

Toward a Circular Economy

USS Integrated Report
2023

Toward a Circular Economy

The leader in Japan’s auto auction industry

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Corporate philosophy

Creating a fair market

To make the used-vehicle distribution market more fair and transparent, USS creates new solutions and provides an open marketplace based on free market principles, which helps to enhance the social status of the used-vehicle sector as a whole.

Serving members better

USS continues to improve its ability to operate auto auction systems because of the commitment to providing member companies with an even more convenient and useful marketplace.

Providing services for consumers

Based on the belief that auto auctions should be structured for the benefit of end-users; USS establishes standard market prices for used vehicles. This also helps us to gain the trust of more and more consumers.

Passing profit on to shareholders

Over the years, USS has placed priority on maintaining a suitable level of earnings and returning a significant share of earnings to shareholders.

Respecting employees

USS always respects its employees. We are stepping up efforts to establish an environment where all employees can maximize their capabilities. In addition, USS has fair evaluation and compensation systems that demonstrate the value we place on employees' contributions, and we will work even harder to reflect their ideas in the management of business operations.

Contributing to local communities

Through proactive mutual exchanges with local communities, USS continues to contribute to regional development as a good corporate citizen.

Corporate strategy

1. We will provide services as a diversified used car distribution organization that is widely recognized as an outstanding corporate citizen.
2. Our organization will always be trusted by both our customers and the public.
3. We will leverage all of our strengths and knowhow to adapt to ongoing changes in our markets.
4. We will build a team of self-reliant individuals who can continue to support and manage the USS Group's growth for many years.
5. We will always incorporate the interests of our shareholders in our business operations and decisions.

Editorial policy

The USS Group publishes this integrated report to create a foundation for a constructive dialogue with not only its shareholders and other investors but also all of its stakeholders. Our third annual integrated report aims to provide a greater understanding of our approaches and initiatives to enhance medium to long-term corporate value. As a means to this end, we have made the changes below to enhance the information in this report.

- We introduce initiatives to bolster management resources in the future in “Strengths of USS (important management resources).”
- We disclose the specific process to identify priority issues alongside our key performance indicators (KPIs; quantitative targets and results) and results in “Priority subjects (materiality).”
- We added “Medium to long-term vision and strategy” as a new section to lay out our long-term vision and strategies as well as provide an overview of each measure.
- We include an interview with new executive officers to provide in depth insight into medium to long-term challenges and policies.
- We include more comprehensive information in the section about the environment, such as a climate-related transition plan.
- We disclose deliberations on important matters by the Board of Directors in the section on governance. This section also provides more comprehensive information about the officer remuneration policy, including the bonuses (performance-linked monetary compensation) targets and performance.

Period covered by this report

Period: Fiscal 2022 (April 1, 2022 to March 31, 2023)

Coverage: USS and its consolidated subsidiaries

* Also includes some information about other periods and recent or current activities

Guidelines used as reference

International Integrated Reporting Framework published by the IFRS Foundation

Precaution concerning forward-looking information

This report includes forecasts and outlooks about the future plans, strategies and results of operations of the USS Group. These statements are not historical facts. All forecasts and outlooks are based on assumptions and beliefs that use information currently available. In addition, forward-looking statements incorporate risk factors and uncertainties involving the economy, demand for the services of the USS Group, taxes, laws and regulations, natural disasters, and other items. As a result, actual results of operations may differ from the forecasts and outlooks in this report.

Human capital

Relevant materiality
Human resources management

Highly trusted automotive inspection professionals

The USS Auto Auction vehicle inspectors earn customer trust by meticulously inspecting vehicles. Employees in our vehicle inspection departments acquire a level one to four certification through the unique USS automobile inspector certification system to learn the knowledge and skills necessary to properly inspect vehicles up for auction. The preparation of systems to develop these automotive professionals ensures consistent and highly precise vehicle appraisals at our auction sites throughout Japan, which helps us succeed in fair and equal auto auctions with a high level of convenience.

Vehicle inspectors (as of March 31, 2023)

248 (36.3%
of all employees)

Measures to strengthen capital → P. 52

Start of program to quickly cultivate up-and-comers as vehicle inspectors to actively participate earlier in their careers

USS has begun an initiative to more quickly cultivate vehicle inspectors to respond to the increasing number of vehicles up for auction. In the fiscal year ending March 31, 2024, we have begun providing intensive short-term training to new employees. This program aims to provide the necessary training for employees to receive a level three certification that can evaluate employees as automobile inspectors in one year rather than about three years after joining the company.

Social capital

Relevant materiality
Fair and equitable business dealings

1,000 new corporate members join annually with a large member base throughout Japan

USS has made active capital investments to expand its on-site auctions at 19 auction sites throughout Japan. We have also broadened these auto auctions to six affiliates and these 19 auction sites via TV and internet auction services, which has put in place a system where anyone can participate in auto auctions from anywhere in Japan. High customer praise about this approach to greatly increase the convenience of our auto auctions has led to about 1,000 new companies signing up as members each year. USS will continue to make these kinds of capital investments to further improve convenience and expand its member base.

On-site auction members (as of March 31, 2023)

48,490

Measures to strengthen capital → Pp. 33–34

An increase in the number of lanes expedites auctions to enhance member convenience

The number of vehicles up for auction at USS auction sites is growing. The Tokyo auction site often hosts long auto auctions starting from 9:00 in the morning that run into the night as the venue handling the highest number of vehicles at auction. In light of the current social trend toward work-style reforms, we aim to reduce the amount of time required for these auctions by increasing the number of lanes at the auction site. In May 2023, USS expanded the Kyushu auction site from four to six lanes. These renovations are underway at our other auction sites as well.



Intellectual capital

Relevant materiality
Information management

Actively adopting leading technologies to remain the top market shareholder

USS has actively adopted the latest technologies since its founding, and quickly put in place an internet auction service. We have not only shifted to digital auction sheets but also driven forward various other initiatives through digital transformation efforts over the last several years. These IT and other capital investments have helped us steadily capture an over-40% share of the auto auction market.

Market share (Results Jan. through Dec., 2022 based on research of USED CAR Co., Ltd.)

40.8 %

Measures to strengthen capital → P. 16

Aiming to further accelerate a digital transformation to revolutionize core auction systems

We will standardize operations across auction sites and revolutionize our core auto auction systems by the end of 2026. Currently, our sites utilize an old system configured on office computers. However, USS plans to make a transition to an open system, which we expect will further accelerate its digital transformation. This includes a smooth shift to digital auction sheets without the conventional need for several intermediate interfaces.



Auto auctions August 1982
Started auctions aiming to give everyone fair and equal standing

Auto auctions July 1995
Started satellite TV auctions



Auto auctions November 1999
Established USS CarbankNet Co., Ltd.



December 2000
Listed USS stock on the First Section of the Tokyo Stock Exchange (current Prime Market)



Used vehicle purchasing and selling October 2001
Started used vehicle purchasing and selling business



Recycling December 2003
Established ARBIZ Co., Ltd. and launched the recycling business



Auto auctions October 2005
Started live internet services



Auto auctions March 2018
Acquired Japan Automobile Auction Inc. as a wholly owned subsidiary



Recycling April 2019
Established SMART Inc. and launched the industrial plant recycling business



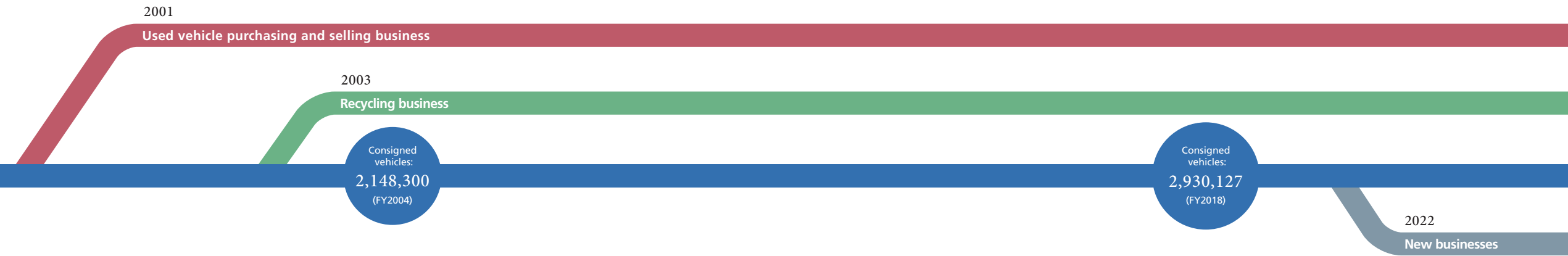
Auto auctions October 2021
Merged Japan Automobile Auction Inc. and HAA Kobe Inc.



New April 2023
Launched a new auto loan service jointly with Global Mobility Service Inc.

1980

Consigned vehicles: 1,253 (FY1981)
Auto auction business



Promoting the development and growth of new businesses centered on the Auto Auction Segment

USS has consistently enhanced its inspection systems and actively adopted the latest technologies since its founding. These efforts have realized not only fair and equal auto auctions but also greater customer convenience. The praise for our approach has earned USS a high level of trust in the auto auction market, which has allowed us to steadily acquire a larger market share. We have also launched and developed a variety of businesses that will help build a circular society. This includes our used vehicle purchasing and selling as well as recycling businesses. To date, these segments have proven effective in realizing sustainable growth.

Net sales/operating margin

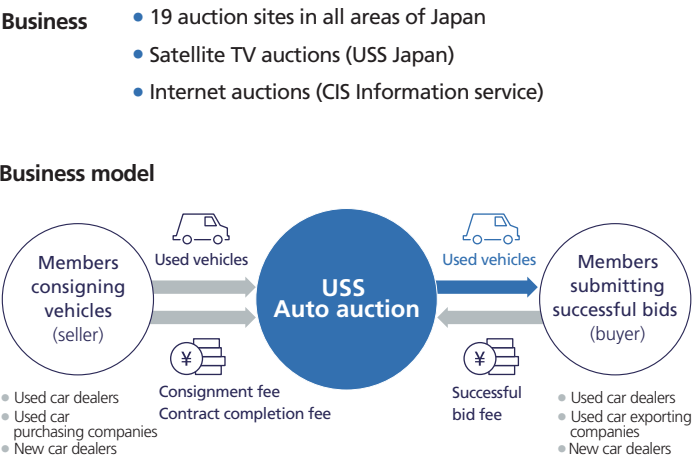
Net sales (billion yen)
Operating margin (%)



Auto auction business

Auto auction sites support trouble-free circulation of used vehicles. USS currently supports bidding from outside the premises through satellite TV and internet auctions around 19 auction sites throughout Japan.

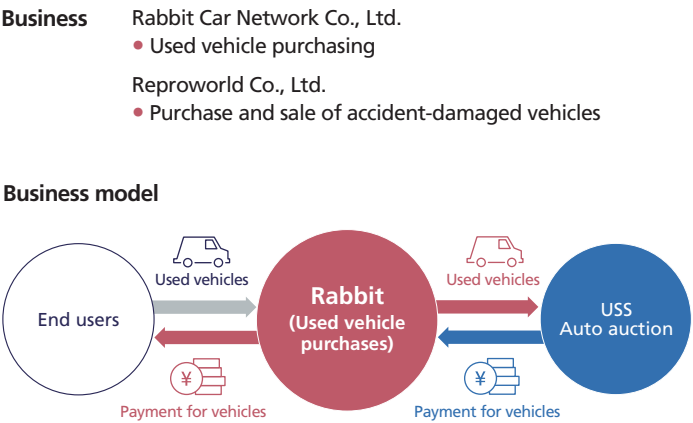
For more information, see: → Pp. 33–34



Used vehicle purchasing and selling business

The Rabbit Car Network is launching chains and franchises in all areas of Japan as stores specializing in the purchase of used vehicles from end users. This is the backbone to lively auto auctions. Although most of the vehicles that are bought are sold at auction, some are sold through retail channels.

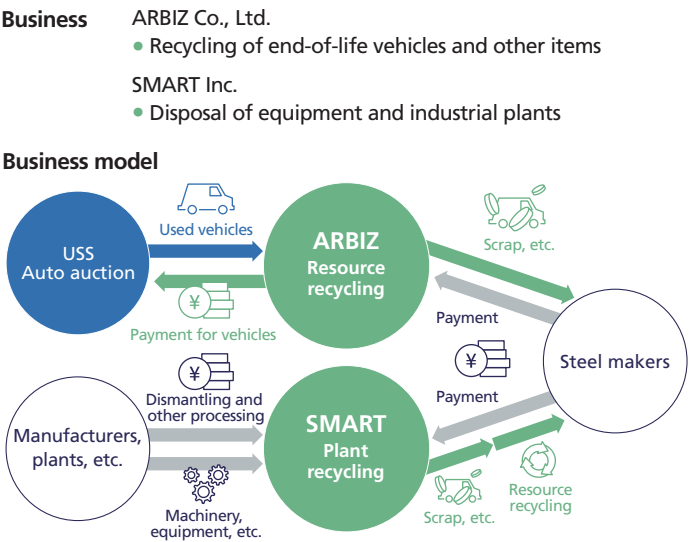
For more information, see: → P. 35



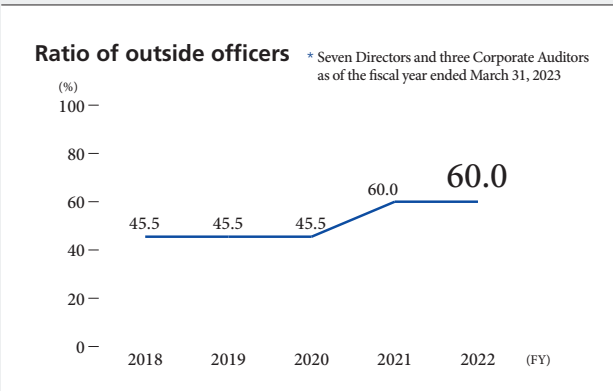
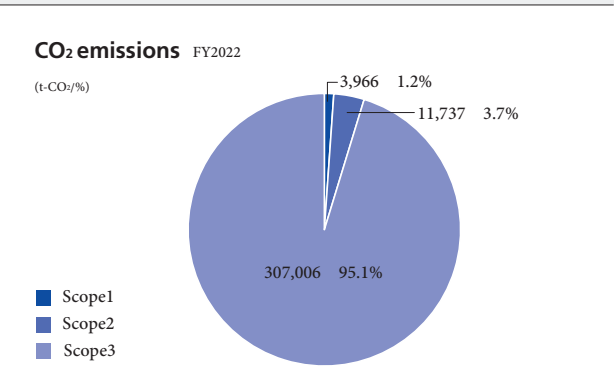
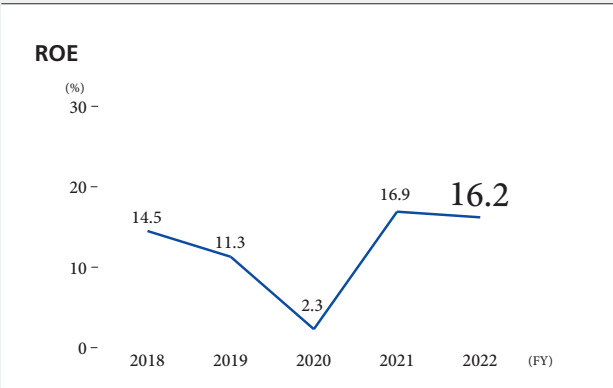
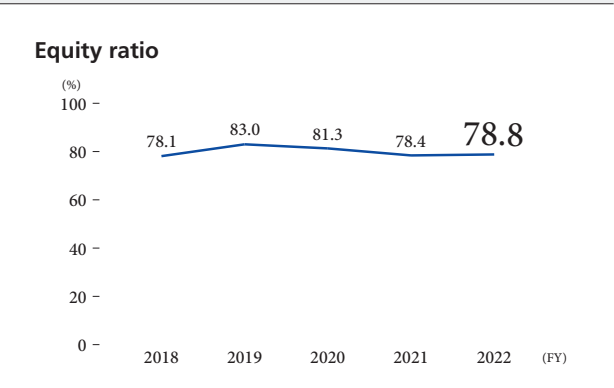
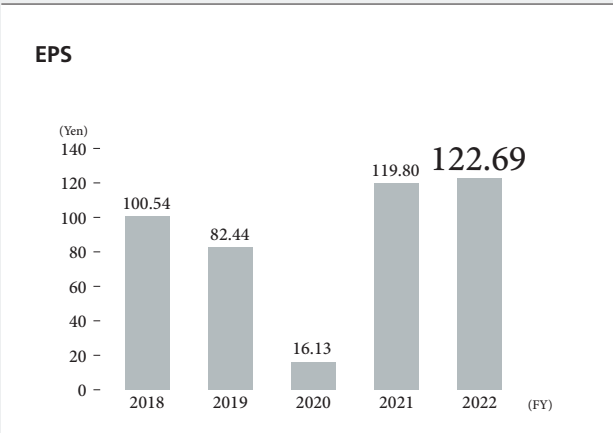
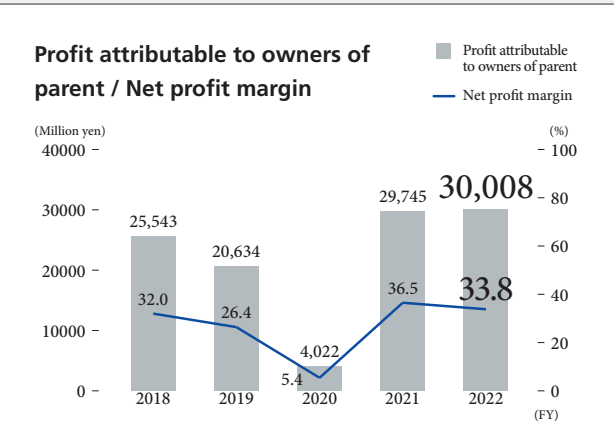
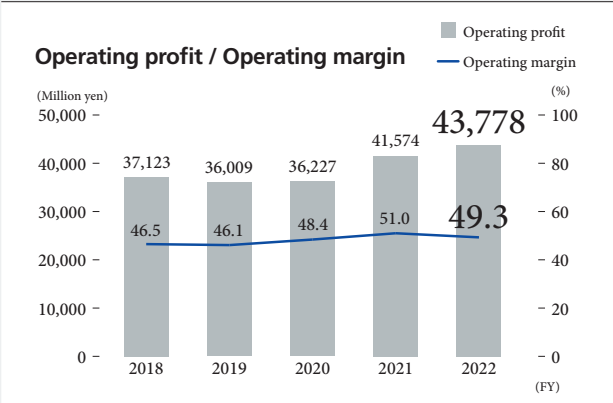
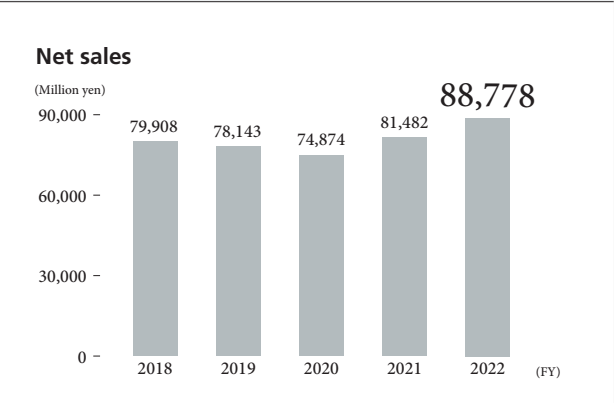
Recycling business*

The Recycling Segment centers upon two Group companies. ARBIZ recycles end-of-life automobiles as well as small electronics and other spent products. SMART specializes in the dismantling and recycling of plants and other related equipment.

For more information, see: → P. 36



* Recycling is reported as its own segment rather than under Other since the fiscal year ended March 31, 2023.





Yukihiro Ando
Chairman and Representative Director (CEO)

PROFILE :

Yukihiro Ando is one of the five members who founded USS in 1980 after a career in used car dealer management. He was appointed Director in 1982, Senior Managing Director in 1989, Executive Vice President in 1995, and President and Representative Director in 2006 before his appointment as Chairman, Representative Director, and Chief Executive Officer in 2019.

CEO
MESSAGE

¥28,365 million in the fiscal year ended March 31, 2013 to ¥42,267 million in the fiscal year ended March 31, 2023. One primary driving force of this increase in income is higher fees. Of course, USS ensures proper capital investments to justify these rising fee rates in an effort to improve the convenience and services provided to all of its members. For example, USS rebuilt the Nagoya auction site in 2013 and constructed a large multi-story parking garage adjacent to the auction site in 2015. These upgrades dramatically increased the number of people using our auction site from 371,853 vehicles up for auction in the fiscal year ended March 31, 2013 to 501,512 vehicles in the fiscal year ended March 31, 2017. Our members agree with these fee revisions because the convenience and services keep getting better, which has helped increase not only the number of vehicles cosigned but also membership. I believe it is the great success of these strategies that has realized this tremendous profit growth.

The investment in digital technologies that we have always striven to make has shown success in the form of growth in our internet auction (CIS information service) contracts. In March 2023, USS reached 33,934 corporate Internet auction members with more than 50% of the contract completions coming from bids that were made online or through satellite TV. Steady capital investments in the pursuit of greater convenience in the future aim to foster sustainable growth of the auto auction business.

QUESTION 2 :

Could you tell us about the USS policy on long-term growth?

ANSWER 2 :

We will clearly oversee the progress of ESG and put in place a working environment where the next generation entrusted with our future can actively participate.

Stronger environmental, social, and governance (ESG) elements are essential to bring about sustainable growth. Our environmental efforts are our businesses that facilitate the reuse of automobiles and the recycling of end-of-life vehicles, plants and other such equipment. The expansion of these businesses going forward will help to realize a circular economy. Since the fiscal year ended March 31, 2023, our initiatives and disclosure done in accordance with the TCFD recommendations have aimed to contribute to climate-related solutions. We have set greenhouse gas emission reduction targets in line with criteria from the international Science Based Targets (SBT) initiative, which are currently under review for certification.

Our social initiatives place particular emphasis on strengthening human capital. We began a new training program in April 2023 that aims to more quickly certify vehicle inspectors. Typically, a new employee had to invest three to four years to become a full-fledged vehicle inspector. However, a new intensive training program upon entry into the company teaches our young staff these skills earlier in their career. Although this program is still in its infancy, I enjoy watching so many of our young employees actively participating on site while checking in on their progress.

Our governance initiatives have obviously striven to evaluate and enhance the effectiveness of the Board of Directors but also reformed remuneration policies. I am working to devise a succession plan too as the chair of the Nomination and Compensation Committee. In June 2023, USS appointed two new executive officers. Both served as managers of each auction site around Japan and oversaw those territories. As human resources who have fully cultivated a management perspective, these new executives have the potential to lead USS management in the future. We will clearly oversee the progress of ESG from a long-term perspective and work to build an environment where the next generation can actively participate.

USS will pursue fair and equitable auctions with greater convenience where the next generation can actively participate.

QUESTION 1 : Could you please tell us about the medium-to long-term growth of USS thus far?

ANSWER 1 : **USS will continue to make sure the auto auction market remains fair and equitable while enhancing convenience to earn customer trust and foster significant growth.**

The auto auction market about 50 years ago was rampant with unfair transactions between bidders due to the raised hand style of bidding in addition to odometer tampering and other unfair practices. USS was founded on the desire to realize a market giving everyone a fair and equal standing that has a high level of transparency. Our efforts to adopt cutting-edge technologies and precise appraisals of vehicles up for auction have given everyone a fair and equal standing in auto auctions and enhanced convenience, which in turn has earned customer trust. USS will continue to make sure the auto auction market remains fair and equitable while striving for even greater convenience. This is the reason that USS exists. I would even go as far as to say this unwavering mission is the major reason for our competitiveness.

In the last decade, the auto auction business has increased its operating income 50% from

Yukihiro Ando Chairman and Representative Director (CEO)



Dai Seta

President and
Representative Director (COO)

PROFILE :

Dai Seta joined USS changing the trajectory of his career from the management of a used car dealer. The shareholders elected him Director in June 2004 before his appointment as Vice President and Representative Director of the Company as well as Officer of the Auction Operation Office and Officer of the Nagoya Office in June 2006. Dai Seta also launched the Finance Business and has been spearheading the recycling business, in which he concurrently serves as the President of ARBIZ, a USS Group company. USS appointed Dai Seta the President, Representative Director, and Chief Operating Officer in June 2019. He is currently striving to promote the digital transformation of the USS auto auction business as well as working to develop a recycling business that can build a circular economy through the distribution of automobiles.

COO
MESSAGE

USS will create new business from
a long-term perspective while capturing
a greater auto auction share.

QUESTION 1 : Could you please tell us about future targets and strategies for USS?

ANSWER 1 : **The promotion of active capital investments toward sustainable growth aims for the auto auction business to capture a 50% market share.**

USS held a 40.8%* share of the auto auction market between January to December 2022, which equates to one full year that the auto auction business has surpassed the tremendous milestone of a 40% market share. This is thanks to higher customer satisfaction realized through our pursuit of fair and equitable auto auctions with greater convenience and efforts to enhance capital investments and services. Although we have solidified a serious competitive edge in the domestic market, we will continue to persevere with the goal to sustain a 50% operating margin while aiming to capture a 50% market share over the long term.

To gain more customer support than ever before, we will work to enhance convenience even more through further capital investments. One such effort is the rapid expansion of lanes at existing auction sites. The number of vehicles cosigned at our auction sites is increasing annually, leading to

* Source: USED CAR Co., Ltd.

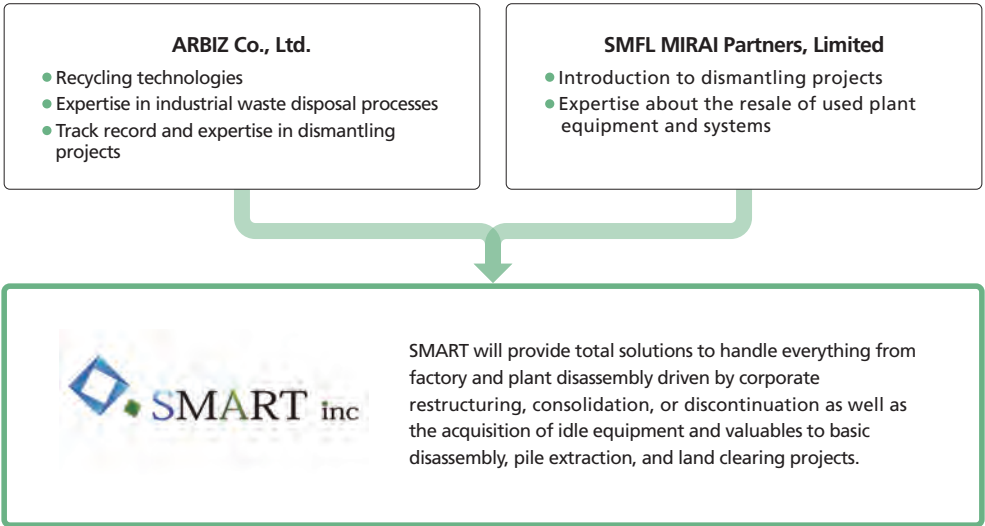
auctions that do not finish until late into the night. As society at large undergoes work-style reforms, USS must update its facilities to reduce the length of these auctions considering not only customer needs but also employee work styles. For example, the Kyushu auction site expanded its facility from four to six lanes. This lane expansion increases our auction capacity by 200 vehicles while reducing the time from start to finish by almost an hour. In the future, USS will also examine lane expansions at its auction sites from Tokyo and Yokohama to Osaka. We will also invest in digital technologies. Very soon, USS plans to renew the USS JAPAN satellite TV auctions and release a new external bidding system to enable members to bid using smartphones. These innovations will encourage the foundation of a more accessible auto auction environment so that anyone can bid from anywhere in Japan. Over the medium term, USS also plans to renew its core auto auction systems. The current system is based on technology that is more than 30 years old, which has led to a very complex configuration after various reforms made by each auction site. Over the next several years, we will also standardize the operational flow across all auction sites and shift to a shared Group-wide system. These reforms should not only drive operational efficiency and enhance customer convenience but also reduce service and maintenance costs.

These measures will continue to provide services that will attract as many new used car dealers as possible to join with the goal of bolstering stable earnings in the auto auction business.

QUESTION 2 : How about non-auto auction businesses?

ANSWER 2 : **SMART Inc. aims to realize ¥10 billion in net sales. We are also developing other relevant businesses that generate synergy with our auto auctions.**

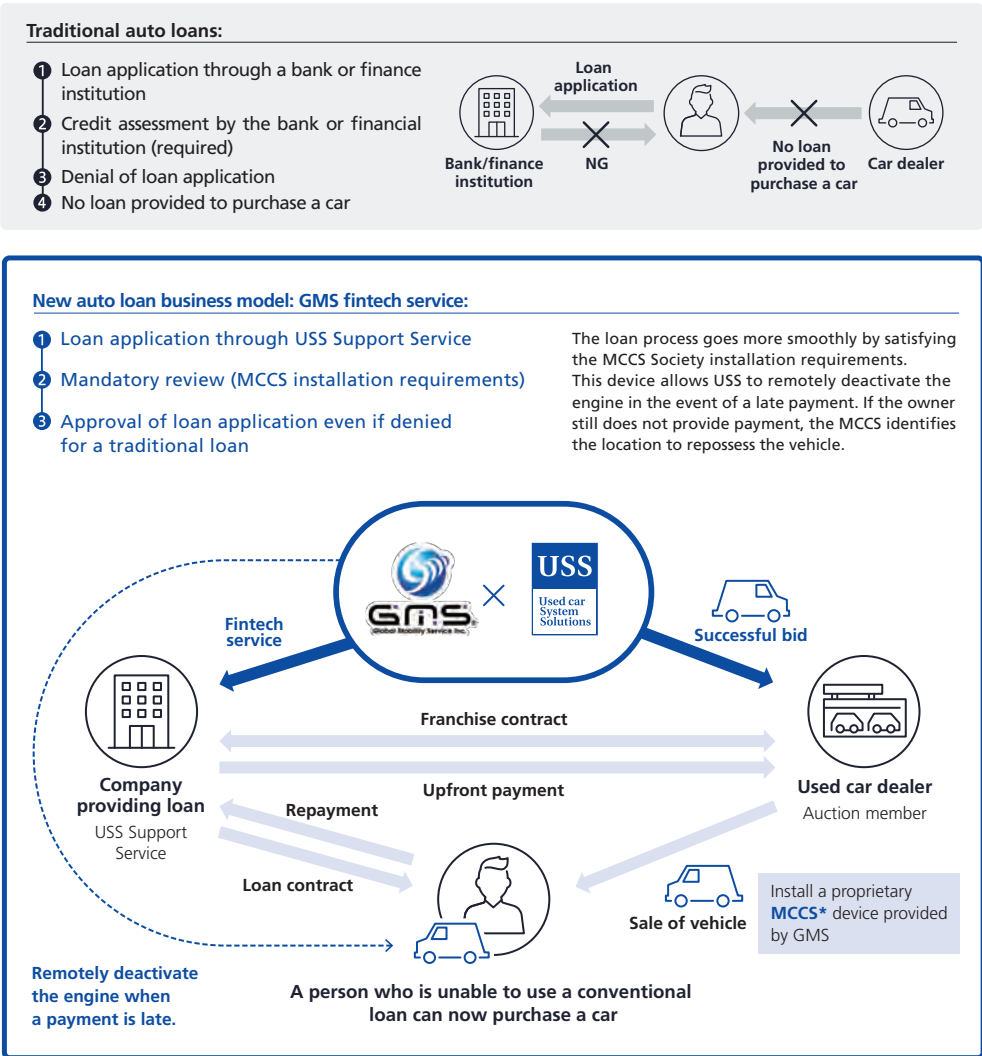
To cultivate new core businesses building off the Auto Auction Segment, USS will expand the Recycling Segment and strive to develop peripheral businesses around the Auto Auction Segment. This will strengthen our business portfolio from a long-term standpoint. As the company expanding our plant and equipment dismantling business in the Recycling Segment, SMART Inc. has been increasing earnings beyond initial forecasts since its launch in the fiscal year ended March 31, 2020. SMART is a joint venture between ARBIZ, a USS Group company, and SMFL MIRAI Partners, Limited, a Sumitomo Mitsui Finance and Leasing Group company. The SMBC Group has introduced SMART to a



→ See Pp. 37-38

variety of projects, which has led to more orders. The main plant dismantling business received numerous orders to dismantle plants built during the Japanese economic boom post-World War II in preparation for reconstruction. In addition, SMART responded to various other customer needs as well. This included dismantling the Odaiba ferris wheel in the fiscal year ended March 31, 2023 and a project related to reconstructing a windmill at a wind power generation station in the fiscal year ending March 31, 2024. Even with favorable business performance, the shortage of human capital has presented a challenge. Our work to improve the retention rate and roll out training programs has been showing success. The SMART business will surely see dramatic growth if it can build an environment where human resources who have expert skills and qualifications can actively participate. We forecast ¥5 billion in net sales for the fiscal year ending March 31, 2024, up 14.6% year on year, and will increase sales to ¥10 billion by the fiscal year ending March 31, 2027.

USS is driving forward new initiatives in businesses related to auto auctions. One example of these businesses is the effective use of big data. USS possesses a tremendous amount of vehicle and bidding data from its 19 auto auction sites throughout Japan. We can use this data broadly for appraising vehicle trade-ins or purchases or entering into residual value loans with new car dealers. The use of this proprietary data to third parties will also help generate sales and profit. USS will continue to actively engage in sales efforts with the objective of transitioning big data into a highly profitable business.



* MCCS is a proprietary on-board IoT device provided by GMS that can communicate with various mobility and data worldwide (GMS has acquired the patent for this technology).

Through a capital alliance with Global Mobility Service, Inc. (GMS), we have also launched a new auto loan taking advantage of new financial technologies in April this year. People working freelance, temp, or part time as well as foreign nationals and others who would not be eligible via conventional loan screenings for various reasons can use this new auto loan to purchase a used vehicle. Any used car dealer who is a USS auction dealer can sell vehicles to a larger number of people by becoming a franchise who offers these types of loans. This boost in used car sales through the program will help increase use of our auto auctions. Veterans in auto auctions who have strong relationships with used car dealers throughout Japan lead the sales efforts that have steadily expanded our franchises. As of the end of July, 2023, roughly 360 companies have become USS franchises.

QUESTION 3 : Could you please tell us about the long-term prospects of USS?

ANSWER 3 : Our management will strive to fulfill our long-term vision with the aim of increasing sustainable corporate value.

The vision that the USS Group should aim for over the long term are those that have a business scheme that continue to ensure fair and equitable transactions and a circular economy as well as foster greater sustainable corporate value.

The foundation solidifying our direction over the medium to long term is operating fair and equal markets. This mission is the reason that the auction business exists and will continue to be the most important unchanging theme. The new auto loan framework will act as a business contributing to this fairness and equality by providing opportunities to people who do not have access to traditional loans.

The origins of the auto auction and used vehicle purchasing and selling businesses have been to put in place the infrastructure to reuse automobiles. The recycling business does exactly what the name implies as a venture recycling automobiles, factories and plants. Businesses like this that contribute to a circular economy have the potential to heighten societal expectations and market demand.

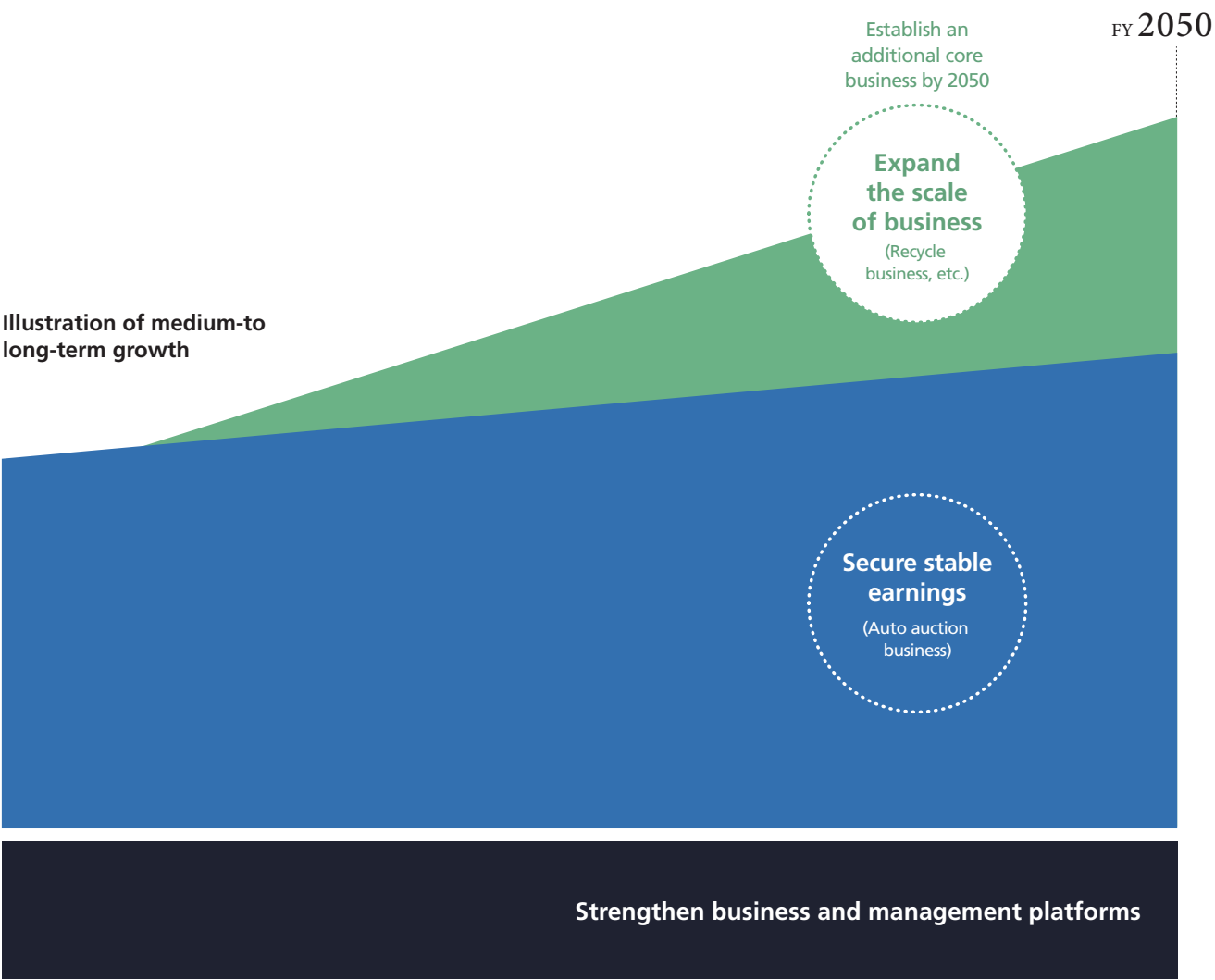
In the future, the new executive officers and the rest of management will exhaustively discuss this vision and the stories born from it. We will streamline medium-term measures by clarifying the future vision and identifying the challenges that USS must overcome to accomplish that vision. I hope everyone will expect great things from the USS Group in the future.

Dai Seta President and Representative Director (COO)

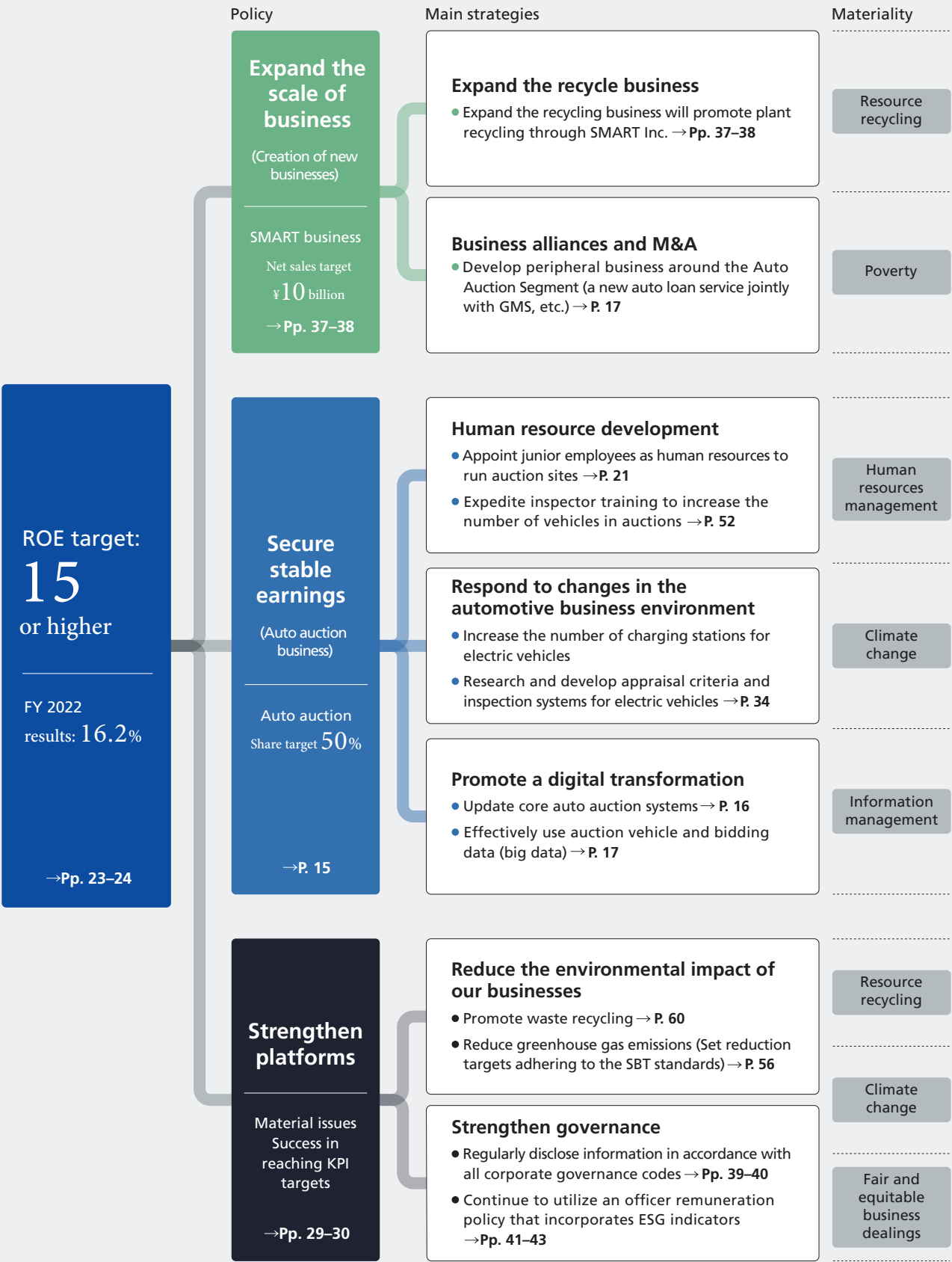


Left to right: New Executive Officer Yukio Niimi, Chairman and Representative Director Yukihiro Ando, President and Representative Director Dai Seta, and new Executive Officer Masahiro Mikami

Purpose
Ensure the auto auction market remains fair and equitable while always striving for even greater convenience
Long-term vision
Create new frameworks to ensure fair and equitable business dealings and resource recycling and sustainably enhance corporate value



Policy and strategy



USS emphasizes the development of next-generation human resources toward long-term growth.

Yukio Niimi

Executive Officer and Manager of Kyushu and Fukuoka Auction Sites, USS Co., Ltd.

PROFILE :

Yukio Niimi joined USS in 1989. He was first involved with digitalizing auction sheets in the Information System Department of the Operation Division at the Nagoya Auction Site before acting as the Manager of the R-Nagoya, Shizuoka, Kyushu, and Fukuoka Auction Sites. His work contributed to a larger volume of vehicle transactions at each of these auction sites through measures tailored to each region. In 2020, Yukio Niimi was appointed the Manager of both the Kyushu and Fukuoka Auction Sites, and then she was appointed executive officer in June 2023.



Q. How do you think you can use the wealth of experience you have gained thus far in your career?

A. I will share the knowledge that I have gained to better both internal and external communication with the entire company.

I learned a lot while I was working at the large auto auction site in Nagoya. I also gained a lot of operational expertise while manager of R-Nagoya, Shizuoka, Kyushu, and other smaller auction sites. One of the main things that I learned about auto auctions at these various auction sites is that the techniques to increase the number of vehicles consigned and sales must be tailored to the size and regional characteristics of each site.

The large auction sites naturally attract a higher volume of vehicles thanks to the brand power of USS. However, small and medium-size auction sites that have a closer relationship with customers must provide more comprehensive services to encourage them to auction their vehicles. For example, I call and thank customers who have put their vehicle up for auction or regularly visit with them. This kind of sincere communication is important. In fact, I would often make sales visits when I was first appointed the Manager of the Shizuoka Auction Site to build customer trust. This successfully increased the number of vehicles consigned by USS, which had been a challenge.

Employee communication is vital when undertaking these kinds of measures. That is why I would actively talk and build trust with staff when I am appointed to a new auction site as a way to motivate them.

In my new position as Executive Officer, I hope to use this experience to offer advice on how to run each auction site while helping foster Group-wide growth.

Q. Could you tell us what you see as the medium-term challenges for USS as well as policies to overcome those challenges?

A. I think it is important to train the next-generation of employees as vehicle inspectors and auction site staff.

The quality of an auto auction site really depends on the accuracy when appraising vehicles for auction. That is why it is important to recruit and train vehicle inspectors. I also think USS must emphasize the development of the next-generation of human resources who can run auto auction sites.

We are already selecting more junior employees to act as managers or future managers of auto auction sites, which is a good sign. USS would still benefit from a framework that gives opportunities and encouragement to more junior employees though. For example, we could put in place a program for the employees who currently belong to small auto auction sites in more rural areas to improve their skills through on-the-job training at Nagoya or other large auction sites.

Human resource strategies not only require consistent effort but also long-term growth as one essential factor. I hope to do my part to spearhead corporate growth through these kinds of new human resource development systems.

I will help contribute to platforms for auctions that provide greater convenience and a fair and equal standing to everyone.

Masahiro Mikami

Executive Officer and Manager of Tokyo Auction Site USS Co., Ltd.

PROFILE :

Masahiro Mikami joined USS in 1994. He served as Manager of the Sales Division at the Tokyo Auction Site before acting as Officer of the Auction Operation Office at the head office in 2014. Masahiro Mikami was involved with formulating auction rules to realize auctions that give a fair and equal standing to everyone, putting together the certification program to train vehicle inspectors, and building our claim management system. He served as the Manager of the Yokohama Auction Site from 2016 before being appointed the Manager of the Tokyo Auction Site in 2019. Masahiro Mikami was appointed Executive Officer in June 2023.



Q. How do you think you can use the wealth of experience you have gained thus far in your career?

A. I will work very hard to improve auction systems as well as guide and educate the people running those auctions.

As an employee who belonged to the Auction Operation Office, I have long been involved with devising rules and frameworks to ensure auto auctions provide a fair and equal standing to everyone. I was also involved in formulating the program to certify vehicle inspectors and building our claim management system. I have striven to build platforms to deliver auto auctions with greater convenience that provide a fair and equal standing to everyone from many different perspectives.

In the future, I hope to leverage all of this past experience in updating the core auto auction system over the medium term as one initiative in our digital transformation. I will also work to provide guidance and education so that each auction site adheres to the rules and properly uses our systems.

Q. Could you tell us what you see as the medium-term challenges for USS as well as policies to overcome those challenges?

A. I want to look into new ways to increase the number of vehicles consigned by USS.

The Tokyo Auction Site that I oversee as manager auctions 720,000 vehicles every year. This is equivalent to one-fourth

of all the vehicles consigned at USS. My site holds 10% of the market share and is the largest auction site in Japan. The success of the Tokyo Auction Site greatly influences the success of overall USS performance.

In the Kanto region, USS also has two small auction sites in Saitama and Gunma. Using my appointment as Executive Officer as an opportunity, I will examine approaches to generate synergy and bolster our numbers, such as collaborative projects between these sites, to revitalize and improve the performance of the entire Kanto region. To do this, I believe I must first see a variety of auction sites with my own eyes and talk extensively with many different employees. We expect to start facing distribution issues during the 2024 fiscal year, and members will encounter rising costs to transport the vehicles that they want to auction to the auction site. I hope to roll out a wide range of measures to prevent these extra costs from driving down the number of vehicles consigned by USS.

In addition, I would like to expand the potential use of video for auctions. By standardizing the varying resolution currently used for auctions to a high-definition format, our auction sites will be able to collaboratively auction vehicles in the future. I will look into a program to gather, inspect, and photograph vehicles at yards off site, and then distribute that information to members as an auction platform. Off-site yards like this in various regions would lower the labor and cost of transporting vehicles to auction sites, which should improve the number of vehicles consigned by USS.

I will propose these new types of systems in the hope of increasing our long-term market share and business performance.



Masafumi Yamanaka

Executive Vice President and Officer of the Supervisory Office
(Executive Vice President in Charge of Finance)

PROFILE :

Masafumi Yamanaka began his career at MIMATSU Co., Ltd. in 1978 before joining TORII (current AOKI Holdings Inc.) where he prepared the company to list its stock on the Second Section of the Nagoya Stock Exchange in 1990. Masafumi Yamanaka joined USS in 1995. As the manager in charge of preparing USS to go public, Masafumi Yamanaka contributed greatly to the company's Nagoya Stock Exchange listing first on the Second Section in September 1999, and then the First Section of the Tokyo Stock Exchange in December 2000. Since then, Masafumi Yamanaka has been a consistent asset to upper management. He was first elected Director and appointed General Manager of the Finance Department in 2004. Masafumi Yamanaka then moved up the ranks from Junior Managing Director and Officer of the Supervisory Office in June 2006 and Senior Managing Director in 2012 to his current position as an Executive Vice President since 2016.

Higher returns to shareholders and long-term investments will heighten corporate value and aggregate market value.

QUESTION 1 : Could you please tell us about the financial condition of USS during the fiscal year ended March 31, 2023 and the outlook for the fiscal year ending March 31, 2024?

ANSWER 1 : We have successfully generated higher income and profit. In the future, USS will invest in growth while continually providing high returns to shareholders.

We make solid investments expected to foster sustainable growth while retaining a standard of shareholder capital that can tolerate the risks brought by our business activities. These actions embody the basic USS capitalization strategies. Aiming to engage in management with high capital efficiency, USS considers the return on equity (ROE) one management indicator. That is why we have set a target to sustain an ROE of at least 15%. We have also set a lofty target for a consolidated dividend payout ratio of at least 55%.

The business performance for the fiscal year ended March 31, 2023 was ¥88,778 million in net sales, up 9.0% year on year, ¥43,778 million in operating profit, up 5.3% year on year, and ¥30,008 million in profit attributable to owners of the parent, up 0.9% year on year. We also had a 16.2%

ROE. This favorable business performance enabled USS to increase its shareholder returns for the 23rd consecutive fiscal term. The year-end dividend per share rose to ¥67.50. This surpassed our fiscal target for a payout ratio of 55.0%. In June 2023, USS approved the acquisition of 5 million in treasury stock—equivalent to about ¥11,817 million—because it felt the right timing for the acquisition of treasury stock necessary to realize a stock price and aggregate market value appropriate for our operating performance. This acquisition also demonstrates our desire to further solidify our commitment to shareholder returns. That is why we adopted a facility-type stock buyback that enables USS to properly acquire a reasonable amount of treasury stock.

As for the outlook in the fiscal year ending March 31, 2024, USS forecasts ¥92,400 million in net sales, up 4.1% year on year, ¥45,300 million in operating profit, up 3.5% year on year, and ¥30,800 million in profit attributable to owners of the parent, up 2.6% year on year. We have also set a fiscal target to once again raise the year-end dividend per share to ¥69.40.

QUESTION 2 : Could you please explain the future financial strategies for USS?

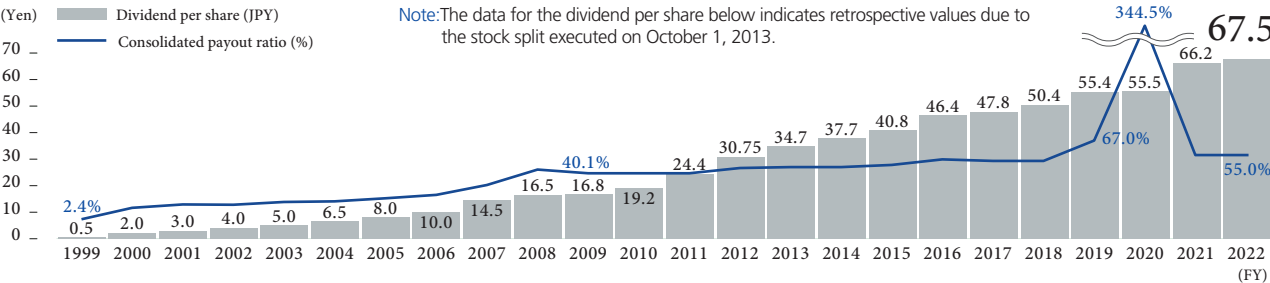
ANSWER 2 : The organization will use ample capital for investments that help foster long-term growth.

The challenge in front of USS now is how to use this ample capital. We are currently examining ways to take advantage of this capital surplus, such as capital investments, new business investments, and the acquisition of treasury stock. I hope USS will make investments into our own digital transformation, the use of AI, and other new technologies that will help increase our income and profit from existing businesses. Billions of yen in nvestments in these technologies should not come with substantial costs while bringing about things never seen before.

Our investments in new ventures will focus on synergy with the auto auction business. Even looking back at our past, you can see how USS launched ARBIZ as an automotive recycling business in the fiscal year ended March 31, 2004 right next to our auto auction site to respond to the needs for processing end-of-life vehicles necessary at the final stage of handling used automobiles. We have steadily grown the ABRIZ business ever since, which will celebrate its 20th anniversary this year. We can expect our investment in Global Mobility Service in the fiscal year ended March 31, 2023 to generate synergy with the auto auction business by vitalizing used vehicle sales (see p. 17 for details). Our fintech service done through an alliance with GMS gained 360 franchises in its first three months. We expect to handle 3,000 of these loans by the fiscal year ending March 31, 2024.

The launch of new businesses does come with risks. However, these businesses can generate long-term profit if USS can create synergy with its existing businesses. We will make active future investments with synergy as one requirement. As described earlier, we will also better the returns to shareholders. USS will increase aggregate market value to foster further corporate growth and respond to the expectations of stockholders and other investors as well as every other stakeholder.

Long-term track record of dividends



Value creation process

USS identifies social issues it can help solve as priority subjects (materiality).
Our three businesses will continue to drive an increase in economic value by helping solve these various issues to provide diverse social value.

Management resources

Human capital → Pp. 3–4

Highly trusted automotive inspection professionals

- Employees (Nonconsolidated) **684**
- Vehicle inspectors **248**

(As of March 31, 2023)

Social capital → Pp. 5–6

1,000 new corporate members join annually with a large member base throughout Japan

- On-site auction members **48,490**
- CIS (Internet) auction members **33,934**
- Satellite TV auction members **1,981**
- Auction sites **19** locations throughout Japan
- Used car purchasing stores **147** locations (15 directly operated, 132 franchised)

(As of March 31, 2023)

Intellectual capital → Pp. 7–8

Actively adopting leading technologies to remain the top market shareholder

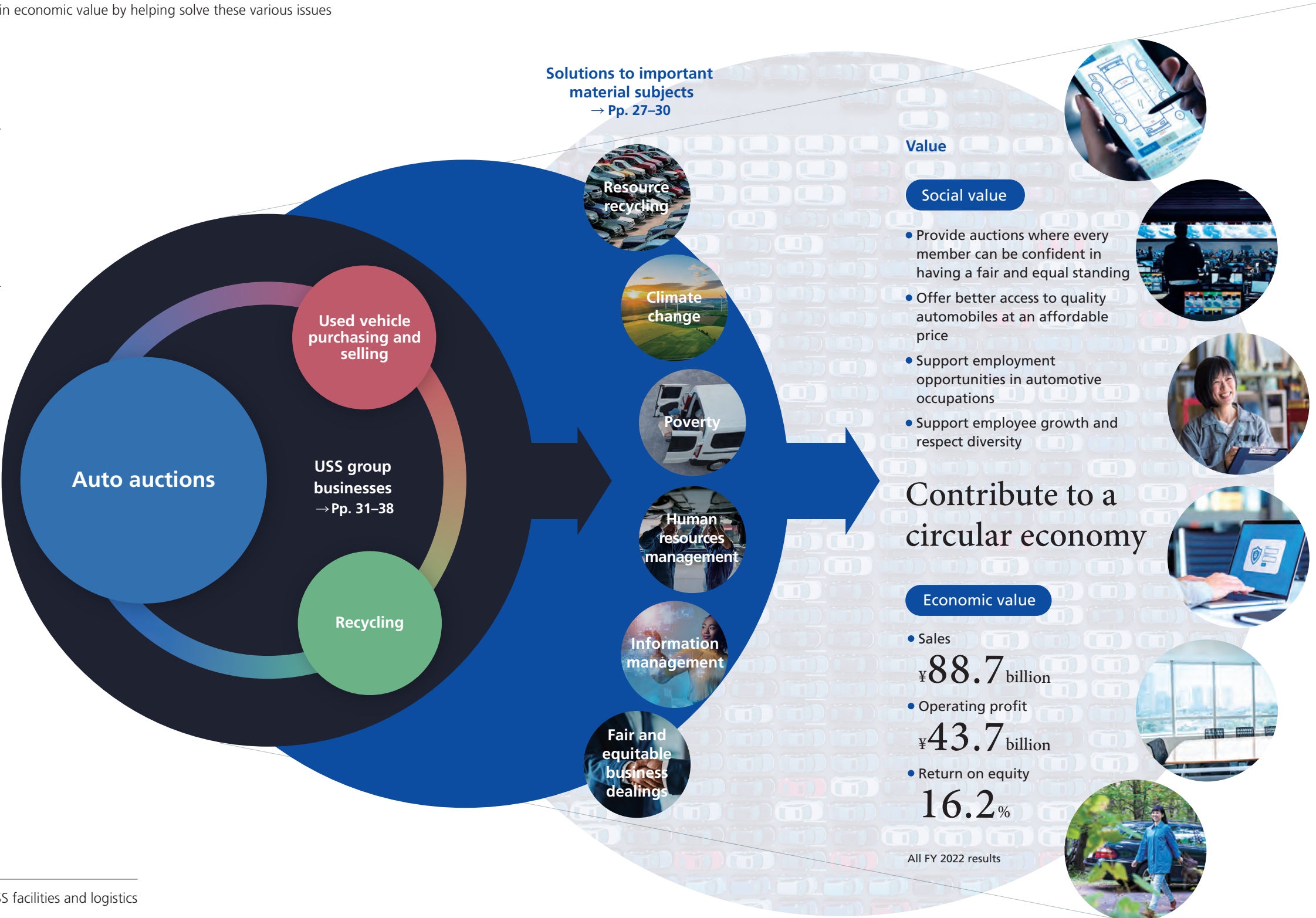
- Matching that uses an enormous volume of data
- A powerful security system
- New car inspection technology using the DX

Financial capital (FY 2022)

- Total assets **¥242.3 billion**
- Equity ratio **78.8%**

Natural capital

- Materials used in automobiles and energy used for USS facilities and logistics
- Vehicles, materials and other items that are recycled



Priority subjects (materiality)

USS identifies the economic, social and environmental impact its businesses and priority subjects it needs to address.










The Board of Directors approved reforms in the fiscal year ended March 31, 2023 from the perspective of long-term USS financial risks and opportunities.

We have set key performance indicators (KPIs) for each priority subject in the fiscal year ending March 31, 2024.

Process to identify KPIs


Priority subjects (Materiality)		Reason	Long-term financial impact (R : Risk O : Opportunity)
Resource recycling		<p>In the pursuit of securing the circular economy required by society at large:</p> <ul style="list-style-type: none">• The auto auction business will contribute to the reuse of automobiles.• The recycling business will contribute to the resource recovery and recycling of automobiles and plant facilities.	<ul style="list-style-type: none">O Stable demand of used vehicles (auto auction business)O Broader dismantling and recycling needs for automobiles and plants (recycling business)R Shrinking used car market due to a sharing economy and other shifts in values
Climate change		<p>In the pursuit of carbon neutrality throughout society at large:</p> <ul style="list-style-type: none">• An increase in the EV share of the new car market could have a financial impact on the auto auction business.• USS and everyone throughout the value chain must engage in initiatives to reduce greenhouse gas emissions.	<ul style="list-style-type: none">O Demand to shift to EV alternatives energizing the used car marketR Increasing costs related to the reduction of greenhouse gas emissions (net zero emissions) at USS and throughout the value chain
Poverty		<p>There are people in the world who cannot escape from poverty due to a lack of access to an automobile and in turn a loss of employment opportunities.</p>	<ul style="list-style-type: none">O Increase in people taking out loans using financial technology
Human resources management		<p>The auto auction business must secure automotive inspectors, digital professionals, and other diverse human resources to foster long-term growth as the workforce in Japan dwindles.</p>	<ul style="list-style-type: none">O Recruitment of human capital with a wide range of skillsR Lower number of job seekers due to a smaller workforceR Adverse health effects of work on employees
Information management		<p>The auto auction business handles personal member information and confidential information.</p>	<ul style="list-style-type: none">O Business expansion versatily capitalizing on big dataR Loss of reputation and decline in membership in the event of any personal or confidential information leaks
Fair and equitable business dealings		<p>Unfair and unequal auctions due to preferential treatment of some members or other inappropriate behavior.</p>	<ul style="list-style-type: none">O Enhanced brand power made possible by securing and promoting a fair and equal standing for everyoneR Loss of reputation and decline in membership in the event of any improper business dealings

KPIs for priority subjects

Priority subjects (materiality)	Main initiatives	Key performance indicators (KPIs)	Scope	Actual (fiscal year)					Target	Relevant pages	Relevant SDGs
				2018	2019	2020	2021	2022			
Resource recycling	<ul style="list-style-type: none">The auto auction business will enhance the efficiency and member convenience of automotive inspections through the use of digital technologies.The recycling business will promote plant recycling through SMART Inc.	Waste rate (tons of waste produced / tons of receivables) (%)	ARBIZ Co., Ltd.	12.4	16.3	13.1	8.3	6.0	15% or less in receivables	Pp. 33–34 P. 36	
		Metal recycling rate (tons of metal shipments / tons of metal receivables) (%)		45.6	50.2	45.7	43.7	52.4	Over 40% in receivables		
		End-of-life vehicle recycling rate (%)		100.0	100.0	100.0	100.0	100.0	100%		
		R2 certification		–	○	○	○	○	Maintain certification		
		Recycling rate (excluding materials containing asbestos) (%)	SMART Inc.	–	97.7	95.6	94.3	94.3	Over 90%		
		Digital consignment rate (%)	USS Co., Ltd.	0	0	0	10	20			
Climate change	<ul style="list-style-type: none">Surveys and research on handling EVIdentification and reduction of greenhouse gas emissions (In the process of promoting activities to reduce Scope 1, 2, and 3)Introduction of energy-saving measures, renewable energy, and solar power generation at business sites	Total Scope 1 and 2 CO ₂ emissions (t-CO ₂)	USS Group	–	–	16,838	16,735	15,703	42% reduction by FY2030 (Base year: FY2021)	Pp. 54–58	 
		Scope 3 CO ₂ emissions (t-CO ₂)		–	–	295,535	300,465	307,006	25% reduction by FY2030 (Base year: FY2021)		
Poverty	<ul style="list-style-type: none">Support of loans for people without access to traditional financing through a capital business alliance with Global Mobility Service (launched in April 2023)	GMS (number of loan contracts)	USS Support Service Co., Ltd.						3,000 in FY2023	Pp. 17–18	 
Human resources management	<ul style="list-style-type: none">Respect of human rights and diversityFair and equal treatment and working conditionsA higher level of education and trainingOccupational health and safety management	Employees with a level three or higher vehicle inspector certification (people)	USS Co., Ltd.	246	250	258	261	255		Pp. 51–53	 
		Average length of time necessary to acquire a level three vehicle inspector certification (months)		26 months	26 months	26 months	26 months	26 months	8 months		
		Women appointed as executive officers (deputy senior staff or above) (%)		4.6	5.4	5.9	6.8	7.6	Over 8% of all employees		
		Ratio of women in management (%)		0	0	0	0	0	Over 5% by FY2025 Over 10% by FY2030		
		Acquisition rate of paid leave (%)	ARBIZ Co., Ltd.	54.8	50.0	50.6	64.4	63.3	Maintain an acquisition rate over 60%		
		Employment ratio of persons with disabilities (%)		1.40	1.57	1.63	2.09	2.48	Maintain an employment rate at or above that mandated by law (2.3%)		
		Turnover rate (%)		4.8	4.6	2.9	4.7	6.0	5% or less		
		Number of occupational accidents (incidents)		5	6	3	2	3	0		
		Frequency rate of occupational accidents requiring leave		13.69	16.03	9.47	6.53	9.33	6.0 or less		
		Severity rate of occupational accidents requiring leave		0.03	0.37	1.55	0.99	0.05	0.5 or less		
		Ratio of employees attending external training (regular employee or above excluding those seconded) (%)		0	0	3.5	48.2	100	Over 50%		
Information management	<ul style="list-style-type: none">Establishment of a privacy policyProper management of member informationAcquisition of the PrivacyMark	Ratio of employees attending PrivacyMark training (%)	USS Co., Ltd.	–	–	–	100	100	100%	P. 49	
		ISO 27001 certification	ARBIZ Co., Ltd.	○	○	○	○	○	Maintain certification		
Fair and equitable business dealings	<ul style="list-style-type: none">Thorough awareness-raising about the corporate philosophy to create a fair marketOperation of a unique system to monitor inappropriate transactionsFormulation and distribution of anti-corruption and other basic policies on websites	Wrongful acts by employees (incidents)	USS Co., Ltd.	0	0	0	0	0	0	P. 43 P. 49	

At a glance

Auto auction business



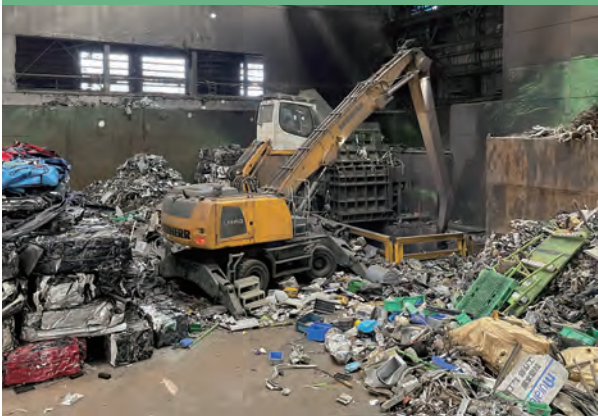
USS has established 19 auction sites throughout Japan since opening the USS Nagoya Auto Auction in 1982. Each of these venues has steadily grown its membership base to become the leading auction in its respective territory. We have also prepared satellite TV and internet auctions as two channels to offer members ways to bid on vehicles from off-site locations. These innovations have fostered growth that has made us an industry leader in the number of auction sites, members, and consigned vehicles. All of our auction sites will always support trouble-free circulation of used vehicles.

Used vehicle purchasing and selling business



As a network of stores specializing in used car purchases, the Rabbit Car Network provides the supply of quality used vehicles indispensable to USS auto auction. These used vehicles purchased directly from the owners through this nationwide network of stores and put up for auction by USS attract a tremendous number of buyers. This process has created a favorable cycle increasing the number of vehicles offered and sold at auction. The Rabbit Car Network also analyzes the latest market value and purchases vehicles for auction at the highest possible price. This not only ensures quality vehicles for auction but also helps the USS Group acquire an even greater share of the auto auction market.

Recycling business*



ARBIZ has been disassembling and recycling automobiles, office equipment, electronics, and various other waste since its founding in the fiscal year ended March 31, 2004. In the fiscal year ended March 2020, ARBIZ launched SMART as a waste disposal contractor for industrial equipment and plants. Its services handle everything from plant demolition and equipment removal to the resale and recycling of obsolete machinery and equipment. SMART is able to recycle metals, plastics, and other composite materials that are difficult to process. These capabilities help realize a circular society by encouraging machinery and equipment recycling.

* Recycling is reported as its own segment rather than under Other since the fiscal year ended March 31, 2023.



Auto auctions

We will improve the USS brand power by further improving convenience.

Hiromitsu Ikeda

Junior Managing Director, Officer of the Auction Operation Office, USS Co., Ltd.

PROFILE :

Hiromitsu Ikeda joined USS in 1984 and was involved in the launch of new auction sites and system development. He was appointed Junior Management Director in 2006 before being appointed as Officer of the System Office and Auction Site Manager in 2006. In 2022, Hiromitsu Ikeda was appointed to his current position as Officer of the Auction Operation Office.



Fiscal review

The number of used car registrations in Japan during the fiscal year ended March 31, 2023 was 6,293 thousand vehicles, down 4.2% year on year,* due to a lower supply of used vehicles from fewer trade-ins caused by a significant decline in new vehicle purchases during the first half of the fiscal year. In spite of this business environment, the Auto Auction offered 2,958 thousand vehicles at auction, up 8.3% year on year, with 1,863 thousand contract completions, up 4.3% year on year. As a result, the Auto Auction Segment achieved ¥69,304 million in net sales from outside customers, up 6.9% year on year, and an operating profit of ¥42,267 million, up 5.1% year on year. This equates to an increase in both income and profit.

Our auto auction generally gathers quality used vehicles, which brings together a large number of bidders. This often results in a favorable cycle of high winning bids. These results show that customers approve of our approach to realize a fair and equal standing in auto auctions with greater convenience. Especially in the fiscal year ended March

31, 2023, the USS Auto Auction has demonstrated its remarkable ability to bring buyers and sellers together in spite of the dwindling supply of used vehicles. We are proud to put the brand power of USS on display in this industry.

We believe it is necessary to support increases in the types of vehicles which may be up for auction in the future to sustain and enhance our competitive edge. Therefore, we have updated our training programs with the hope of more quickly certifying vehicle inspectors. In the year ended March 31, 2023, we systemized our traditional on-the-job training to create an eight-month training program by selecting instructors from the Tokyo and Nagoya auction sites, which had typically handled training of new employees (see p. 52 for more information). The new training program rolled out in the year ending March 31, 2024 is currently cultivating 13 new employees with the knowledge and techniques required of vehicle inspectors. We will also consider implementing this training program for experienced employees in the next fiscal year.

* 1. Survey by the Japan Automobile Dealers Association and Japan Light Motor Vehicle and Motorcycle Association

Future strategies

We are seeing a gradual recovery in new vehicle sales as the shortage of semiconductors eases. The consolidated results forecast for the fiscal year ending March 31, 2024 estimates the Auto Auction Business will have 3,000 thousand vehicles up for auction, up 1.4% year on year, complete contracts for 1,880 thousand vehicles, up 0.9% year on year, which equates to a completion rate of 62.7% against the 63.0% completion rate in the previous fiscal year.

As the company holding the top market share in Japan, we are contributing to the sound distribution of used vehicles through highly precise vehicle inspections and fair and equitable auctions. USS sites auction off roughly 60,000 vehicles each week. We see these vehicles as shared inventory with our members. That is why we are setting our sights on expanding services to vitalize the business of used car dealers.

SWOT analysis

Strengths	<ul style="list-style-type: none">• The largest number of members and vehicles in Japan's auto auction industry• Highly advanced vehicle inspection technologies• Strict standards for fair and equitable transactions	<ul style="list-style-type: none">• High prices of vehicles sold at auctions due to the sale of quality automobiles• The industry leader using the digital transformation
Weaknesses	<ul style="list-style-type: none">• Decrease in vehicles auctioned because of the increasing diversity of channels for selling used cars• An insufficient number of vehicles procured by Group companies for auction• A labor shortage including automotive management and inspectors	
Opportunities	<ul style="list-style-type: none">• Growth in demand to replace gas and other conventional vehicles with electric vehicles	
Threats	<ul style="list-style-type: none">• Decline in used car dealers• Changing perception of the value of cars due to the shift from ownership to services (mobility as a service (MaaS))• Capturing of the used car market by automakers using connected technologies	

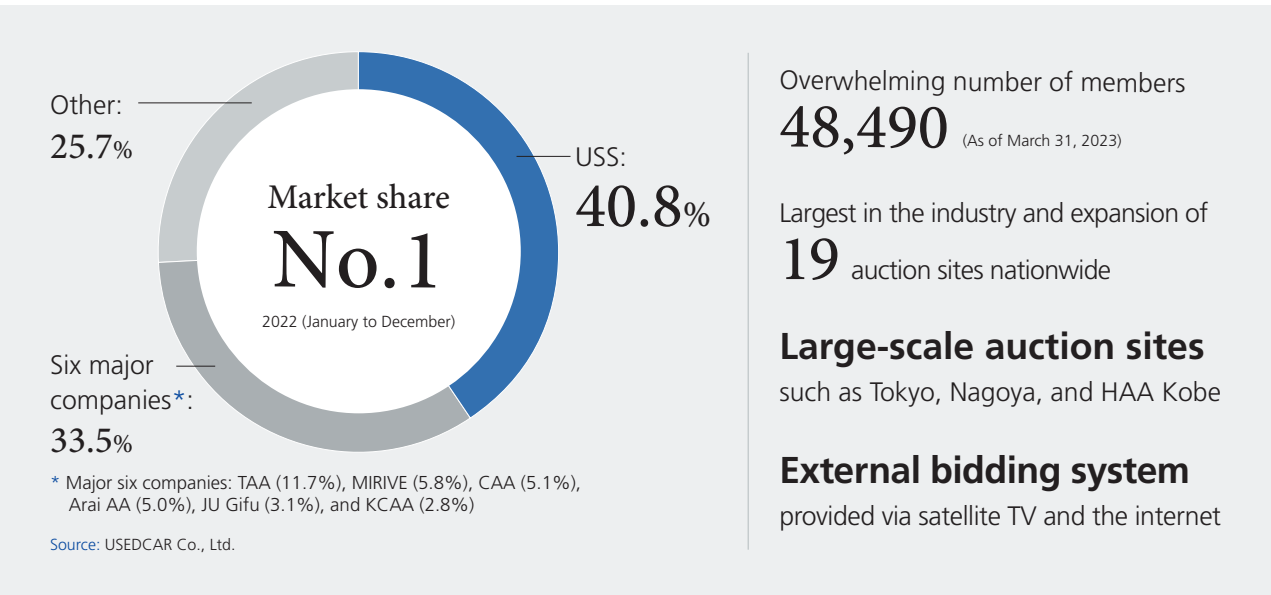
TOPICS

Efforts to develop appraisal criteria and battery diagnostic devices aim to establish inspection systems for electric vehicles.

USS has been furthering preparations of inspection systems for electric vehicles. The structure of electric vehicles differs from that of gasoline cars. Due to the tremendous weight of the batteries, automotive manufacturers use aluminum, FRP and other such materials to make the other components lighter. This means parts that can be repaired on a gasoline vehicle must be replaced on an electric one, which makes unique appraisal criteria necessary for electric vehicles. In particular, we are striving to develop the vital battery diagnostic devices to assess the degradation of those battery components.

Data

Competition in the auto auction market



Used vehicle purchasing and selling

Initiatives to improve customer satisfaction strengthen Rabbit brand power.

Haruyoshi Kimura

Director and General Manager of Business Division, Rabbit Car Network Co., Ltd.

PROFILE :

Haruyoshi Kimura handled sales, marketing, and the launch of new business for major enterprises the likes of Sogo Co., Ltd. (current Sogo & Seibu Co., Ltd.) and the Shiseido Company, Limited. He joined the Rabbit Car Network in 2022 and was appointed Director in 2023. Haruyoshi Kimura will work to cultivate customers and develop human resources.



Fiscal review and future strategies

As a network of stores specializing in used car purchases, the financial performance of the Rabbit Car Network largely fluctuated with market prices during the fiscal year ended March 31, 2023. In the first half of the fiscal year, consumers purchased a fewer number of new vehicles due to an ongoing shortage of semiconductors from the previous fiscal year. As a result, the distribution of used vehicles also fell, which increased vehicle prices and led to greater earnings. In the second half of the fiscal year though, used vehicle prices declined and created a consistently harsh market environment. However, Rabbit Car Network succeeded in generating higher income and profit for the entire fiscal year due to an increase in the vehicle sales at higher prices overall. As a chain buying and selling accident-damaged vehicles, Repro World also saw an increase in the price per vehicle and sales volume. However, the Company saw a decline in profit in spite of an increase in income due to dwindling gross profit as auction prices fell from October.

As a result, the Used Vehicle Purchasing and Selling Segment generated ¥10,391 million in net sales from outside customers, up 11.7% year on year, and an operating profit of ¥130 million, down 4.6% year on year.

SWOT analysis

Strengths	<ul style="list-style-type: none"> • A business model closely linked to USS auctions • A widely recognized brand in the used car purchasing market
Weaknesses	<ul style="list-style-type: none"> • Delays in online systems and other digital transformation efforts • Human resource recruitment, development and retention
Opportunities	<ul style="list-style-type: none"> • Strong demand in other countries for used vehicles made in Japan • New ways to use preowned vehicle inventories for services generating a steady income, such as leases and subscriptions
Threat	<ul style="list-style-type: none"> • Reduction in new car ownership as drivers shift away from ownership to car sharing, leasing and rentals. • The result is a longer cycle for the replacement of automobiles.

As a future strategy, USS will aim to not only increase the volume of used vehicle purchased in an effort to help ensure sustainable growth, but also focus on retail sales toward exponential growth. To do this, it is vital to establish ourselves as the retail outlet chosen by customers. The Rabbit Car Network must also aim to become the company selected by external assessment agency* as one with the highest level of customer satisfaction. As a means to achieve these goals in the fiscal year ended March 31, 2023, we fundamentally reformed our customer service and claim processing practices. Managers from stores will visit a branch with high customer satisfaction to learn their management techniques. As a result of this work, a greater number of customers are already visiting our stores.

Currently, the Rabbit Car Network has grown to directly operate 15 stores with another 132 franchises throughout Japan. Our goal is to increase this to 200 stores consisting of 30 under our direct control with 170 franchises. We will shift to a trajectory of growth by enhancing Rabbit brand power and expanding the number of stores.

These measures first aim to generate ¥300 million in operating profit.

* Source: Oricon CS Ranking

Recycling

We will expand the plant recycling business to realize sustainable growth.

Takuya Sano

Director and Operating Officer of ARBIZ Co., Ltd., President and Representative Director of SMART Inc.

PROFILE :

Takuya Sano joined ARBIZ Co., Ltd. in 2004 after serving in the Japan Air Self-Defense Force. In 2013, he was promoted to General Manager of the metal and plastic recycling business before assuming his current post as the Director and Operating Officer of ARBIZ Co., Ltd. and the President and Representative Director of SMART Inc. in 2019.



Fiscal review and future strategies

As the USS Group company developing its resource recycling business, ARBIZ saw lower income and profit due to a decline in the volume of end-of-life vehicles and a smaller profit margin compared to the previous year with a favorable metal scrap market. As the USS Group company developing our plant recycling business though, SMART Inc. saw an increase in both income and profit due to a larger number of orders for large-scale dismantling projects. As a result, the Segment achieved record results with ¥8,982 million in net sales from outside customers, up 24.1% year on year, and an operating profit of ¥1,333 million, up 16.7% year on year.

We do see the fluctuating market prices of metal resources as one challenge ARBIZ Co., Ltd faces in its financial performance. To ensure stable earnings, ARBIZ is coordinating with each company for further considerations about the new

recycling business for waste plastics.

SMART Inc. has been able to build an internal system to receive orders for these large projects, but the number of projects commencing work declined by 10% compared to the previous fiscal year. Although there is a tendency to focus on the scale of a project, the profitability should be the point of emphasis. Therefore, SMART Inc will concentrate on balancing the size and profitability of orders in the future.

A lack of human resources has presented a challenge as business grows. Over the last two years, we have been able to improve the employee retention rate by building a more work-friendly environment. We aim to realize ¥5.0 billion in net sales by the fiscal year ending March 31, 2024, which is more than possible.

SWOT analysis

Strengths	ARBIZ	<ul style="list-style-type: none"> • An exclusive recycling technology (patented) • The largest recycling yard in the Nagoya area and an ideal location for recycling operations • Equipment and technologies capable of handling many types of waste materials 	ARBIZ/ SMART	<ul style="list-style-type: none"> • Reexamining the recycling business to contribute to achieving carbon neutrality
	SMART	<ul style="list-style-type: none"> • Collaboration with the Sumitomo Mitsui Group for cost cutting, more sources of information and reuse channels, and better proposals for recycling and reuse 		
Weaknesses	ARBIZ	<ul style="list-style-type: none"> • Difficulty of retaining people and passing on know-how to younger people because of Japan's labor shortage 		
	SMART	<ul style="list-style-type: none"> • Inadequate number of employees as the volume of business operations increases 		
Opportunities	ARBIZ	<ul style="list-style-type: none"> • Started a recycling business for manufacturers • Reuse of waste plastics 		
	SMART	<ul style="list-style-type: none"> • Aging of structures during Japan's many years of rapid economic growth • Growth of investments in the manufacturing and energy sectors 		
Threat	ARBIZ	<ul style="list-style-type: none"> • Difficult to differentiate services in a highly competitive market • Fiercer competition from manufacturers and companies entering the market from other industries 		
	SMART	<ul style="list-style-type: none"> • Emergence of other companies with similar business models 		

Special feature
**SMART
Business**

Responding to the needs of the times to reach ¥10 billion in net sales by FY 2026

SMART Inc. provides the entire gamut of plant recycling services to respond to growing needs. USS Group will not only increase its earnings while contributing to the realization of a circular economy, but also promote them as new long-term core businesses.

Dismantling of a wind power generator at the Iwaya Wind Park

Dismantling of the
Palette Town ferris wheel

Dismantling of the old ARBIZ Inc. head office building

Addressing broad social needs centered on plant recycling

A USS Group company, ARBIZ, established SMART Inc. as a joint venture with a subsidiary of Sumitomo Mitsui Finance and Leasing in the fiscal year ended March 31, 2020 for the purpose of creating another core business after the Auto Auction Segment. USS is steadily expanding its business scale by responding to social needs changing with the times around the plant recycling business.

The dismantling and recycling of plants requires a tremendously broad range of techniques and expertise because the buildings and equipment consist of chemical products, metals, and various other materials. In addition to plants, we handled contracts to dismantle the Odaiba ferris wheel in the fiscal year ended March 31, 2023 and a windmill at a wind power generation station in Aomori in the fiscal year ending March 31, 2024. Both of these projects required disassembly work at heights, which demands different techniques and expertise than dismantling a plant. The strength of SMART Inc. is its human capital who possess this kind of expert skill and can satisfy diverse customer needs.

SMART Inc. growth strategy aiming to generate ¥10 billion in net sales by FY2026

SMART Inc. showed higher income as well as profit in the year ended March 31, 2023 with ¥3,925 million in net sales thanks to an increase of orders for large-scale dismantling projects. In the fiscal year ending March 31, 2024, we have

set a target of ¥5.0 billion in net sales. Our ultimate goal is to reach ¥10 billion in net sales by the fiscal year ending March 31, 2027. To realize this remarkable growth, we must further improve our technological capabilities while considering the needs of society.

First, our policy to expand the scope of this business will broaden the domain to areas that SMART Inc. had left up to subcontractors before, such as dealing with the soil contamination and civil engineering required in the course of plant recycling. Proposals able to combine all of these services give USS a competitive edge over other companies. We are also working to enhance the appeal of the plant recycling business through work proposals using three-dimensional plans.

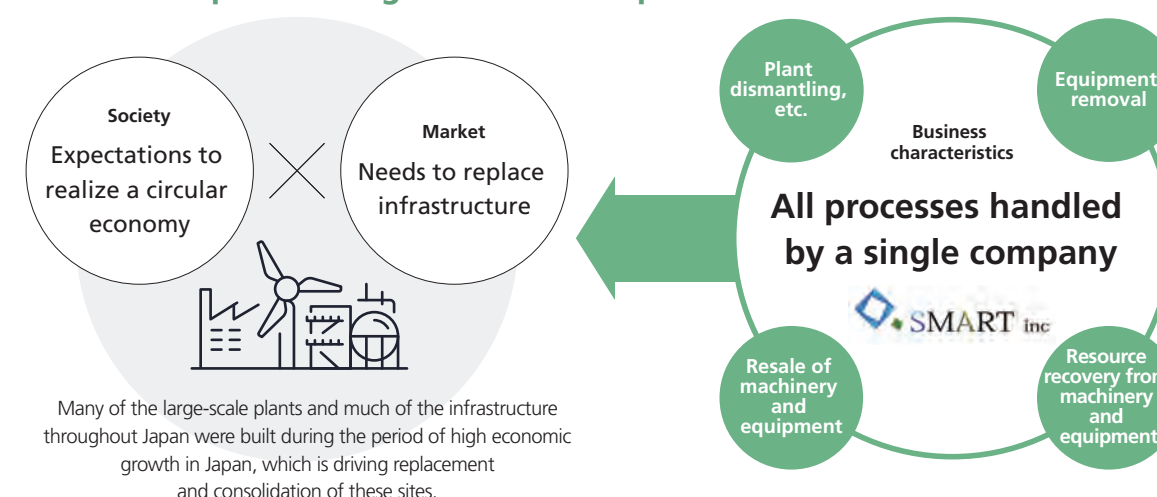
As potential customers in the plant business domain, SMART Inc. is engaging in sales efforts to make proposals to power, oil and steel companies in the midst of active restructuring. In addition, we will take advantage of the demand for dismantling bridges, harbors, and other aging social infrastructure. Future initiatives will also consider M&As of engineering and other such companies.

Moreover, we will more greatly emphasize the expansion and development of expert human capital in preparation for this business growth. These efforts will take the form of not only stronger human resource recruitment and preparations to build a work-friendly environment but also a focus on forging partnerships with other companies.

This evolution of our technological capabilities and human capital will respond to the robust demand as USS aims to realize its net sales target for the business by the fiscal year ending March 31, 2027. The plant recycling business will grow into one primary USS long-term venture.

SMART Inc. plant recycling

Respond to higher societal expectations and market needs



Corporate governance

Basic approach

In the core auto auction business, the USS Group management goal is to increase corporate value through continuous business expansion in a domain distributing used vehicles.

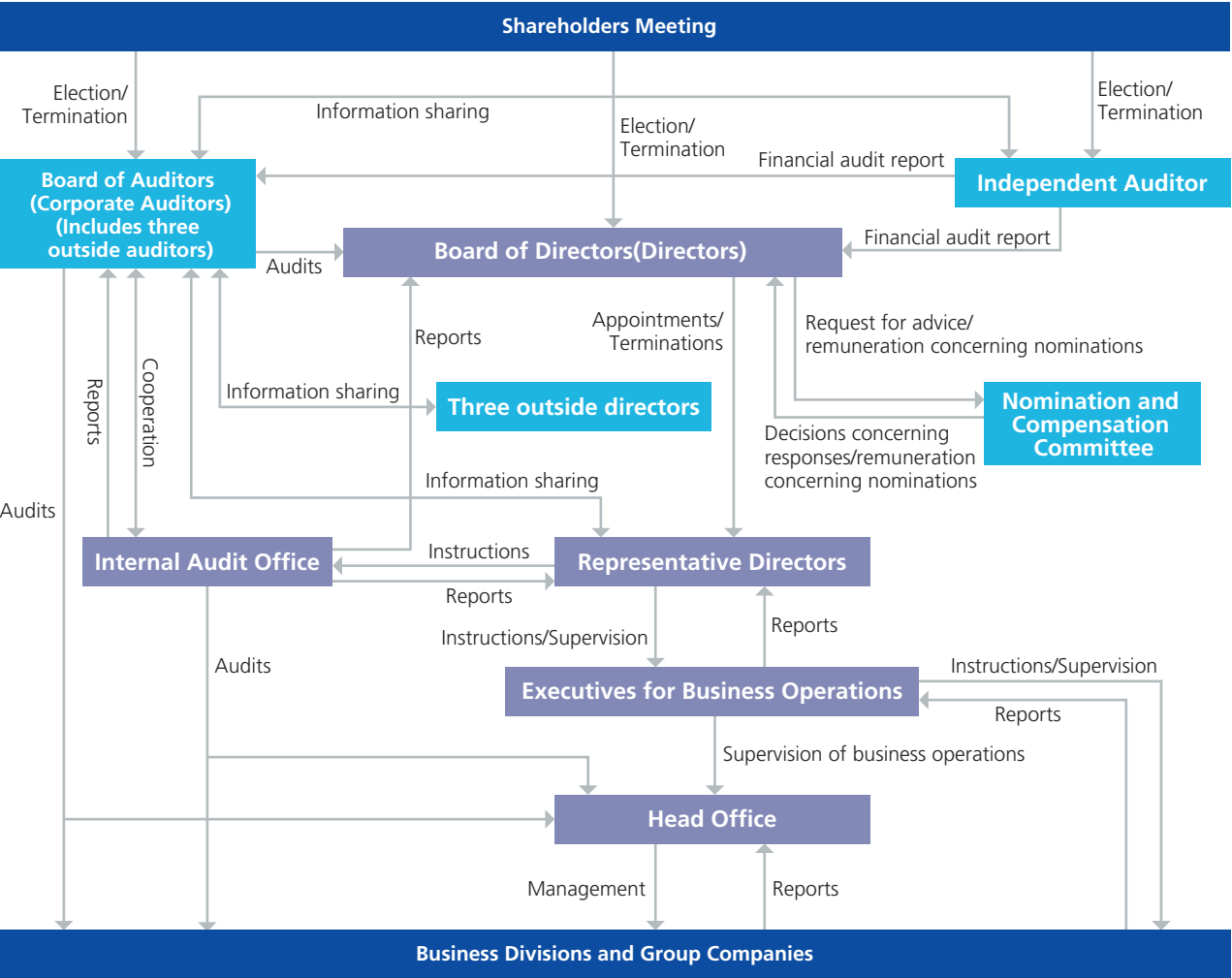
The growth of shareholder value is clearly our most important objective as a publicly owned company. But corporate value is the result of fulfilling our responsibilities to all our stakeholders. This stance is embodied in the six core elements of our corporate philosophy: creating a fair market, serving members better, providing services for

consumers, passing profit on to shareholders, respecting employees, and contributing to local communities. This is why we manage our operations on the basis of the recognition that shareholder value is achieved through corporate value.

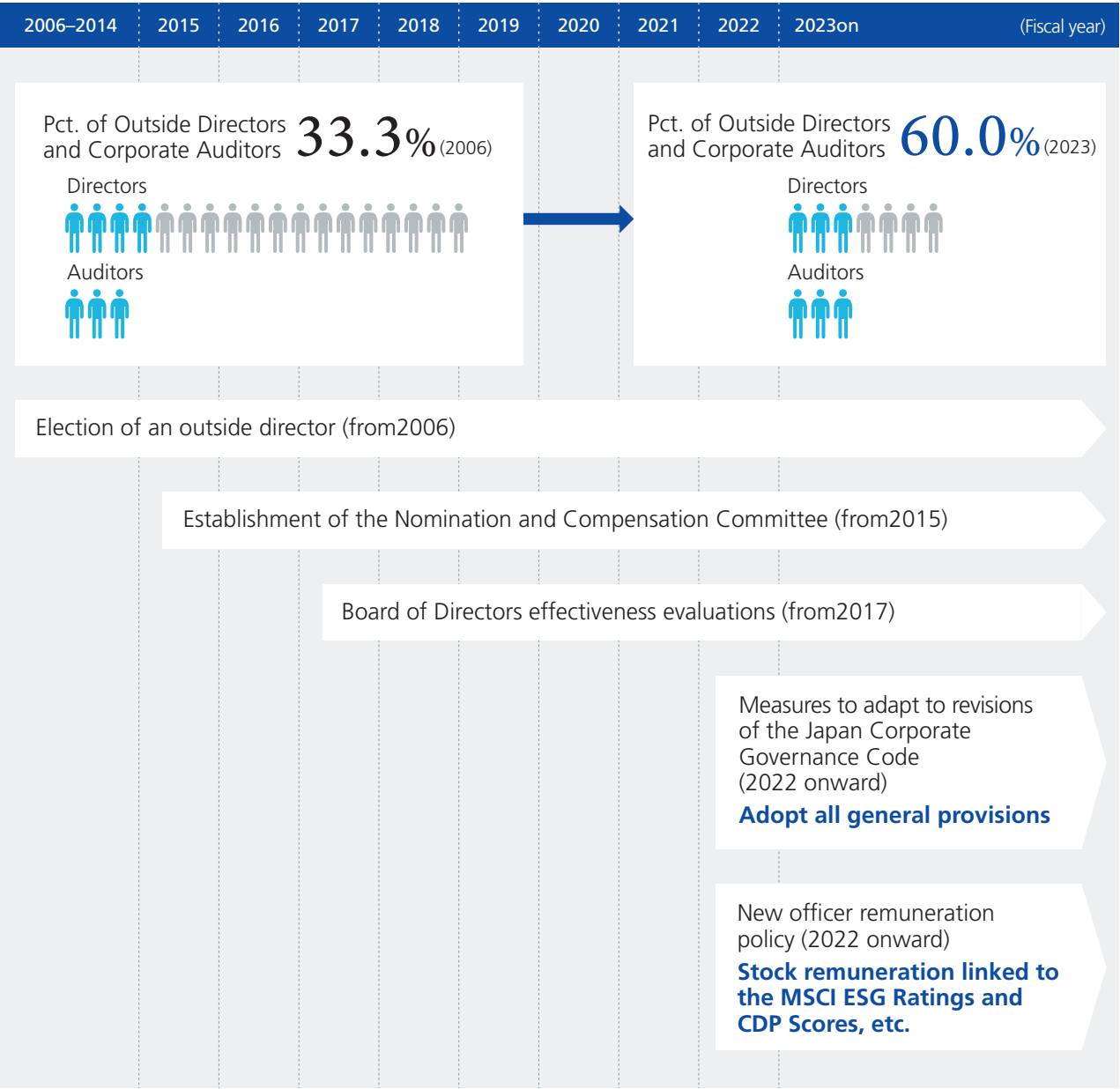
In addition, as members of society, companies have an obligation to comply with social norms. Therefore, it is essential to comply with and to fully satisfy the requirements of both the Basic Policy on Corporate Governance and the Corporate Governance Code. By performing thorough evaluations of our operations and formulating an improvement plan for the next fiscal year at the Board of Directors meeting at the end of each business year, we make every effort to achieve outstanding performance in terms of our accountability (duty to explain and account for our activities) and management transparency, and to improve our corporate governance.

Structure

Framework (June 2023)



Organizational reforms



Composition ratio (June 2023)

Ratio of Outside Directors on the Board of Directors	42.8%
Ratio of Female Directors on the Board of Directors	28.5%
Ratio of Outside Auditors on the Board of Corporate Auditors	100.0%
Ratio of Outside Directors on the Nomination and Compensation Committee	60.0%

No. of meetings (FY 2022)

Board of Directors	9
Board of Corporate Auditors	10
Nomination and Compensation Committee	2

Board of Directors

The Board of Directors is made up of seven Directors, three of whom are Outside Directors. These members discuss management plans and a wide range of other important matters. The Outside Directors hold regular meetings with the Board of Corporate Auditors and the Internal Audit Office. These offer insight into the progress of audits as well as provide other information to the Outside Directors. The Board of Directors also receives reports from the Supervisory Office when working to tackle risks or other issues which arise.

Board of Corporate Auditors

The Board of Corporate Auditors consists of three outside auditors. Each Corporate Auditor not only attends meetings of the Board of Directors but also surveys and audits Directors in the execution of their duties as well as the operational progress and assets of Group companies. Furthermore, this board works with the Internal Auditing Office, which conducts audits of all divisions and offices (including at USS subsidiaries).

Matters for discussion at the Board of Directors (FY2022)

Matter	Main points of discussion
Management strategies	Important management strategies, capital investments, etc.
Sustainability	Formulation of policies, strategies, and plans, progress management related to goals, identification of priority issues (materiality), support of the TCFD recommendations, etc.
Corporate governance	Revisions to the basic policy on corporate governance, consultations and advice from the Nomination and Compensation Committee related to the general meeting of shareholders, effectiveness evaluations of the Board of Directors as well as internal control systems, directors and officers liability insurance, etc.
Accounts and financial affairs	Quarterly and other settlements of accounts, budgets, financing plans, revisions to business performance forecasts, dividends, reviews of cross-shareholdings, decisions about policies for approving director remuneration, etc.
Other	Business execution of Group companies, etc.

Officer remuneration

Approval process for director remuneration

The Nomination and Compensation Committee made up of a majority of Outside Directors has been entrusted by the Board of Directors to determine policies on the approval of director remuneration and the details of compensation for each individual after an objective discussion.

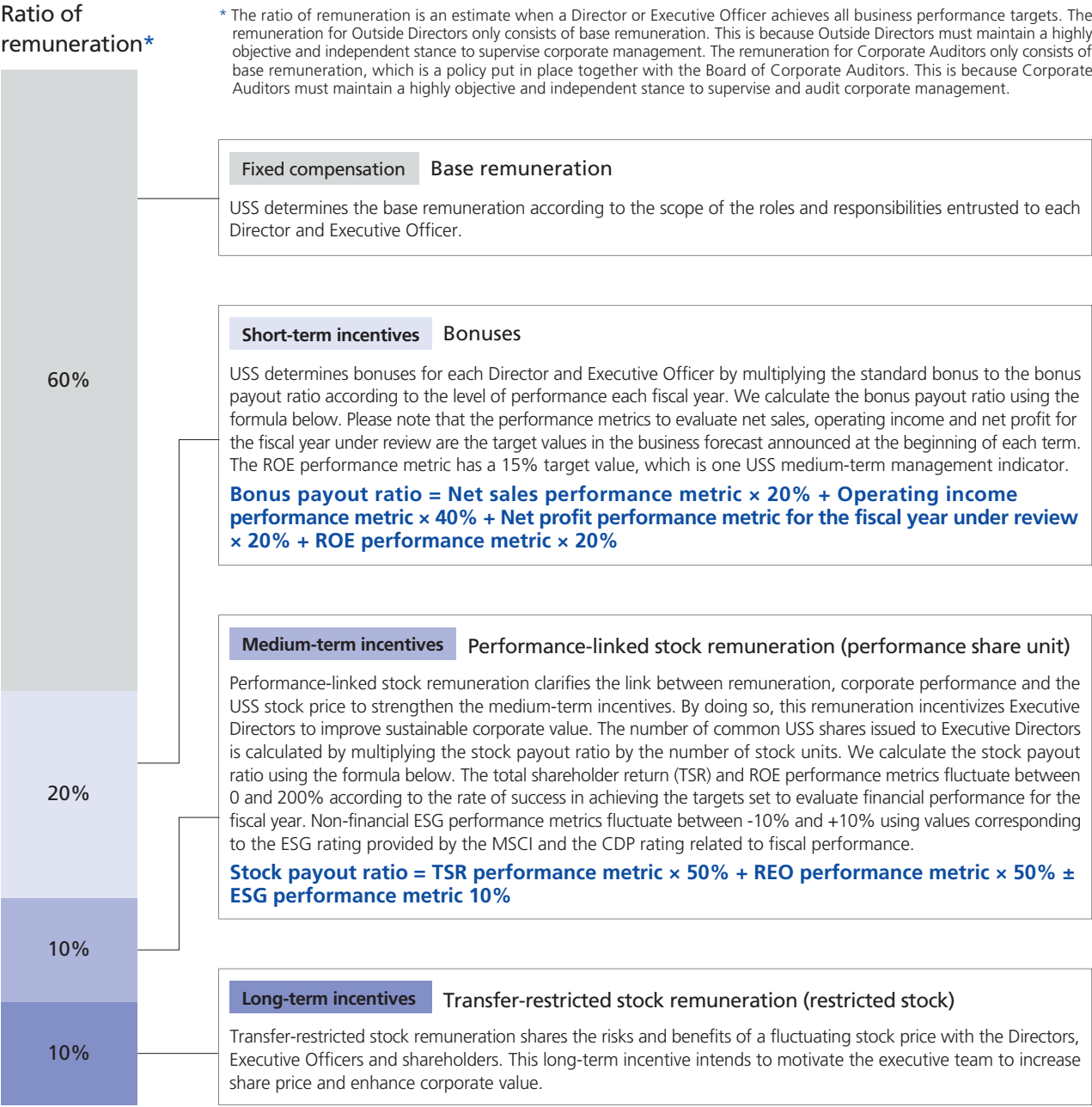
Nomination and Compensation Committee

The Nomination and Compensation Committee is made up of five Directors, three of whom are Outside Directors. The Chairman, Representative Director, and Chief Executive Officer (CEO) acts as the chair of this committee. As an advisory body to the Board of Directors, the Nomination and Compensation Committee evaluates and gives the Board of Directors input on the appropriateness of the proposals below.

- (1) Nominations of director candidates and the appointment of executive officers
- (2) Policy for the remuneration of directors and executive officers
- (3) The selection and dismissal of representative directors and directors who are also USS executives
- (4) The termination of directors and executive officers
- (5) Details of director succession plans

The Nomination and Compensation Committee also makes decisions on all Director and Executive Officer remuneration matters on an individual basis according to detailed compensation policies.

Summary of the officer remuneration policy



Deductions or recovery of remuneration (malus and clawback clause)

USS has put in place a malus and clawback clause to deduct or recover performance-linked stock remuneration and transfer-restricted stock remuneration provided to Executive Directors. This clause shall apply to any Executive Director that the Board of Directors has found to have gravely violated a law, regulation, or internal rule, or engaged in serious accounting fraud. The clause shall also pertain to large-financial losses and other specific

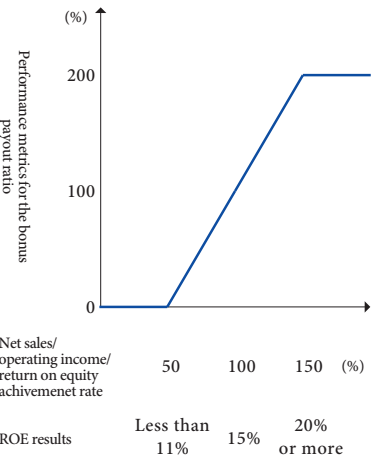
conditions designated by the Board of Directors. In this case, the malus and clawback clause will enable USS to either not issue common shares to such Directors and Executive Directors, or to deduct or recover a monetary equivalent to the stock price at the time as an alternative to some or all of the common shares already issued to an Executive Officer. USS shall determine any deductions or recovery and the details through a resolution by the Board of Directors.

Bonuses (performance-linked monetary remuneration)

Key performance indicators (KPIs)	Change in payment ratio	Weight	Target	Actual	Achievement rate	Bonus payout ratio
Net sales	0%–200%	20%	¥84,100 million	¥88,778 million	105.6%	107.4%
Operating income		40%	¥43,100 million	¥43,778 million	101.6%	
Net profit for the fiscal year under review		20%	¥30,000 million	¥30,008 million	100.0%	
ROE		20%	15%	16.2%	107.8%	

Reason for the selection of the above key performance indicators (KPIs): USS discloses net sales, operating income and the net profit for the fiscal year under review as a forecast of business performance at the beginning of each term. We have selected these as KPIs because of the relevance with determining successful business performance during each fiscal year. The ROE has been chosen as a KPI because an ROE of at least 15% has been set as one USS medium-term management indicator.

Performance-linked stock remuneration formula



Evaluation of the effectiveness of the Board of Directors (FY2022)

To evaluate the effectiveness of the Board of Directors, USS asks all directors and corporate auditors to complete questionnaires.

Evaluation process	Items evaluated
Date: March 2023 Respondents: All Directors and Corporate Auditors (10 including outside officers) Method: Self-assessment using a questionnaire (1) All directors and corporate auditors complete a self-evaluation questionnaire (2) Responses to the questionnaire are compiled and analyzed by the secretariat of the Board of Directors (3) Results and issues are reported to the Board of Directors, which then discusses these subjects	(1) Evaluation of FY2022 targets (2) Composition of the Board of Directors–Size and composition (diversity, professional knowledge) (3) Operation of the Board of Directors–Frequency of meetings, length of discussions of agenda items, materials provided to directors (4) Support for the Board of Directors–Training programs, information provided to outside directors and corporate auditors (5) Discussions by directors–Matters for deeper discussion by the Board of Directors (6) Board of Directors risk management–Risk management, activities concerning social and environmental problems

Summary of evaluation results
The use of this evaluation process confirmed that all questionnaire items are generally appropriate and that the Board of Directors is effective. The evaluation also showed that there were measures to deal with the two issues identified the previous fiscal year and that improvements had been made. (1) The Board of Directors will deepen discussions on medium to long-term management strategies. The evaluation did show the Board of Directors had determine materiality and clarify its value creation process in its integrated report, but there is still room to improve the thoroughness of discussions about medium to long-term management strategies. This is an issue that still requires more action. (2) More comprehensive training opportunities will be provided on ESG, the SDGs, and sustainability We take advantage of several external training services to create training opportunities on ESG, the SDGs, and sustainability, which primarily let employees take part in online seminars and lectures. The Board of Directors deliberated on climate change and other ESG issues a total of seven times to continually confirm ongoing improvements.

Upcoming activities
(1) The Board of Directors will deepen discussions on medium to long-term management strategies. (2) The Board of Directors will deepen discussions on sustainability initiatives with focus on realizing carbon neutrality and developing human capital

→ See the Message from the Outside Directors on Pg. 47-48.

Compliance

Basic approach and compliance systems

The USS Code of Conduct and Ethics defines the basic principles of compliance. We have also created a compliance manual to ensure these principles are put into practice. We have put in place a USS Group Internal Reporting System to act as a gateway for employees to receive reports about illicit conduct and other such risks.

The Board of Directors not only consults about and receives reports about the grave risks reported to the USS Group Internal Reporting System, but the Representative Director also regularly checks in on its management. There were no compliance issues in the fiscal year ended March 31, 2023.

Issues Reported to the USS Group Internal Reporting System

FY2020	FY2021	FY2022
14	17	21

Anti-corruption

USS has embedded its commitment to prevent corruption in its Basic Policy for the Prevention of Corruption and raises awareness about these anti-corruption practices in every Group employee. These measures intend to sustain good relationships with our members, business partners, and all other stakeholders.

Risk management

Basic approach and compliance systems

USS endeavors to mitigate legal and regulatory risks through its compliance system. Each department tackles other risks and reports those that may impact corporate management to the Board of Directors in this risk management system.

Business continuity plan (BCP)

USS has created an emergency response manual for major natural disasters to ensure business continuity. This manual provides guidance on preparing for emergencies in times of peace as well as ways to respond in the event of a large-scale earthquake.



			Age	Years of service	Attendance at Board of Director meetings	Nomination and Compensation Committee member	Attendance at committee meetings	Skill matrix								
								Corporate management	Accounting/finance	Business strategy/marketing	Digital transformation	Legal affairs/risk management	Administration/human resource development	ESG		
Directors	① Yukihiro Ando	Chairman and Representative Director, Chief Executive Officer (CEO)		76	41	100%	○Chair	100%	○		○					○
	② Dai Seta	President and Representative Director, Chief Operating Officer (COO)		56	19	100%	○	100%	○		○					○
	③ Masafumi Yamanaka	Executive Vice President and Officer of the Supervisory Office		68	19	100%				○		○		○		
	④ Hiromitsu Ikeda	Junior Managing Director and Officer of the Auction Operation Office		62	19	100%					○	○				
	⑤ Nobuko Takagi	Outside Director	OutsideIndependent	45	5	100%	○	100%		○	○					○
	⑥ Shinji Honda	Outside Director	OutsideIndependent	65	1	100%	○	100%	○		○					○
	⑦ Yoshiko Sasao	Outside Director	OutsideIndependent	63	1	100%	○	100%	○					○		○
Corporate Auditors	⑧ Kenichi Goto	Full-time Outside Corporate Auditor	OutsideIndependent	63	2	100%				○						○
	⑨ Keiji Miyake	Outside Corporate Auditor	OutsideIndependent	68	2	100%				○						○
	⑩ Jun Ogawa	Outside Corporate Auditor	OutsideIndependent	62	2	100%						○				○
Executive Officers	Yukiyasu Sugata	Executive Officer and Manager of Sapporo Auction Site		Hiroshi Kojima	Executive Officer in charge of the System Office			Yukio Niimi	Executive Officer and Manager of Kyushu and Fukuoka Auction Sites			Masahiro Mikami	Executive Officer and Manager of Tokyo Auction Site			

USS expects the Directors and Corporate Auditors to contribute to the fields described below. We have also selected three fields in which USS expects each to make a particularly large contribution according to the experience illustrated by their skill matrix.

However, these skill matrices do not indicate the full knowledge possessed by each Director and Corporate Auditor.

- Corporate management: A person who can anticipate changes in the management environment to make appropriate management decisions based on experience and expertise as a top executive in corporate management.
- Accounting / finance: A person who can spearhead proper financial activities to ensure a sound financial constitution based on their knowledge in financial strategies, capital markets, accounting and finance.

- Business strategy/marketing: A person who can accurately anticipate the business environment surrounding USS to build forward-looking strategies and secure a competitive edge in the industry.
- Digital transformation: A person who can review the introduction of new auction systems toward further business development and growth.
- Legal affairs/risk management: A person who can strengthen risk management through expert knowledge in corporate legal and regulatory affairs and compliance to build sustainable growth infrastructure.
- Administration/human resource development: A person who can promote the active use and participation of diverse human resources and the organizational development supporting that goal to foster sustainable growth.
- ESG: A person who can execute management while taking into account ESG factors to foster stable and sustainable USS growth.

Message from the Outside Directors



Nobuko Takagi

Offensive and defensive actions contribute to stronger governance.

Nobuko Takagi Outside Director

DIRECTOR PROFILE :

Nobuko Takagi worked in corporate auditing as a certified accountant before taking the lead on M&A projects at M&A advisory and business firms. She currently serves as an advisor on new business development and investment decisionmaking matters. Ms. Takagi possesses extensive experience and expert knowledge in finance, accounting, M&As, and new business development.

I try to stay aware of capital market and stakeholder perspectives. The defensive actions should update priority subjects through debate at the Board of Directors meetings, while our offensive actions help executives to actively make decisions about medium to long-term growth. Throughout the six terms that I have served as outside director, I feel USS has made major enhancements to its corporate governance. Some of the major reforms include fine tuning the integrated report to share value creation stories with all stakeholders, supporting the TCFD recommendations, normalizing initiatives to enhance effectiveness evaluations of the Board of Directors, and revising the compensation policies to better reflect its market understanding.

Some areas USS should address in the future include the promotion of a digital transformation, support of electric vehicles and the expansion of businesses related to auto auctions and recycling. USS needs to invest in a digital transformation to maintain its lead of the industry as the company holding the top share of the auto auction market. It must also take advantage of an approach that makes bold decisions while gaining feedback

from people on the front lines. USS also should take time to debate the expansion of peripheral auto auction businesses. To solidify future businesses, I feel USS needs to create some kind of framework that provides a place for employees of all ages and experience to participate in the discussion process.

As of the fiscal year ended March 31, 2023, two women are serving as USS directors, including myself. I must give high praise to Board of Directors for such sincere debate made possible through its diversity, review of climate change issues and reforms to personnel policies. I hope that I can both help energize debate at Board of Directors meetings in the future and incite action tied to those discussions.



Shinji Honda

USS promotes environmental initiatives and Group-wide strategies.

Shinji Honda Outside Director

DIRECTOR PROFILE :

Shinji Honda mainly took charge of strategies and overseas businesses at the Takeda Pharmaceutical Company Limited centered upon group management, corporate strategies, and management planning. He also led its transformations into a global company. Mr. Honda even oversaw all overseas businesses and put together company-wide management plans as well as medium to long-term growth and environmental strategies for Nisshin Foods Holdings Co., Ltd.

To sustain high medium-to long-term performance, I strive to offer advice about growth strategies, management plans, climate change and other important management challenges. I also try to speak frankly from an objective standpoint about matters in front of the Board of Directors so that USS can maintain and enhance its sound corporate governance.

As a means to execute its medium-to long-term management plans during the fiscal year ended March 31, 2023, USS has been utilizing the TCFD framework to support the formulation of a transition plan (road map) incorporating business strategies. In the fiscal year ended March 31, 2023, The Board of Directors discussed climate change seven times, demonstrating the uncompromising commitment of management to tackling this priority issue. Discussions beforehand with the secretariat have helped in debates by the Board of Directors about disclosure based on the TCFD recommendations, CDP support, and specific plans to reduce CO₂ emissions. As a result, USS has earned fantastic evaluations from external assessment bodies, including receiving the MSCI ESG Rating, which has helped

improve its information online. The most significant change through these environmental initiatives has been the start of medium to long-term discussions about how the auto auction business can maintain a competitive edge in circular economies centered around electric vehicles and ways in which the recycling business can aim to reach sufficient business size and earnings.

Stakeholders insided and outside of the company should have confidence in the USS Group-wide strategies and management plans aiming to foster sustainable growth and enhance corporate value. That is why the Company has defined a clear long-term path as well as medium to long-term goals. To achieve these targets though, it is important for USS to devise specific and highly persuasive stories about its medium to long-term growth strategies. Thereafter, we will work to secure strategic investments, in addition to further solidifying existing businesses, investing in growth businesses, and exploring new business opportunities in order of priority, which are all important matters. I will take care to provide advice to help USS be bold in its business execution.



Yoshiko Sasao

USS strives to enhance corporate value by strengthening human capital.

Yoshiko Sasao Outside Director

DIRECTOR PROFILE :

Yoshiko Sasao helped launch a variety of new businesses at Recruit Co., Ltd. before working on the corporate restructuring of Tepco Partners Co., Inc. through unique human resource development programs. She has broad knowledge on various corporate matters, such as diversity promotion, empowering women in the workplace, work-style reforms, and human resource development.

When I was appointed in the fiscal year ended March 31, 2023, I did my best to share my thoughts on human resource strategies and reforms to the corporate culture so that USS can reach the next stage of its journey. Over the fiscal year, we have put in the effort to get as close to that vision as possible. In particular, I have shared my ideas from the perspective of human capital in an effort to help invigorate debate at Board of Directors meetings. USS plans to revise its personnel policies and put in place new systems for human resource development. Active promotion of these measures will give employees a clear image of their career path and encourage them to take initiative toward independent career development. This will result in greater employee engagement and higher corporate value.

In the fiscal year ended March 31, 2023, I was very impressed the MSCI Japan Empowering Women (WIN) Select Index selected USS as one top brand. This stock index consists of listed companies demonstrating excellence in gender diversity. The MSCI gave high marks to USS and selected it for this index due to the high ratio of women hired as

employees and its high ratio of female directors. USS will continue to empower women driven by the desire to build an organization where women feel excited to work.

Within the various USS businesses, the recycling business in particular is expected to show tremendous growth. Specifically, SMART Inc. continues to generate high earnings by establishing its unique technological prowess. However, it is people who support technology, which means it is vital for USS to work to strengthen its human capital in order to sustain and improve SMART's technological strength. I will support management in efforts to make SMART the next major pillar for the USS Group after the auto auction business.

Activities with customers

Ensure the fairness and reliability of auto auctions

Responsible management of vehicle data

To evaluate automobiles to be auctioned, we have a 10-step scoring system that uses our own rigorous inspection standards. At all our auction sites, inspections are performed by individuals who have completed the strict USS certification process. Inspection results are entered in a database to allow members to perform searches to view real-time information.

USS employees carry out all of these inspections.



Odometer inspection and control system

The used vehicle market has had issues of odometer tampering, which has lost the confidence and trust of car buyers. USS has employed an approach since its founding that strives to eliminate these types of fraud. Illegal practices such as tampering with odometers led to the creation of the Nippon Auto Auction Association in 2001 and its odometer and inspection control system.

This system aggregates vehicle VIN numbers and mileage in a database for vehicles up for auction at auto auctions throughout Japan. By comparing the automobiles up for auction against this database, auto auctions can of course identify any odometer tampering and also verify a history of any flooding and repairs.

Prevention of illicit transactions

USS has succeeded in operating auto auctions that always offer people a fair and equal standing since its launch. We strictly control these auto auctions via various proprietary monitoring and other systems to prevent any auctions unjustly overriding a winning bid, which ensures proper business transactions.

Proper management of member information

All participants in USS used car auctions are registered members and many are businesses that sell used cars. Since the information provided by members includes personal information, we handle this information very carefully in accordance with our personal information protection policy. In March 2022, JIPDEC granted USS license to use the PrivacyMark as a business operator. USS also holds regular training sessions to teach all employees how to properly handle sensitive personal information.

ARBIZ also acquired the ISO 27001 information security management system certification in the fiscal year ended March 31, 2012. Since its initial certification, the Company has maintained this certification for twelve-consecutive years through the fiscal year ended March 31, 2023.

There were no issues with inappropriate handling of personal information during the fiscal year ended March 31, 2023.

Greater convenience at auto auctions

Building welcoming auction sites

USS members can participate directly in on-site auctions USS Auto Auctions at any of 19 USS sites throughout the country, also can use the Satellite Auctions “USS JAPAN” to participate via a satellite TV link or use the USS Internet Live service to submit bids via the Internet. USS auction sites hold on-site auctions once every week. These events allow members to inspect vehicles themselves prior to submitting bids.

Communication with USS members

Each auto auction site provides a wide range of information to members. Our members rave about our services for taking the chance to provide information according to their needs as an opportunity to help resolve business concerns and difficulties.

Appealing auto auction sites

USS auto auction sites categorize sections for auctions by the type of used vehicle and price range. For example, an area dedicated to hybrid, EV and other eco-automobile auctions gives members an easy way to auction and bid on various eco-vehicles. These types of auctions responding to changes in the market also help differentiate USS from its competitors.

Members who take part in these events can also choose a gift from local specialty products or one that helps support the reconstruction of disaster-afflicted areas. This is one of many initiatives that strives to enhance member satisfaction. These gifts are even sent to members who request them on occasion.

Need-driven adoption of equipment and systems

USS always strives to ensure smooth transactions. We accept the inspection and registered seal certificates, proof of transfers, and other various documentation necessary to transfer the title of a vehicle during an auction. USS also verifies the payments for vehicles.

USS is also currently in the process of rebuilding and renovating its old auction sites. The construction and renewals are not only focusing on the building itself but also the tables, chairs, and the rest of the interior design. Every aspect is intended to transform the old venue into a more accommodating and welcoming auto auction site.

Members who visit each USS auto auction of course come to bid on a vehicle. However, many also have a need for an informational exchange with other members. USS has set up couch and café spaces to facilitate this type of open communication. Moreover, our restaurants serve food free of charge to accommodate the many members who spend a long period of time at our auction sites. USS has even set up a massage and other relaxation facilities.

Member claim processing

USS has established a mediation and arbitration system to handle any claims brought by successful bidders.

We built this claim management system to share more information throughout the company to quickly address any claims. Our system aggregates information in a database from details about the complaint and the representative handling the issue to the time it took to resolve a matter. We are then able to use this data to response to any similar claims that arise. As an initiative capitalizing on data, USS analyzes the circumstances of claims related to each inspector to enhance the skills of every inspector.

Our commitment to shareholders and other investors

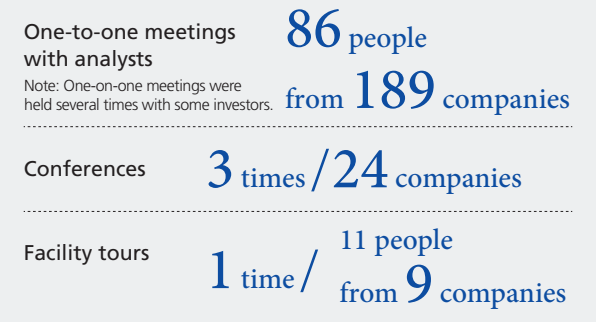
Proper information disclosure and communication

Shareholders meeting (June 20, 2023)

The 43rd annual shareholders meeting used a virtual meeting format with hybrid participation.



A dialogue with analysts of institutional investors (Results in FY2022)



A dialogue with individual investors



Activities with employees

Respect for human rights and diversity

Respect for human rights

The USS Code of Conduct and Ethics prohibits discrimination in the USS Group's workforce based on race, ethnicity, nationality, gender, religion, beliefs, disability, sexual orientation, gender identity and other personal characteristics. As auto auctions in Japan are the primary activity of the USS Group, problems involving child labor and forced labor are unlikely to occur. There has never been an instance of these problems at the group.

As part of our normal business activities, we perform checks for the prevention of infringements on human rights, discrimination, child labor and forced labor. Violations by employees of any of these guidelines can be reported by using Group Internal Reporting System. There were no serious cases of discrimination or violations of human rights in the Group during the fiscal year ended March 31, 2023.

Issues Reported to the USS Group Internal Reporting System

FY2020	FY2021	FY2022
14	17	21

Prevention of harassment

The USS Group has established Rules for Preventing Sexual Harassment and Rules for Preventing Power Harassment and has activities to be certain that everyone at the group is aware of these rules.

The USS Corporate Ethics Help Line is available to employees who want to report harassment or receive more information.

Our commitment to equal opportunity

The USS Group is dedicated to equal employment opportunities and compensation for everyone regardless of gender. USS recruits people with many backgrounds in

order to maintain a diverse workforce with outstanding skills. We actively hire these excellent human resoruces as both new graduates and as experienced professionals. At USS, 28.5% of directors are women and there are two female outside directors.

We also started training to encourage women to more actively participate in May 2022. Our programs not only provide the training on organization buidling and work-style reforms for management but also female employees.The ratio of female managers in the fiscal year ended March 31, 2023 was 0%. USS will aim to increase the number of women in management to at least 5% by the fiscal year ending March 31, 2026 and 10% or more by the fiscal year ending March 31, 2031.

Workplace health and safety

Employee health promotion and management

Maintaining the health and safety for everyone at the USS Group is essential to our ability to continue to achieve steady growth. All employees receive periodic medical check-ups. Once individuals reach the age of 45, they must undergo more thorough annual examinations.

We plan to increase activities for preserving and improving the health of our workforce as well as for providing our people with pleasant and safe workplaces.

Prevention of long working hours

The USS Group closely manages the amount of overtime to maintain a pleasant workplace environment and prevent excessive working hours during peak periods of auction volume. Measures to perform tasks more efficiently and the use of shifts are two ways we are holding down working time. Furthermore, every auction site and subsidiary submits working time reports to the Board of Directors and other supervisory bodies. Directors and others hold discussions in order to determine actions to take as needed.

The average overtime during the fiscal year ended March 31, 2023 was 29.3 hours. This year-on-year rise in overtime is due to an increase in the number of vehicles in its auto auctions during the fiscal year ended March 31,

2023, which in turn increased the workload year on year.

We have set a monthly overtime target of 20.0 hours or less. USS will enhance its efficiency and introduce leading-edge technologies to build a more work-friendly environment.

USS has set a relatively short work day for the automotive distribution domain, but the difference in standard annual working hours is minimal because of the few number of annual holidays. The shorter work day is also another reason for the larger amount of overtime. In light of this insight, we have increased the number of annual holidays as of April 2023 and adjusted the length of the work day to mitigate this overtime.

Upgrading education and training programs

Training for automobile inspectors

Accurately performing inspections of vehicles to be auctioned is vital to the operation of our auctions. Inspections must be performed consistently at every auction site by using the same set of standards to ensure that decisions are made with accuracy.

USS established its Inspector Certification Program in 2006 in order to improve the methods used for inspecting and evaluating vehicles and ensure the consistency of

inspections. Every inspector undergoes annual written and practical examinations to acquire a certification from level one to four. USS has assigned one instructor to each territory and one trainer at each auction site throughout Japan to guide and develop the skills of automobile inspectors and manage inspection certification programs. These training programs strive to build a consistent inspection framework. We have updated our traditional training program to more quickly develop vehicle inspectors in anticipation of an increasing number of vehicles at our auctions in the fiscal year ending March 31, 2024.

We conduct mechanical training to teach the basic mechanisms and structures of automobiles. This program aims to close any knowledge gap between employees. Employees from our business and vehicle inspection departments targeted by this training program can capitalize on what they learn in their sales and inspection activities.

Training for managers

Our management training programs cover individuals at the assistant general manager level and above. At these classes, managers study the basic thinking for the operation of auto auctions, how to establish targets and other subjects. This training includes classes led by instructors from outside the USS Group.

In July 2022, USS introduced a management and compliance training system as e-learning programs for managers.

TOPICS

Rapid development of vehicle inspectors toward business expansion

USS has determined the standards for evaluating employees as vehicle inspectors requires a level three vehicle inspector certification. New employees have typically taken roughly three years to acquire a level three certification, but we have been able to condense this training to one year from entry into the company through an intensive education program. This more rapidly develops the skills of our junior employees. The new training program for vehicle inspectors unburdens new employees of their daily tasks to quickly teach the knowledge and skills of vehicle inspectors. New employees participate in group training over three months at the Nagoya auction site after learning the basics about auto auctions and vehicle inspections during their first month at USS. The program aims to provide the fundamental skills for employees to acquire a level four certification. Thereafter, each employee returns to their own auction sites to learn practical skills under a trainer with the aim of earning a level three certification. This training program will address the lack of vehicle inspectors while responding to the increasing number of cars at auctions in the future.



FY2023 group training

Roughly
one-third the time
necessary to acquire a level three
vehicle inspector certification
(Three years to one year)

S

Training for new employees

We have a training program structured specifically for newly hired people centered upon teaching proper business manners. Newly hired people first work with a mentor to learn about business operations and receive advice about any issues and uncertainties involving their responsibilities.

Survey on Group-wide human resource management

The USS Group is aware promoting internal communication is most important when striving to improve employee communication. That is why everyone in the company respects one another's opinions and ideas in an effort to build a work-friendly environment.

In the fiscal year ending March 31, 2024, we conducted

an employee survey to gather feedback on internal recruitment practices, transfers and other job rotation opportunities as well as stratified training by occupation and position. As a result, we discovered a certain number of employees hope to advance their careers through job rotation opportunities via transfers. USS will continually conduct this kind of survey to further enhance employee engagement in the future.

Main data

Item	Breakdown	Unit	FY2019	FY2020	FY2021	FY2022
Employees	Number of employees	People	588	624	681	684
	Male employees (ratio)	People	440(75%)	457(73%)	502(74%)	508(74%)
	Female employees (ratio)	People	148(25%)	167(27%)	179(26%)	176(26%)
	Average age of employees	Age	39.4	38.9	39.6	39.7
	Male employees	Age	41.1	41.2	41.7	41.6
	Female employees	Age	34.2	32.6	33.8	34.2
	Average years of service	Years	13.1	13.1	13.4	13.0
	Male employees	Years	14.4	14.7	14.9	14.2
	Female employees	Years	9.4	8.8	9.3	9.4
	Number of new hiring	People	41	62	18	44
	Male employees (ratio)	People	19(46%)	32(52%)	11(61%)	31(70%)
	Female employees (ratio)	People	22(54%)	30(48%)	7(39%)	13(30%)
Management	Total number of managers	People	33	31	36	25
	Male managers (ratio)	People	33(100%)	31(100%)	36(100%)	25(100%)
	Female managers (ratio)	People	0(0%)	0(0%)	0(0%)	0(0%)
Management candidates*	Total number of management candidates	People	284	297	333	364
	Male candidates (ratio)	People	252(89%)	260(88%)	287(86%)	312(86%)
	Female candidates (ratio)	People	32(11%)	37(12%)	46(14%)	52(14%)
Childcare leave	Employees taking time off for child care	People	11	10	10	14
	Male employees	People	0	2	4	6
	Female employees	People	11	8	6	8
Paid leave	Percentage of paid leave taken	%	50.0%	50.6%	64.4%	63.3%
Overtime	Average monthly overtime	Hours	26.0	17.7	23.2	29.3
Regular employee turnover rate		%	4.6%	2.9%	4.7%	6.0%
Employment ratio of people with disabilities		%	1.57%	1.63%	2.09%	2.48%

* Management candidates refers to people in a management role from deputy senior staff to manager.

E

Transition plan concerning climate change

The USS Group has established a transition plan (roadmap) for measures to combat climate change. The implementation of this plan started in June 2023 following discussions and approval by the Board of Directors. The information presented here is a summary of the USS Group's activities. More information is in the "Disclosure of Information Based on the TCFD Framework."

Targets

The GHG emission reduction targets for the fiscal year ending in March 31, 2031 are a reduction of 42% for the sum of Scope 1 and 2 emissions and a reduction of 25% for Scope 3

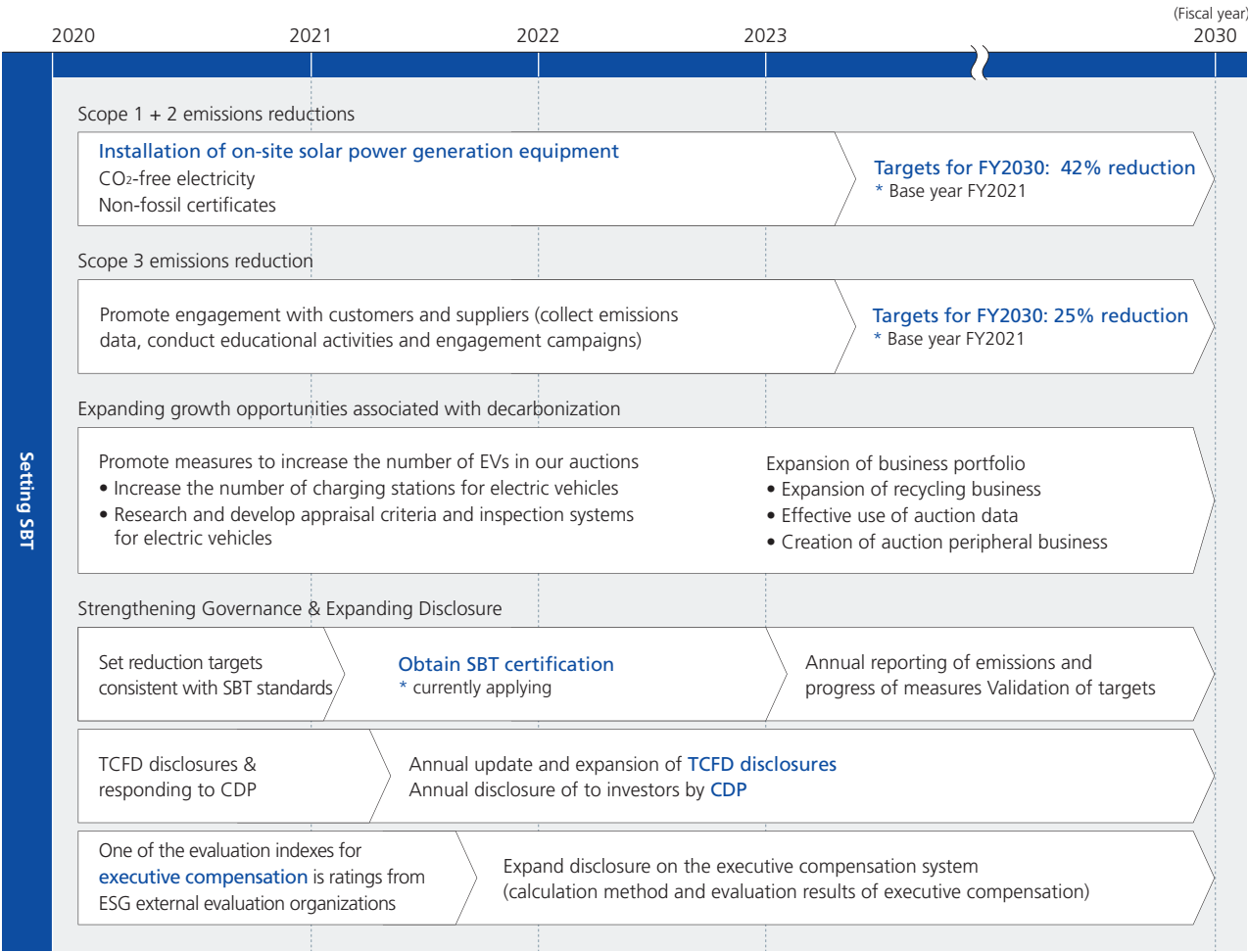
emissions from the level of these emissions in the fiscal year ended in March 31, 2022. USS has applied for approval of these targets by the Science Based Targets initiative.

Scope 1 + 2 emissions reductions

Two activities will be required for lowering GHG emissions that result directly from operations of the USS Group: energy conservation and the use of renewable energy.

For renewable energy, the USS Group is installing solar power facilities at its business sites because new sources of renewable energy contribute to progress involving the decarbonization of society. Solar panels are placed on the roofs of auction buildings and use power purchase agreements. Solar power generation has started at the Nagoya Auction Site and R Nagoya Auction Site. Activities are under way to prepare for the installation of solar power facilities at other auction sites.

Transition plan (roadmap) to achieve goals



E

Scope 3 emissions reduction

Approximately 95% of the GHG emissions across the USS Group’s value chain are classified as Scope 3. Consequently, lowering these emissions will require the cooperation of a large number of stakeholders outside the group.

The GHG Protocol defines 15 categories of Scope 3 emissions. At the USS Group, emissions associated with the use of products sold, which is category 11, account for about half of all Scope 3 emissions. Furthermore, the share of emissions from products and services that are purchased, which is category 1, is about 23%. As a result, emission reduction measures will focus on these two categories. The reduction of Scope 3 emissions is an important issue for the USS Group and society. Lowering these emissions will therefore require engagement with customers and suppliers. Activities have started for collecting emissions data from suppliers in some categories. There will also be educational activities and engagement campaigns accompanied by the sharing of information about various issues with customers and suppliers.

Upcoming activities

To increase the accuracy of the transition plan, the road map that is the key element of the plan will be updated as necessary based on changes in the internal and external environment for the operations of the USS Group.

Furthermore, the Board of Directors will receive progress reports about the transition plan in order to allow the directors to supervise activities involving the plan properly.

Public declaration of support for Task Force on Climate-Related Financial Disclosure

Basic stance

The major social mission of the USS Group is to run auto auctions that minimize energy consumption and greenhouse gas emissions. Work to limit the average global temperature rise benefits both the Group and society. It not

only reduces risks arising due to climate change but also shapes a sustainable carbon-neutral society, which protects the environment for all life. Our public declaration of support for the Task Force on Climate-Related Financial Disclosure (TCFD) shapes the Group’s approach to disclosures on governance, strategies, risk management, key performance indicators, and targets.

Main climate change initiatives

FY	Initiative
2021	Participation in the CDP climate change questionnaire
2022	Disclosure satisfying the TCFD recommendations
2023	Transition plan added to TCFD disclosure

Detailed overview of financial disclosures under TCFD

Governance

■ Oversight of the Board of Directors

The Board of Directors is responsible for overseeing and monitoring the initiatives and targets set to overcome climate related challenges. To do so, the president and representative director provides reports to the Board of Directors on climate-related risks and opportunities at least once per year. The Board of Directors considers all necessary climate-related risks and opportunities when determining Group management strategies, plans, annual budgets, profit targets, and all other relevant corporate matters.

■ New external ESG rating for assessing officer remuneration

The General Meeting of Shareholders approved a resolution to revise the Officer Remuneration Policy on June 21, 2022. The amendments to this policy integrate external ESG ratings (MSCI ESG Ratings and CDP climate change) as non-financial indicator to determine performance-linked stock remuneration.

■ Manager in charge of climate-related oversight

The president and representative director oversees Group management in its evaluation and adaption to the climate-related risks and opportunities which impact its businesses.

To minimize climate-related risks and maximize climate-related opportunities, we incorporate those that impact our businesses into policies, strategies, plans, budgets, and targets at least once a year. We also set climate-related

key performance indicators (KPIs) to review and monitor progress. The president and representative director reports leads these efforts as the manager in charge of climate-related oversight, while reporting to and receiving guidance from the Board of Directors at least once a year.

Strategy

■ Identification and assessment of climate-related risks and opportunities

USS has identified, assessed, and prioritized climate-related transition and physical risks as well as opportunities. We have also created specific climate-related scenarios to gain even greater insight into these risks and opportunities.

■ Scenario analysis

Please see “Overview of Scenario Analyses” and “Impact Assessments and Response Strategies” for more information.

Risk management

■ Framework to identify and evaluate climate-related risks and opportunities

As the manager in charge of climate-related matters, the president and representative director leads relevant departments and Group companies in identifying and understanding climate-related risks and opportunities. Our approach leverages a defined risk management framework to make headway. The president and representative director shares this progress with the Board of Directors at annual and extraordinary meetings. The Board of Directors uses these reports to monitor risk management progress as well as the initiatives and targets set to overcome various challenges.

■ Climate-related risk management framework

As the manager in charge of climate-related risks, the president and representative director reports and advocates initiatives to combat climate change to the Board of Directors. This includes the planning, proposal, and oversight of a risk management framework to identify, evaluate, and address its Group-wide impact. The Board of Directors has the duty to deliberate on and assess the overall risks presented by climate change using what has been learned from the reports and proposals presented by the president and representative director at these annual and extraordinary meetings.

The Board of Directors will also create risk management policies and strategies to minimize risks from a Group-wide perspective. It will also properly incorporate those policies and strategies into plans, budgets, and targets.

Indicators and targets

The USS Group has set a CO₂ emissions reduction target equivalent to the SBT standard as a goal to be used in managing climate-related risks and opportunities (Currently applying to the SBT Initiative).

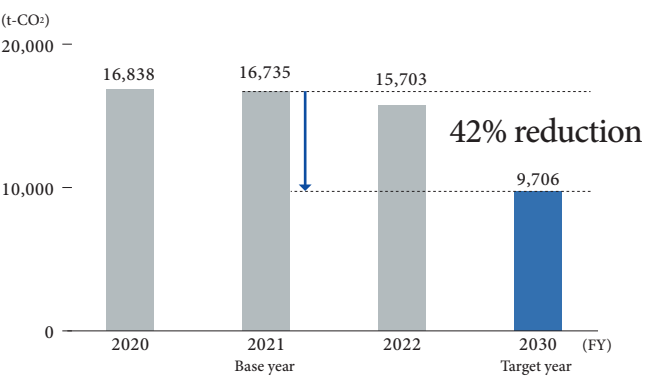
To reach our greenhouse gas (GHG) reduction targets, we will promote solar power generation and shift to CO₂-free electricity.

CO₂ emission reduction target* (Base year: FY2021)

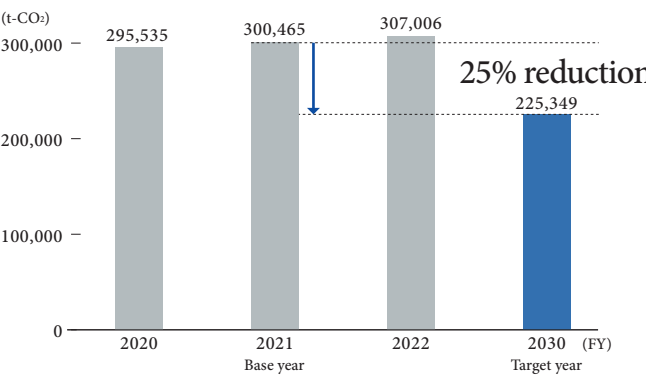
Total emissions of Scope 1 and 2	42% reduction by FY2030
Scope 3 emissions	25% reduction by FY2030

Targets* and progress

Total Scope 1 and 2 emissions



Scope 3 emissions



* Target equivalent to the SBT standard
The base year for the reduction target has been changed to the year ended March 31, 2022.
Due to a change in the scope of group companies, prior year results have been revised.

Overview of scenario analyses

USS identifies climate-related risks and opportunities with the potential to greatly impact not only our businesses but also our stakeholders. Two of our climate-related scenarios give us insight into future. The first is a low-carbon

economy with a 1.5°C or lower scenario. The second is a business-as-usual scenario. Through the data (parameters) rooted in these scenarios and internal and external information, we assess the business and financial impact of climate-related risks and opportunities.

Notes: 1. Scope: Auto Auction business and its entire supply chain
2. Target period: Now until 2050
3. Scenario analyses: Please refer to the table below.

	1.5°C scenario	Business-as-usual scenario
Overview of scenario	1. Stronger laws and government regulations <ul style="list-style-type: none">• Rapid emissions reductions toward carbon neutrality• Full adoption of carbon taxes (carbon pricing) 2. Global shift to electric vehicles (EVs) Sharp increase in EV sales ratio (passenger cars) 24.97%(2025) → 60.9%(2030)	1. Delay in global EV adoption Global EV sales ratio (passenger cars)17%(2025) → 25%(2030) 2. Manifestation of climate-related risks^{*3} <ul style="list-style-type: none">• Approx. 4.5°C average temperature rise• More than a roughly 230% increase in the torrential and heavy short-term rains• Approx. 0.71 m average rise in sea levels along Japan coasts”
Reference scenarios	<ul style="list-style-type: none">• IEA Net Zero Emissions by 2050 (NZE) Scenario^{*1}• RCP 1.9, SSP1-1.9^{*2}	<ul style="list-style-type: none">• IEA Stated Policies Scenario (STEPS)^{*1}• RCP 8.5, SSP5-8.5^{*2}

^{*1} World Energy Outlook 2022 created by the International Energy Agency (IEA) (<https://www.iea.org/reports/world-energy-outlook-2022>)
^{*2} AR5 & AR6 created by the Intergovernmental Panel on Climate Change (IPCC) (<https://www.env.go.jp/earth/ipcc/5th/>), (<https://www.env.go.jp/earth/ipcc/6th/>)
^{*3} Climate change forecasts for Japan reference the Climate Change in Japan (2020) report published by the Ministry of Education, Culture, Sports, Science and Technology and the Japan Meteorological Agency (<https://www.data.jma.go.jp/cpdinfo/ccj/index.html>)

Types of risks and opportunities				Risk of manifestation			Potential	Financial impact	Financial impact	Response strategies
Type		Scenario analysis results		Short	Medium	Long				
1.5°C scenario	Transition risks	Regulatory/legal changes	An increase in energy costs brought by the adoption of European-style carbon taxes and pricing even in Japan to achieve net-zero GHG emissions	●	●		High	Medium	Tax burden when unable to reduce GHG emissions <Table 1> 2030: ¥300 million 2050: ¥540 million	Promote on-site adoption of renewable energy (solar power generation) Shift to CO ₂ -free electricity, Utilization of non-fossil certificates
			A decline in auction sales due to lower demand for used gasoline car exports as more nations prohibit the sale of gasoline vehicles from Japan	●	●		Medium	Large	A decline in combustion engine vehicles sold worldwide from its peak of 75 million vehicles in 2025 to 43 million vehicles in 2030 <Table 3>	Promote measures to increase the number of EVs in our auctions
			As the circular economy develops, sharing services will become more prevalent and fewer people will buy and own EVs. EV manufacturers will enclose EV distribution within their own supply chains.	●	●		Medium	Large	If the ratio of EV sales increases and the number of people purchasing and owning EVs decreases, or if EV manufacturers enclose EV distribution within their own supply chains, the number of units is our auctions will decrease	Expansion of business portfolio to continue creating schemes for fair and honest trade and resource recycling • Expansion of recycling business (contribution to a recycling-oriented society) • Effective use of auction data (big data) • Creation of auction peripheral business (auto loans)
	Opportunities	Energy sources/ Markets	Investment behavior by investors based on climate change risk and the movement to require SBT certification for investment destinations will take root and expand.	●	●		High	Medium	Delays in climate change action will reduce stakeholder confidence and affect trade and other activities	Obtain SBT certification [*] currently applying (Set reduction targets consistent with SBT standards)
			Accelerating replacement demand from gasoline-powered vehicles to EVs for decarbonization, leading to an increase in the number of vehicles sold at our auctions	●	●		High	Large	Global all passenger car sales will increase toward 2030, and EV sales as a percentage of all passenger car sales will rise sharply. <Table 3>	Promote measures to increase the number of EVs in our auctions • Increase the number of charging stations for electric vehicles • Research and develop appraisal criteria and inspection systems for electric vehicles
			An increase in the number of vehicles put on auction by developing the new inspection technologies and rules driven by industries working toward zero emissions	●	●		Medium	Medium	<All passenger car sales and EV sales ratio> 2020 (Actual): 74.5 million units (4.00%) 2025 (Forecast): 100.5 million units (24.97%) 2030 (Forecast): 110.0 million units (60.90%)	Promote operational efficiency, including expanding the use of digital auction inspection sheets
Business-as-usual scenario	Physical risks	Physical Risks (Acute)	Suspension of business, additional costs to repair equipment, and higher insurance premiums due to damage of the auction house inflicted by typhoons or other natural disasters		●	●	Low	Medium	Approximately ¥200 million loss in revenue if USS Nagoya has to cancel an auction due to power outages or other such damage caused by a typhoon	Regularly revise business continuity plans (BCPs)
		Physical Risks (Chronic)	Costs to rebuild or move the auction house on the coast due to damage caused by flooding and high tides resulting from rising sea levels		●	●	Low	Large	Extra capital investment from ¥5 to over ¥10 billion to move its auction house on the coast due to rising sea levels	Identify the risks of flooding through hazard maps and enhance evacuation training
			Higher average temperature and risk of heatstroke		●	●	High	Small	An increase in costs for facility ventilation and heatstroke prevention measures	Establish data management systems in preparation for disasters

<Risk of Manifestation> Short term: Within 5 years; Medium term: 5 to 10 years; Long term: 10 to more than 30 years
<Financial Impact> Small: ¥100 million or less; Medium: ¥100 to ¥5,000 million; Large: More than ¥5,000 million

Impact Assessments and Response Strategies

1. Impact assessment of carbon tax introduction (Risk)

1-1 Increasing business costs due to carbon taxes and pricing

In order to achieve the goals of the Paris Agreement, Japan has made an international commitment to reduce greenhouse gas emissions by 46% by 2030 and to achieve carbon neutrality by 2050, and in order to achieve these goals, “The Basic Policy for the Realization of GX” has been announced.

In the policy, the introduction of a levy on carbon has been announced, and there is a possibility of expanding the scope of the levy and increasing the level of burden in the future.

1-2 Financial Impact

USS has calculated the potential financial impact of carbon taxes (carbon pricing). The 1.5°C Scenario has a potential

<1> Important parameters (indicators) taking into account the financial impact in 2030 and 2050

	Scenarios	1.5°C Scenario		Business-as-Usual Scenario	
		Year	2030	2050	2030 2050
Without achieving GHG emission reduction targets	Carbon tax (billions of yen)		3.0	5.4	1.9 2.4
When achieving GHG emission reduction targets	Carbon tax (billions of yen)		1.7	3.1	1.1 1.4
Difference	Tax liability (billions of yen)		1.3	2.3	0.8 1.0
Carbon tax and pricing (US\$ per t-CO ₂)			140	250	90 113

(Prerequisites) • The calculation presumes Japan will put in place a carbon tax with carbon pricing equivalent to nations committed to the IEA WEO 2022 NZE net-zero pledge as well as EU STEPS.
• Conversion: Scope 1 & 2 Emissions for the Fiscal Year Ended March 31, 2022 × Carbon Tax Price
Note: Currency converted at US\$1 to ¥130

financial impact of ¥300 million by 2030 and ¥540 million by 2050. The business-as-usual scenario has a potential financial impact of ¥190 million by 2030 and ¥240 million by 2050.

E

1-3 Response Strategy

Promoting Solar Power and Other Renewable Energy On-site

USS will employ several response strategies to address the potential impact of carbon taxes. These initiatives have been put in place to not only achieve our CO₂ emission reduction targets but also promote on-site renewable energies. These efforts will mitigate our future tax burden. We will continue to devise plans with the highest benefit to the entire Group to achieve swift results.

<2> List of Solar Power Generation Facilities Installed

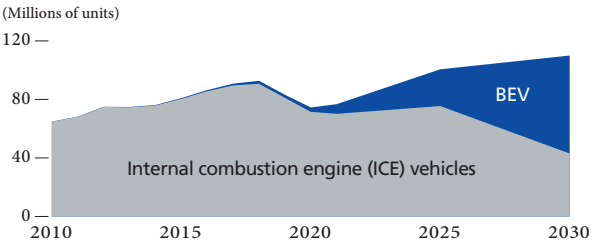
	Auction Site	Operation start
Phase I	R Nagoya	Jan 2023
	Nagoya	Feb 2023
Phase II	Shizuoka	Scheduled to start operations sequentially from July 2023 onward
	JAA	
	Okayama	
Phase III	Tokyo	Decided to introduce
	Yokohama	
	Saitama	
	Kobe	

2. Evaluation of effects of increasing EV sales worldwide (Risk, Opportunity)

2-1 USS forecast for the growth of EV utilization

If the use of car sharing services increases as part of measures to achieve a circular economy, there may be a decline in the number of people who own electric vehicles (EVs). Another possibility is the decision of EV manufacturers to buy and sell these vehicles within their own supply chains. Either one of these events could reduce the number of vehicles consigned at USS auctions. The next graph is the USS forecast for global sales of automobiles in 2030. For the scenario of a global temperature increase of 1.5°C, USS forecasts a much larger number of automobile sales in 2030 than in 2020. If sales rise to this level, the supply chains of EV manufacturers alone will probably not be sufficient to handle the large volume of purchases and sales of used vehicles. Furthermore, the increasing use of battery-powered EVs for progress with decarbonization will probably accelerate demand for trading in vehicles to buy an EV. USS expects that these trends will have a positive effect on its used car auction business.

<3> Number of passenger vehicles in 1.5°C scenario



2-2 Strategic actions for combating climate change

A stronger framework for sales of EVs at auctions

The number of EVs at USS actions is certain to increase. USS is conducting R&D activities for determining EV evaluation standards, establishing an EV inspection system and other purposes. USS is also enlarging sections of auction sites exclusively for EVs and taking other actions to increase the number of these vehicles at auctions. EV activities also include the installation of EV charging facilities.

More use of digital auction consignment forms at auctions

To be prepared to handle a larger number of vehicles sold at auctions as people trade in vehicles to switch to an EV, USS uses an electronic system for entering vehicle consignment data and producing auction consignment forms that replaces the previous hand-written forms. Significantly reducing the amount of time required to enter data improves efficiency. Activities for increasing the percentage of digital vehicle consignments will continue.

Business portfolio expansion for continuing to create schemes for fair business transactions and the recycling of resources

USS has many activities with a long-term perspective involving its business portfolio. The objectives are the growth of the recycling business and addition of business operations related to used car auctions for the creation of one or more new core businesses in addition to auctions. One step is the growth of the industrial equipment plant demolition and removal business of SMART Inc. in order to help establish a society where resources are recycled and reused. There are also activities for starting new businesses. One example is the utilization of big data at USS concerning vehicles sent to auctions and the sale of these vehicles. USS is also considering an automobile loan business that uses financial technologies and other businesses related to used car auctions. There will be many initiatives for launching and expanding new businesses as USS continues to take on the challenge of expanding to more business domains.

Resource recycling

Metal and plastic recycling in the recycling business

ARBIZ uses a highly accurate sorting and reuse system for the metals and plastics recovered from end-of-life

vehicles, industrial waste and other scrap. In the fiscal year ended March 31, 2023, ARBIZ had a waste rate (produced/receivables) of 6.0%, a metal recycling rate (metal shipment/receivables) of 52.4%, and an automotive recycling rate of 100% (see Pp. 29–30 for annual changes in these rates). ARBIZ has consistently maintained its status as an R2 certified electronics recyclers and refurbishers adhering to its guidelines since the fiscal year ended March 31, 2020.

The expansion of recycling businesses within corporate supply chains working to realize a circular economy will contribute even more to the circulation of resources. As a subsidiary of USS, Smart is growing as a business disposing of equipment and industrial plants, which reuses machinery and reclaims metal scarp.

Effective use of dust from automobile shredders

The process for recycling automobiles produces automotive shredder residue (ASR) after reclaiming air bags and other such parts. ASR contains metals, glass, ceramic, synthetic rubber, hard plastics and light dusts, such as foamed plastics and nonwoven textiles, in addition to other material residue.

ARBIZ has succeeded in mixing this dust with iron powder to create a substance that suppresses the formation of slag in blast furnaces. In addition, we have developed a thermo-reactor for a material incorporating aluminum smelting slag for raising the temperature of electric arc furnaces used for steelmaking. This process makes it possible to reuse about 3,800 tons of light dust every year.

Waste processing at business sites

We sort all waste materials produced at USS Group business sites as required by local regulations and other guidelines. USS selects contracts to dispose of waste using a rigorous examination process and checks manifests to ensure all waste materials are properly handled.

Water conservation

The USS Group does not require large volumes of water in its business activities. However, we do recognize the importance of water resources and adhere to strict protocols to conserve water on each business site. Our auto auction sites control wastewater using oil separation and purification tanks in accordance with laws and regulations to reduce any impact wastewater may have on the surrounding environment.

Environmental management

Basic approach and environmental system

As a leading company in the auto auction market, the USS Group contributes to the reuse of vehicles by encouraging circular use of automobiles. USS is putting emphasis on its recycling business, which disassembles, sorts, and reclaims any resources from vehicles and plants for reuse and recycling. Through these efforts, we hope to help build a circular economy.

Our environmental policy actively strives to reduce the environmental burden of our business activities as much as possible. These efforts include saving energy at offices and other business sites. USS Group member ARBIZ, which operates a recycling business for vehicles and other items, has established its own Integrated Policy on the Environment and Occupational Health and Safety. This company has received ISO 14001 certification for its environmental management system, which is operated under the oversight of its Environment and Safety Secretariat. One aspect of this system is maintaining close ties with government agencies in order to comply with the frequent revisions to laws and regulations in Japan concerning recycling.

Five-point environmental policy

1	Conduct environmental management and comply with laws and regulations.
2	Take climate-related action in accordance with the TCFD recommendations.
3	Contribute to resource recycling through automotive recycling and other initiatives.
4	Disclose information about targets for environmental impact reductions.
5	Provide environmental education for all employees and conduct environmental impact reduction programs.

Compliance with environmental laws and other regulations

The USS Group is strongly committed to strict compliance with environmental laws and other regulations. We did not have any violations or legal disputes related to environmental laws, regulations, ordinances, or other guidelines in the year ended March 31, 2023. There were also no serious environmental incidents, complaints, or reports.

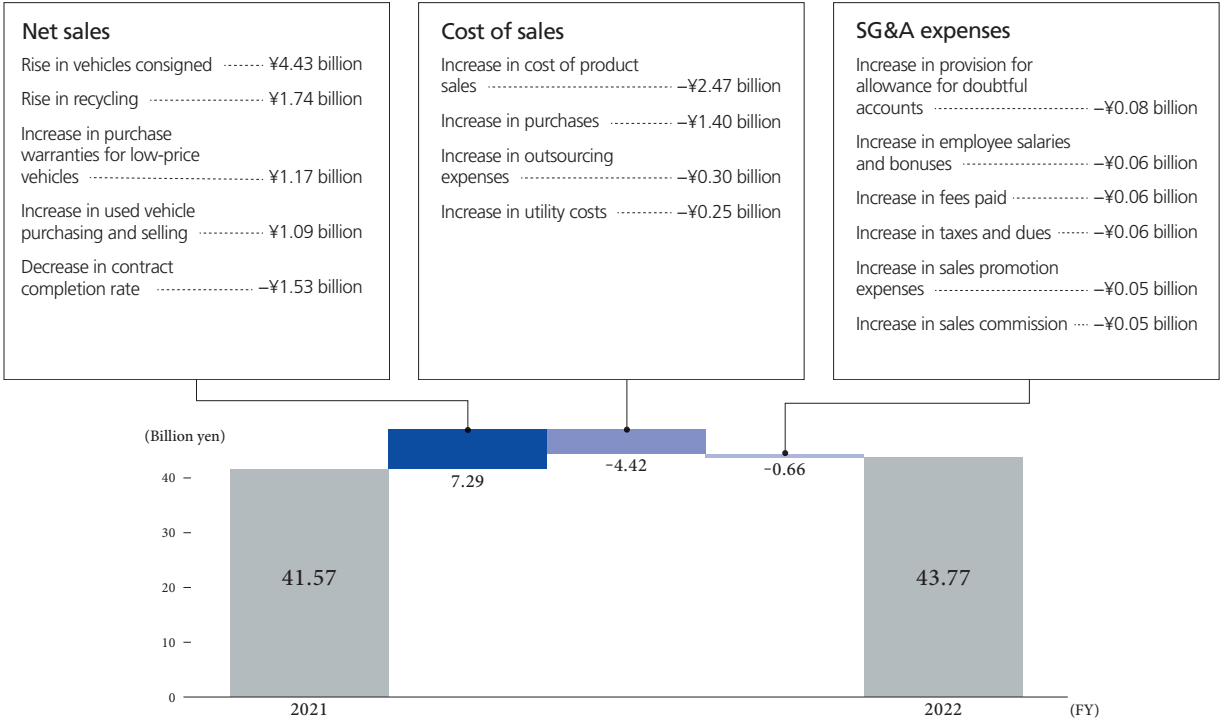
Summary of consolidated results of operations

(Million yen)		
Consolidated balance sheets	2021	2022
Current assets	103,872	116,057
Cash and deposits	79,380	92,692
Receivables due from member dealers at auction, etc.	24,491	23,365
Non-current assets	125,481	126,295
Property, plant and equipment	100,379	100,604
Other	25,102	25,690
Total assets	229,354	242,352
Current liabilities	37,884	39,273
Payables due to member dealers at auction	21,213	22,595
Other	16,670	16,678
Non-current liabilities	8,996	8,925
Total liabilities	46,880	48,198
Total net assets	182,473	194,154
Total liabilities and net assets	229,354	242,352

(Million yen)			
Consolidated statements of cash flows	2021	2022	Changes
Net cash provided by (used in) operating activities	36,630	36,907	277
Net cash provided by (used in) investing activities	-1,339	-9,074	-7,735
Free cash flow	35,290	27,832	-7,457
Net cash provided by (used in) financing activities	-24,680	-17,121	-7,558
Capital expenditures (terms of cash flows)	2,036	4,567	2,531
Depreciation	4,959	4,626	-333

(Million yen)		
Consolidated statements of income	2021	2022
Net sales	81,482	88,778
Cost of sales	30,710	35,135
Gross profit	50,772	53,642
Selling, general and administrative expenses	9,197	9,864
Operating profit	41,574	43,778
Non-operating income	984	915
Non-operating expenses	185	201
Ordinary profit	42,374	44,491
Extraordinary income	1,650	72
Extraordinary losses	149	62
Profit before income taxes	43,874	44,501
Income taxes	13,246	13,784
Profit	30,627	30,717
Profit attributable to non-controlling interests	882	708
Profit attributable to owners of parent	29,745	30,008

Analysis of change in operating profit



(Item)	(Million yen)										
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Consolidated operating results											
Net sales	63,243	67,949	67,466	68,607	67,179	75,153	79,908	78,143	74,874	81,482	88,778
Operating profit	29,304	32,680	33,411	34,491	32,396	36,071	37,123	36,009	36,227	41,574	43,778
Ordinary profit	29,884	33,275	34,027	35,218	32,999	36,676	38,039	36,710	36,996	42,374	44,491
Profit attributable to owners of parent	18,346	19,966	21,661	22,477	22,909	24,285	25,543	20,634	4,022	29,745	30,008
Comprehensive income	18,453	20,204	21,454	22,473	22,895	25,132	25,848	20,764	4,628	31,187	30,458
Consolidated financial position											
Assets	154,543	164,182	174,106	186,831	197,374	222,292	232,703	219,133	210,699	229,354	242,352
Cash and deposits	37,033	46,318	49,862	62,290	74,778	39,622	51,352	50,729	67,770	79,380	92,692
Liabilities	34,866	32,080	30,067	31,647	38,176	50,102	49,168	35,153	37,175	46,880	48,198
Interest-bearing debt	1,148	670	360	255	4,092	3,569	3,112	3,060	3,174	2,828	2,420
Net assets	119,676	132,102	144,039	155,183	159,197	172,190	183,535	183,980	173,524	182,473	194,154
Equity capital	119,112	131,348	143,098	154,155	158,029	170,767	181,698	181,939	171,394	179,880	190,997
Per share data											
EPS (yen)	69.35	77.29	83.79	86.92	90.02	95.59	100.54	82.44	16.13	119.80	122.69
Dividends (yen)	30.75	34.70	37.70	40.80	46.40	47.80	50.40	55.40	55.50	66.20	67.50
Other											
Operating margin (%)	46.3	48.1	49.5	50.3	48.2	48.0	46.5	46.1	48.4	51.0	49.3
ROE (%)	15.3	15.9	15.8	15.1	14.7	14.8	14.5	11.3	2.3	16.9	16.2
ROA (%)	19.3	20.9	20.1	19.5	17.2	17.5	16.7	16.2	17.2	19.3	18.9
Dividend payout ratio (%)	44.3	45.1	45.1	47.0	51.5	50.1	50.1	67.0	344.5	55.0	55.0
Equity ratio (%)	77.1	80.0	82.2	82.5	80.1	76.8	78.1	83.0	81.3	78.4	78.8
Number of shares outstanding (excl. treasury shares) (thousand shares)	258,182	258,421	258,558	258,147	253,977	254,105	253,075	249,532	249,306	245,198	244,585
Treasury shares (thousand shares)	55,067	54,828	54,691	55,102	59,272	59,144	60,174	63,717	63,943	68,051	12,414
On-site auction members (excl. JBA)	45,139	45,712	46,307	46,850	47,111	47,362	48,723	48,182	48,058	48,362	48,490
CIS (Internet) auction members	27,072	28,007	28,815	29,512	29,966	30,337	31,639	31,998	32,538	33,359	33,934
Satellite TV auction members	3,651	3,486	3,291	3,101	2,894	2,623	2,468	2,342	2,197	2,081	1,981
Number of auction sites (excl. JBA)	17	17	17	17	17	19	19	19	19	19	19
Number of employees	1,377	1,348	1,325	1,252	1,220	1,369	1,295	1,260	1,268	1,263	1,282

Note:

* All CIS (Internet) and TV (satellite) members are also on-site members because on-site membership is prerequisite for CIS (Internet) or TV (satellite) membership.

* Number of treasury shares includes the shares owned by the USS employee stock ownership plan trust.

* The data per share, the number of shares outstanding (excl. treasury shares) and the number of treasury shares are retroactively adjusted for the stock split effective October 1, 2013.

* Up to fiscal 2014, net income is presented as profit attributable to owners of parent.

* The Company started using Partial Amendments to Accounting Standard for Tax Effect Accounting (ASBJ Statement No. 28, February 16, 2018), etc. at the beginning of the fiscal year ended March 2019. Assets and liabilities for the fiscal year ended March 2018 are retroactively revised.



USS Co., Ltd.

507-20 Shinpo-machi, Tokai-shi, Aichi Prefecture 476-0005 Japan

<https://www.ussnet.co.jp/en>