring acquisition of all stock) or request for the sale of stock (collectively reorganization or other event) is approved at a shareholders meeting (or the board of directors if the proposed reorganization does not require shareholder approval), and if the reorganization or other event is to become effective prior to the stock distribution date designated by the performance-linked stock remuneration plan, then prior to this date of effectiveness, USS can make cash payments as calculated in a reasonable manner by the board of directors prior to the date of the reorganization or other event. These cash payments are made in lieu of the distribution of stock and are an equivalent monetary amount while remaining within the limits explained in the preceding item b for monetary remuneration claims and the number of shares of stock distributed.

(4) Malus and clawback provisions

As part of the establishment of these remuneration plans, USS plans to establish a system for the denial of distribution of USS common stock to a director, the acquisition with no payment of all or part of USS common stock distributed as remuneration to a director, or requiring a director to pay the market price for remuneration stock received. These actions may be taken when the board of directors determines that an eligible director has committed an illegal act or a serious violation of internal rules or been involved with some other improper activity, including serious fraudulent accounting or an act causing a significant loss.

Reference – Revisions to the officer remuneration system

On May 10, 2022, the USS board of directors approved resolutions to reexamine remuneration for officers and to start using restricted stock remuneration and performance-linked stock remuneration. These resolutions were approved following an examination of these proposals by the Nominations and Remuneration Committee, where the majority of members are independent outside directors. Proposals for these new remuneration plans will be submitted at the shareholders meeting to be held on June 21, 2022. The Japan Research Institute, Limited, an external organization specializing in this field, was used as part of activities for this reexamination of remuneration for officers.

If shareholders approve these resolutions at the June 2022 shareholders meeting, USS will have the following new officer remuneration plans.

Policy for determination of remuneration for individual directors

(1) Basic policy for remuneration of officers

USS will maintain a competitive level of remuneration for the purpose of attracting and retaining talented managers with the skills needed for the sustained growth of the USS Group and medium to long-term growth of corporate value.

In addition to receiving fixed remuneration, officers receive as performance-linked remuneration bonuses as a short-term incentive, performance-linked stock remuneration (performance share units) as a medium-term incentive, and restricted stock remuneration as a long-term incentive. The policy is to properly determine percentages of total remuneration for each of these remuneration categories with the aim of having these remuneration plans function as sound incentives for achieving sustained growth.

(2) Explanation of remuneration for officers

Based on the basic policy in the preceding section, USS plans to use the following remuneration plans for directors. A black circle indicates eligibility for each category of remuneration.

Remuneration category			Eligibility		
			Executive Officer Directors (Note 1)	Outside Directors (Note 2)	Corporate Auditors (Note 3)
Fixed	Cash	Basic	●	●	●
		Bonus	●	—	—
Variable	Stock	Performance-linked stock	●	—	—
		Restricted stock	●	—	—

Notes:

1. Executive officer directors are all directors other than outside directors and receive all four categories of remuneration as their remuneration as executive officer directors.
2. Outside directors receive only basic remuneration for the purpose of ensuring that these directors supervise management with objectivity and independence.

3. Remuneration for corporate auditors is decided by the mutual agreement of the corporate auditors. This composition is solely basic remuneration to ensure that corporate auditors perform audits of management with objectivity and independence.

Composition of remuneration for executive officer directors

Remuneration category	Percentage
Basic	60%
Bonus	20%
Performance-linked stock	10%
Restricted stock	10%

Note: Ratio when the performance-based evaluation coefficient is all 100% for all KPIs.

(3) Basic remuneration

Basic remuneration is paid in fixed amounts every month and is based on the roles, responsibilities and other characteristics of each director's executive position at USS.

(4) Bonus

Bonuses are performance-linked remuneration that is paid in cash as a short-term incentive. The bonus for each fiscal year is linked to results of operations and calculated as follows.

The basic amount used to calculate bonuses (i) and bonus payment ratio (ii) are multiplied to obtain the bonus paid to each individual.

$\text{Bonus} = \text{Basic bonus calculation amount (i)} \times \text{Bonus payment ratio (ii)}$

(i) Basic bonus calculation amount

This figure is determined by the Nominations and Remuneration Committee, where the majority of members are independent outside directors, which has been authorized by the board of directors to perform this task.

(ii) Bonus payment ratio

This ratio is calculated by using the sales evaluation coefficient, operating profit evaluation coefficient, net income evaluation coefficient (using profit attributable to owners of parent, same hereafter) and ROE evaluation coefficient, which are financial indicator evaluation coefficients (all using consolidated financial data, same hereafter), and applying the applicable weighting (20% for the sales coefficient, 40% for the operating profit coefficient, 20% for the net income coefficient and 20% for the ROE coefficient).

These financial indicator evaluation coefficients are between 0% and 200% depending on the degree to which performance targets for the applicable fiscal year were achieved. The initial forecast for the fiscal year is used as the targets for determining the sales, operating profit and net income coefficients. For the ROE coefficient, 15% is used because this is one of the medium-term targets of USS.

$\begin{aligned} \text{Bonus payment ratio} = & \\ & \text{Sales evaluation coefficient} \times 20\% + \text{Operating profit evaluation coefficient} \times 40\% \\ & + \text{Net income evaluation coefficient} \times 20\% + \text{ROE evaluation coefficient} \times 20\% \end{aligned}$
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(Financial indicators and evaluation coefficients in the bonus payment ratio)

	KPI	Basis for evaluation	Weight	Achievement ratio		Evaluation coefficient
Financial indicators	Sales	Degree of achievement of target	20%	Minimum	50%	0%
				Target	100%	100%
				Maximum	150%	200%
	Operating profit	Same	40%	Minimum	50%	0%
				Target	100%	100%
				Maximum	150%	200%
	Net income	Same	20%	Minimum	50%	0%
				Target	100%	100%
				Maximum	150%	200%
	ROE	Same	20%	Minimum	Below 11%	0%
				Target	15%	100%
				Maximum	20%+	200%

(5) Performance-linked stock remuneration

The purpose of this stock remuneration is to increase the medium-term incentive for executive officer directors to achieve the consistent growth of USS's corporate value. This remuneration accomplishes this by further clarifying the link between each director's remuneration and results of operation and the value of USS stock. For the period beginning after an annual shareholders meeting and ending with the annual shareholders meeting in the following year, this remuneration distributes to eligible directors a number of shares of USS common stock based on the degree to which performance targets have been achieved for the applicable period of three consecutive fiscal year. Shares are distributed at the end of this three-year period.

The number of shares of USS common stock an eligible director receives is calculated by multiplying the number of stock units (i) and the stock distribution ratio (ii).

Shares distributed = Number of stock units (i) x Stock distribution ratio (ii)
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(i) Number of stock units

This number is calculated by dividing the standard amount of performance-linked stock remuneration (a) for each executive officer director by the stock price for the stock unit formula (b).

Number of stock units	=	$\frac{\text{Standard amount of performance-linked stock remuneration for individual directors (a)}}{\text{Stock price for stock unit formula (b)}}$
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(a) Standard amount of performance-linked stock remuneration for individual directors

The standard amount for each director is determined by the Nominations and Remuneration Committee, where the majority of members are independent outside directors, as authorized by the board of directors.

(b) Stock price for stock unit formula

The stock price in this formula is the higher of the closing price of USS stock on the final day of the fiscal year prior to the first fiscal year of the applicable three-year performance

evaluation period (or the most recent prior closing price if USS stock was not traded on that day) or the average stock price for the entire fiscal year prior to the first fiscal year of the applicable evaluation period.

(ii) Stock distribution ratio

This ratio is calculated by using the TSR* evaluation coefficient and ROE evaluation coefficient, which are financial coefficients, with the applicable weighting (50% for TSR evaluation coefficient and 50% for ROE evaluation coefficient) and then making an adjustment to reflect the ESG evaluation coefficient, which is a non-financial coefficient. If this calculation results in a negative figure, the result is revised to 0%.

The TSR evaluation coefficient and ROE evaluation coefficient are figures between 0% and 200% depending on the degree to which performance targets established for each performance evaluation period were achieved.

The ESG evaluation coefficient, which is a non-financial performance indicator, is a figure between -10% and +10% and is linked to MSCI and CDP ratings of USS during the performance evaluation period.

$\text{Stock distribution ratio} = \text{TSR evaluation coefficient} \times 50\% + \text{ROE evaluation coefficient} \times 50\% \pm \text{ESG evaluation coefficient}$

The TSR is a figure calculated as follows for each performance evaluation period.

$\text{TSR} = \frac{\text{Average closing price of USS stock during last 3 months prior to end of performance evaluation period} + \text{Total dividends paid during performance evaluation period}}{\text{Average closing price of USS stock during last 3 months prior to start of performance evaluation period}} - 1$

(Financial indicators and evaluation coefficients in the stock distribution ratio)

	KPI	Basis for evaluation	Weight	Achievement ratio		Evaluation coefficient
Financial indicators	TSR (vs. index)	USS TSR vs. TOPIX 500 stock growth ratio (relative stock growth ratio)	50%	Relative stock growth ratio is below 70%		0%
				Relative stock growth ratio is 70% to 130%		Same as relative stock growth ratio
				Relative stock growth ratio is over 130%		200%
	ROE	Degree of achieving target	50%	Minimum	Under 11%	0%
				Target	15%	100%
				Maximum	20%+	200%

(6) Restricted stock remuneration

This remuneration is a long-term incentive for executive officer directors. Enabling these directors to constantly hold USS common stock means that these directors have the same potential benefits and risks involving stock price movements as all other shareholders do. The purpose of this long-term incentive is to increase the motivation of these directors to contribute to raising the price of USS stock and increasing the corporate value of USS. As a rule, USS will distribute restricted stock

to eligible executive officer directors every year. Each director will be restricted from transferring ownership of this USS common stock from the day the stock is received until the day the individual is no longer a director of USS.

The total monetary amount of restricted stock remuneration in every year is determined by the Nominations and Remuneration Committee, where the majority of members are independent outside directors, as authorized by the board of directors. The maximum number of shares of restricted stock that can be distributed every year is 300,000.

(7) Level and composition of remuneration for executive officer directors

USS believes that the level of remuneration and composition of this composition are appropriate. This judgment is based on comparisons of the level of remuneration, remuneration composition, labor's share of income and salaries of USS employees with the same figures for TOPIX 500 companies and companies with a market capitalization and sales similar to those of USS.

The level, format, composition and other aspects of remuneration for executive officer directors is determined with the purpose of further increasing motivation to contribute to medium to long-term growth of sales and earnings and corporate value by more clearly linking remuneration with results of operations. All aspects of this remuneration are reexamined periodically. The percentages of each category of remuneration for executive officer directors are in the preceding item (2).

(8) Return of remuneration (malus and clawback provisions)

USS has a system (malus and clawback) for the return of performance-linked stock remuneration and restricted stock remuneration distributed to executive officer directors. These actions may be taken when the board of directors determines that an executive officer director has committed an illegal act or a serious violation of internal rules or been involved with some other improper activity, including serious fraudulent accounting or an act causing a significant loss. In this event, USS can refuse to distribute USS common stock to a director, require a director to pay the market value of all or part of the USS common stock that was distributed as remuneration, demand the return of this stock, or take some other action. Terms for a demand for the return of stock or other action will be determined by a resolution of the board of directors.

(9) Process for determination of remuneration for directors

The policy for determining the composition of remuneration for directors and the specific remuneration for individual directors are determined by the Nominations and Remuneration Committee, where the majority of members are independent outside directors, as authorized by the board of directors, by using objective discussions.

As needed, members of the Nominations and Remuneration Committee ask external companies and other organizations for advice while holding discussions about remuneration for the purpose of obtaining an objective perspective and incorporating professional knowledge and information in discussions about remuneration.

(10) Policy for determining remuneration of executive officers

The policy for the determination of remuneration for executive officers of USS is based on the policy for the determination of remuneration for directors of USS and this remuneration consists of basic remuneration, bonuses, performance-linked stock remuneration and restricted stock remuneration.