



USS

Used car System Solutions

Integrated Report 2021

2020.4.1–2021.3.31



Challenge to Next Stage

The Leader in Japan’s Auto Auction Industry

USS, which stands for Used car System Solutions, has created a fair and transparent used vehicle market as the leader in the Japan’s auto auction industry and remains dedicated to taking on new challenges to build on this leading position.

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.

Integrated Report 2021

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●Editorial Policy

USS is issuing its first integrated report this year. This publication includes information for shareholders, investors and other stakeholders about management policies, business strategies, results of operations and activities for the long-term growth of corporate value. We hope this information provides a basis for more dialogues with all our stakeholders.

The management policy we call Challenge to the Next Stage is the central theme of this report. Based on key issues (materiality) that we have identified, this report is structured to supply both financial and non-financial information about the USS Group. Information in the CEO message and other sections of this report demonstrates our dedication to the long-term creation of corporate value and the establishment of a sustainable society. Furthermore, our goal was to make this report easy to read and understand in order to facilitate more communication with stakeholders and people outside the USS Group. Another important part of this report is a corporate governance section with even more information about this important subject.

The International Integrated Reporting Council (IIRC) disclosure framework was used as reference guidelines for the preparation of this report. More financial and other information about the USS Group can be found on the USS website and the Securities Report.

Period covered by this report
Period: Fiscal 2020 (April 1, 2020 to March 31, 2021)
* Also includes some information about other periods and recent or current activities
Coverage: USS and its consolidated subsidiaries

Guidelines used as reference:
International Integrated Reporting Council
ISO 26000 (Social responsibility)

■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, the weather, and other items. As a result, actual results of operations may differ from the forecasts and outlooks in this report.

Message from the Chief Executive Officer

Dedicated to the growth of the auto auction market that is fair and equitable

Chairman and
Representative Director (CEO)

Yukihiro Ando

USS was established in 1980 by five people who operated used car sales companies. As one of the five founders of USS, I became a director in 1982, an executive director in 1989 and vice president in 1995. In 2006, I was named president and representative director and I was named chairman and representative director in 2019.



01

The establishment of an auction market everyone can use with confidence

In 2022, we will celebrate the 40th anniversary of the start of our used car auctions. USS has constantly been using innovative ideas for progress during these four decades.

Many people have an image of auctions as places where people submit increasingly higher bids to an auctioneer and the highest bid wins. In the 1980s, this format where people raised their hands to submit bids was how auctions were conducted by the Aichi Prefecture Used Car Sales Association, where I was a member. However, this was far from the format required for ensuring fair and equitable transactions. For

example, an unscrupulous auctioneer could ignore certain bidders and arbitrarily name someone else as the winning bidder. Due to the differing strengths of used car companies, there were times when I had to refrain from bidding on a vehicle I wanted at locations where everyone could see who was bidding on each vehicle. Due to this situation, many auction transactions were unfair.

In 1980, I joined four other people who strongly believed that auctions should be fair and equitable to establish USS. The first president was Futoshi Hattori. Since then, USS has made

steady progress as a company that creates fair markets while retaining our commitment to fairness and equity. We decided to build auction sites using computers in order to handle as many vehicles as possible. Preparations required two years. Using computers ensures that auctions are fair, equitable and accurate. In addition, due to the need for a POS-type system to allow us to use a large number of computers, we created our own IT system. In 1982, we finally started operations at USS Nagoya Auto Auction. Once this location was performing well, we

started the new project of creating a more rigorous vehicle inspection system. At that time, there was no clear standard for determining if a car had been damaged in an accident. We established our own inspection process with clearly defined standards and 10 ratings. These inspections quickly earned the strong support of many used car sales companies. Today, the USS inspection process is the standard for the entire auto auction industry in Japan.

02

Fairness and equity for relationships rooted in absolute trust

In Japan, most sellers of used vehicles send their cars to auction sites with the highest volume in each region of the country. After opening the Nagoya auction site, we added locations throughout Japan. Every one established relationships with the leading used car sales companies in its region. As a result, we hold fair and equitable auctions in all areas of Japan that attract large numbers of vehicles.

A high volume of vehicles makes our auctions appealing to many people who are looking for locations that sell large numbers of quality automobiles. More buyers at auctions raise the prices of vehicles sold as well as the percentage of vehicles sold. A further benefit is appeal to people selling cars, who want a sales channel with a high success rate. The result is further growth in the number of vehicles consigned at our auctions. Overall, these nationwide activities focused on fair and equitable auctions produce a virtuous cycle that benefits USS along with buyers and sellers at our auctions. Further differentiating our auction sites from those of competitors are facilities designed for the greatest possible convenience and the use of the

latest technological advances. The success of our activities is clearly demonstrated by the growth in our share of vehicles submitted at



auctions in Japan from about 7% in the early 1990s to approximately 38% in 2020. This market share firmly positions us as the leader in Japan's auto auction sector.

At our 19 auction sites, our team of about 300 inspectors efficiently evaluate, photograph and input data for vehicles that are submitted for the weekly auctions at these locations. At the auctions, as many as about 3,000 people submit bids that result in the sale of a used vehicle about once every 20 seconds. Vehicles sold are shipped to buyers about four days after auction and payments are received before the following week's auction.

We use this weekly business cycle to handle about 3 million vehicles that are submitted at our auctions every year. Members who sell vehicles at

our auctions always have a variety of requests. Our policy is to respond by examining each request in relation to our steadfast policy of holding fair and equitable auctions. At an auction where around 10,000 vehicles are sold, we typically receive approximately 400 complaints. We deal with these issues quickly by using the skills of all our people as we attempt to reach an agreement between sellers and buyers.

Our commitment to fair and equitable auctions and to dealing with all stakeholders with sincerity and honesty has made us a trusted partner for the more than 48,000 companies that are USS members. This reputation for reliability, which requires years to establish, is an invaluable asset of ours that stands behind our powerful brand and our ability to continue to grow.

auction infrastructure, in order to make an even bigger contribution to solving social issues.

The COVID-19 pandemic sparked a big increase in demand for new and used vehicles because of the very strong desire of people to own a vehicle. To build an even stronger foundation for our operations and increase our already dominant market share, we plan to build another auction site in the near future. This will enlarge our auction site network in Japan to 20 locations. Every auction site requires a large volume of space for storing vehicles and allowing buyers to inspect vehicles prior to an auction. Maintaining and updating facilities inside the auction building also require substantial expenditures. We are making these expenditures because preserving our big lead over competitors is essential for increasing our profitability and ability to grow. Investments involving the digital transformation are another major element of our plans. As the pandemic speeds up the use of digital technologies, the USS Group must utilize the latest advances in IT and IT systems in order to operate more efficiently and further upgrade the convenience and value of our services for members.

We remain dedicated to distributing earnings to shareholders even as we make these substantial investments for more growth. In one step to increase these distributions, we revised our dividend policy by increasing the payout ratio guideline from 50% to 55% beginning with the fiscal year that ended in March 2020. We plan to raise the dividend again for the fiscal year ending in March 2022. This will be the 22nd consecutive dividend increase and continues our policy of raising the dividend every year since our stock was first listed.

The USS Group has grown by constantly taking on new challenges in accordance with our mission of creating new directions for innovation and progress. The recent emergence of new competitors has increased the possibility that some companies that sell or buy used vehicles may believe that the services of competitors are superior to ours. We believe that one of our most important duties as the leader in our industry is to ensure strict compliance with basic rules by all

auction participants. This is essential for maintaining the soundness of our auctions. Providing stable, long-term jobs for our employees is also vital to our success and is a major social responsibility of every company. Everyone at the USS Group will continue to take on a broad range of challenges as we seek new pathways for our growth while remaining faithful to our core principles of fairness and equity. I am confident that these activities will enable us to meet the high expectations of all our stakeholders.



03

Taking on more challenges to continue growing while adapting to changes in the business climate

Enormous changes are taking place in the automobile industry that are centered mainly on CASE mobility: connected, autonomous, shared and electric. As the auto auction leader, USS must establish the standard for the next era of our operations as we anticipate how this period of innovation and change will alter our industry.

Automakers worldwide are taking actions aimed at achieving a zero-carbon society in order to combat climate change. These companies are making big investments to develop battery electric vehicles, fuel cell vehicles, hydrogen-powered cars and other next-generation automobiles that emit no CO2 when driven. Due to these activities, all automakers will be rapidly launching a variety of electric vehicles during the next several years. Many people believe that only a small percentage of cars will have gasoline engines about 15 years from now. Most cars, including used cars, will

use electric motors.

Even as the industry shifts to next-generation vehicles, the items that determine the value of preowned cars, such as age, distance driven, exterior dents and scratches, and the condition of the interior, are unlikely to change significantly. The basic performance of the engine, transmission and other parts of the drive train will not decline even though there will be some effects of age as these components are used. To perform inspections of electric vehicles as quickly and thoroughly as for gasoline-powered vehicles, we will need to revise and upgrade our manuals and equipment.

Our auto auctions play an important role in lowering the environmental impact of automobiles from the standpoint of the three R's of reuse, reduce and recycle. We are determined to continue enhancing this business model, including the functions of our core used vehicle

History

1980

Established by five people as the pioneer in Japan’s used car auction market. Only 255 vehicles consigned.

- October 1980 Established Aichi Automobile General Services Co., Ltd., the predecessor of USS Co., Ltd., and used USS as the brand name.
- August 1982 Opened the Nagoya auction site in the city of Tokai in Aichi prefecture. Held the first used car auction, where 255 vehicles were consigned.



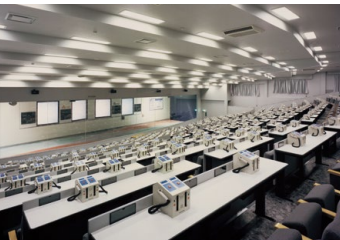
The first used car auction

- October 1982 Started using a POS system for auctions.
- May 1987 Began two-lane auctions at the Nagoya auction site. Membership increased to 1,500 companies and the number of POS seats to 488.

1990

Starting to build a nationwide network

- January 1990 Opened the Kyushu auction site in Tosu in Saga prefecture.



The newly opened Kyushu auction site

- May 1994 Opened the Tokyo auction site in Noda in Chiba prefecture.
- March 1995 The company was renamed USS Co., Ltd.
- July 1995 Started satellite TV auctions.
- April 1996 Moved the Nagoya auction site to another location in Tokai.
- July 1996 Opened the Okayama auction site in Akaiwa, Okayama Prefecture.
- November 1996 Opened the Shizuoka auction site in Fukuroi in Shizuoka prefecture.
- March 1998 Opened the Sapporo auction site in Ebetsu in Hokkaido.



The newly opened Sapporo auction site

- November 1998 Opened the West Tokyo auction site in Mizuho-cho, Nishitama, Tokyo.
- September 1999 USS stock was listed on the second section of the Nagoya Stock Exchange.
- October 1999 Opened the Gunma auction site in Fujioka in Gunma prefecture.
- November 1999 Established USS CarbankNet Co., Ltd.

2000

Actions as Japan’s leading used vehicle auction company

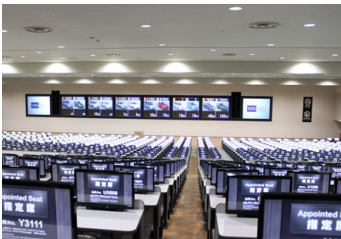
- April 2000 Acquired Sarl Auto Auction Tohoku Co., Ltd. (currently the Tohoku auction site).
- December 2000 USS stock was listed on the first sections of the Tokyo Stock Exchange and Nagoya Stock Exchange.



Celebrating the first section listing in Tokyo Stock Exchange of USS stock

- January 2001 Relocated the Tohoku auction site to Shibata County, Miyagi Prefecture.
- October 2001 USS CarbankNet Co., Ltd. merged with Rabbit Japan Co., Ltd. (currently Rabbit Car Network Co., Ltd.)
- November 2001 Opened the Osaka auction site in Nishiyodogawa in Osaka.
- October 2002 Acquired World Communications Co., Ltd. (currently Reproworld Co., Ltd.).
- March 2003 Opened the Fukuoka auction site in Chikushino in Fukuoka prefecture.
- December 2003 Established Arbiz Co., Ltd.
- February 2004 Opened the Yokohama auction site in Yokohama in Kanagawa prefecture.
- June 2004 Opened the USS-R Nagoya auction site in Nagoya in Aichi prefecture.
- October 2004 Relocated the Tokyo auction site to the Kimagase area of Noda in Chiba prefecture.
- September 2005 Opened the Kobe auction site in Kobe in Hyogo prefecture.
- March 2006 Rebuilt the Osaka auction site. Established USS Support Service Co., Ltd.
- March 2007 Acquired KUA HOKURIKU Co., Ltd. (currently the Hokuriku auction site).
- April 2007 Opened the Niigata auction site in Mitsuke in Niigata prefecture.

- January 2008 The Tokyo auction site started the first 10-lane auction system in the auto auction industry.
- March 2009 Relocated the West Tokyo auction site to Iruma in Saitama prefecture and renamed it the Saitama auction site.
- September 2010 Opened the Shikoku auction site in Matsuyama in Ehime prefecture.
- November 2011 Started motorcycle auctions at the Kobe auction site (managed by Japan Bike Auction Co., Ltd.)
- May 2012 Started motorcycle auctions at the Yokohama auction site (managed by Japan Bike Auction Co., Ltd.)
- August 2013 Rebuilt the Nagoya auction site.
- August 2014 Relocated the Okayama auction site to the Nagao area of Akaiwa in Okayama prefecture.
- July 2016 Relocated the USS-R Nagoya auction site to Tokai in Aichi prefecture.
- February 2017 The Tokyo auction site started the first 12-lane auction system in the industry.



The Tokyo auction site

- August 2017 Acquired 66.04% of Japan Auto auction Inc. (JAA) stock and made this company a subsidiary.
- March 2018 Japan Auto auction Inc. became a wholly owned subsidiary.



Profile of USS



Used car
System Solutions

Name	USS Co., Ltd.	(As of March 31, 2021)
Head Office	507-20 Shinpo-machi, Tokai-shi, Aichi Prefecture 476-0005 Japan	
Representatives	Chairman and Representative Director, Chief Executive Officer : Yukihiro Ando President and Representative Director, Chief Operating Officer : Dai Seta	
Capital	18,881 million yen	
Established	October 29, 1980	
Number of Employees	Full-time employees: 624; part-time employees: 98 (Group basis) full-time employees: 1,109; part-time employees: 159 <small>* The number of part-time workers is the average during the fiscal year (based on a work day of seven hours and 30 minutes).</small>	

Business Domains

USS uses its used core auto auction business to invigorate the entire used vehicle distribution market.



Auto Auctions

●19 auction sites in all areas of Japan ●Internet auctions (CIS Information service)
●Satellite TV auctions (USS Japan)

More cars attract more people, and more people in turn attract even more cars. This is the positive cycle that has fueled the growth of USS auto auctions since the opening of the Nagoya auction site in 1982. Every USS auction site has steadily increased the number of members to become the leader in its respective area. USS now operates 19 facilities in Japan for on-sites auctions as well as participation in these auctions by using satellite TV and the internet. Today, USS ranks first in Japan’s auto auction industry in terms of the number of auction sites, members and vehicles auctioned. The core auction business of the USS Group plays a key role in providing an efficient market for buyers and sellers of used vehicles.

19 locations throughout Japan

Hokkaido/Tohoku

1 USS SAPPORO
2 USS TOHOKU

Kanto/Koshin

3 USS GUNMA
4 USS TOKYO
5 JAA
6 USS SAITAMA
7 USS YOKOHAMA
8 USS NIIGATA

Chubu

9 USS SHIZUOKA
10 USS HOKURIKU
11 USS NAGOYA
12 USS-R NAGOYA

Kansai

13 USS OSAKA
14 USS KOBE
15 HAA KOBE

Chugoku/Shikoku

16 USS OKAYAMA
17 USS SHIKOKU

Kyushu/Okinawa

18 USS FUKUOKA
19 USS KYUSHU

Used Vehicle Purchasing and Selling

Rabbit Car Network Co., Ltd. ●Used vehicle purchasing
Reproworld Co., Ltd. ●Purchase and sale of accident-damaged vehicles

The network of Rabbit used vehicle purchasing stores are a major source of the quality vehicles required for the auto auction business. Vehicles purchased directly from owners throughout Japan are sent to USS auction sites where they help attract large numbers of buyers. This contributes to growth of the number of vehicles at auctions and the number of vehicles sold. Rabbit stores analyze current information from auctions to buy vehicles at the highest possible prices, thereby supplying many quality vehicles for auctions and raising the USS Group’s share of Japan’s auto auction market.

Recycling

ARBIZ Co., Ltd. ●Recycling of end-of-life vehicles and other items
SMART Inc. ●Disposal of equipment and industrial plants

ARBIZ, which was established in 2003, provides disassembly and recycling services for automobiles, office equipment, electric products and many other products. Activities also include developing technologies for these services. In 2019, USS launched SMART as a company that performs demolition and disposal services for equipment and industrial plants. Operations extend from the removal of equipment and industrial plants to the resale and recycling of machinery and equipment. In Japan, there is a shortage of landfill capacity due to the increasing volume and variety of waste materials. ARBIZ can handle even composite metal and plastic materials that are difficult to recycle. Facilitating the reuse of machinery and other equipment contributes to creating a society that recycles resources by reducing the volume of waste materials.

Message from the Chief Operating Officer

Advancing to a new stage of growth by using the enterprising spirit that has driven our progress since our inception

President and
Representative Director (COO)

Dai Seta

I was the manager of a used car sales company for many years and became a director of USS in June 2004. I was named a representative director and vice president in June 2006, an executive position that included the supervision of auto auction operations as general manager. I also started the USS finance business and served as the president of ARBIZ, a subsidiary that recycles a variety of materials. In June 2019 I was named the president and COO of USS. Two major responsibilities were using the digital transformation (DX) to strengthen our auto auction business and creating a circular economy for automobiles through the growth of our recycling business.

01

Demand for automobiles remained firm even during the pandemic

Sales of new and used cars in Japan fell sharply early in the fiscal year that ended in March 2021 because of The COVID-19 pandemic. However, this drop was followed by a rapid recovery, resulting in a large number of vehicles consigned and sold at USS Group auctions. I believe this demonstrates the recognition of the value of automobiles as a means of transportation with safe distancing during the pandemic. The USS Group sold a large number of mini cars in order to meet the demand for car ownership at a relatively low cost. Furthermore, there was an increase in auction purchases by members using our satellite TV and internet bidding systems because of the pandemic.

In the past fiscal year, we posted an extraordinary loss for writing down goodwill and for other expenses involving the auction sites of JAA (in Tokyo) and HAA Kobe (in Hyogo). We acquired these companies in August 2017 but were subsequently unable to achieve synergies and other expected benefits and the outlook remains challenging. As a result, due to the recovery of the used car market, our sales, operating profit and

ordinary profit in the past fiscal year were about the same as in the previous fiscal year. But profit attributable to owners of parent were much lower because of the extraordinary loss.



02

Using the DX for innovations to advance to a new stage of progress

The pandemic has further increased the speed of the shift to digital technologies. At USS as well, we have stepped up the pace of our DX activities. Conducting auctions that are fair and equitable requires the use of a fair and equitable system for determining the value of vehicles to be auctioned. USS has established its own 10-step valuation standards. We thoroughly inspect every vehicle to establish a value that is not based solely on a car's age, model, engine size and other conventional parameters. In the fiscal year that ended in March 2021, we enhanced this inspection system by adding an underbody imaging system for checking underneath a vehicle, including the tires and wheels. We also started using on-board diagnostic system scanners in our inspections, a first in Japan's auto auction industry. These measures further improve our ability to locate defects and other problems, especially items that cannot be found visually. Currently, we are working on

replacing paper data sheets for vehicles to be auctioned with a digital format. Shifting to this technology will increase convenience for our members and make our auctions more efficient.

I am convinced that the most significant innovations and benefits that will come from the DX are still ahead of us. For example, we hope to automatically detect vehicle issues by using artificial intelligence for the analysis of inspection images. This would further raise the speed and fairness of our inspections. Another opportunity involves the huge volume of data on the condition of pre-owned vehicles. USS has more of this information than any other company does. Utilizing this information as big data may enable us to provide services in sectors other than used vehicles. For instance, we could supply valuable information on vehicle use and aging to automakers, automotive parts manufacturers, insurers and companies in many other industries.

03

A circular economy for solving social and environmental problems

Today, perceptions of companies are shaped not only by sales, earnings and other financial data but also by activities concerning the environment and other important issues, especially involving ESG and the Sustainable Development Goals. Furthermore, these activities have a significant effect on our corporate value.

For many years, we have used our auto auction business to create social and economic value through the establishment of a framework for the reuse and recycling of vehicles. Our subsidiary ARBIZ operates one of the largest recycling facilities in Japan. This company processes end-of-life vehicles in compliance with vehicle recycling laws and regulations. An integrated disassembly and recovery processing line performs all processes for the reuse of parts and recycling of other materials. Every year, ARBIZ accurately sorts and reuses materials obtained from about 15,000 vehicles. This includes iron, aluminum, copper, rare earths and other metals, plastics and other materials. By weight, 97% of

vehicles processed by ARBIZ are recycled.

The USS Group plays an important role in the mobility life cycle by using auctions for the reuse of automobiles and a recycling business for end-of-life vehicles. I believe that we can continue to create even more value and new forms of value as a highly distinctive corporate group dedicated to helping establish a circular economy.

Enormous changes are occurring in our business climate. The automobile industry is in the midst of a fundamental shift centered on CASE. Digitalization is rapidly altering all aspects of business activities as companies deal the pandemic. There are also urgent global issues such as climate change. Since USS started operating, the desire to constantly take on new challenges has been the driving force behind the creation of value. I look forward to more innovations and progress, including acquisitions and overseas operations from a longer-term perspective, as the USS Group continues to leverage its enterprising spirit.

The USS Value Creation Model

Resources that support the creation of value

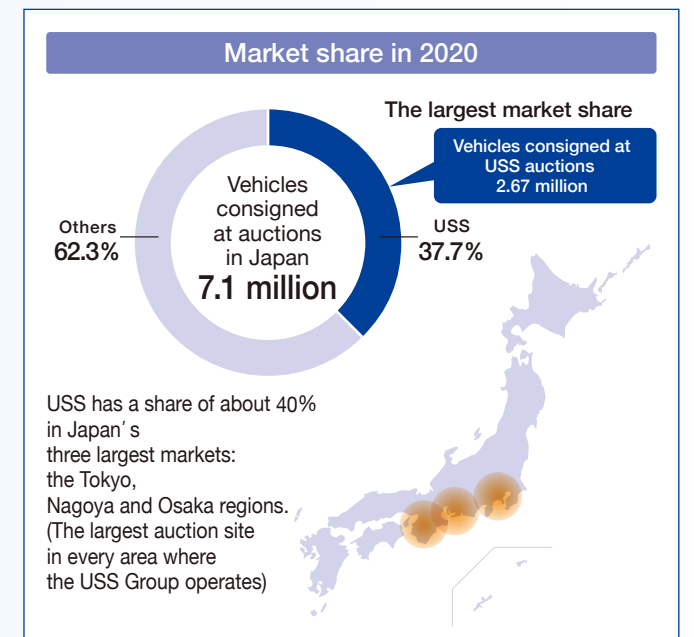
(As of March 31, 2021)

Financial resources	Business resources	Information resources
Share capital ¥18.8 billion	A sound reputation for trust among members Large number of on-site auction members 48,058	Digital expertise <ul style="list-style-type: none">● Matching that uses an enormous volume of data● A powerful security system● New car inspection technology using the DX
Total assets ¥210.6 billion	CIS (Internet) auction members 32,538	
Equity ratio 81.3%	Satellite TV auction members 2,197	Environmental resources <ul style="list-style-type: none">● Materials used in automobiles and energy used for USS facilities and logistics● Vehicles, materials and other items that are recycled
Human resources	Auction sites 19 locations throughout Japan	
Automobile professionals Employees (Male/Female) Male: 457 Female: 167	Used car purchasing stores 143 locations (15 directly operated, 128 franchised)	
Vehicle inspectors 296		

Creation of shared value

Creation of economic value
Sales ¥74.8 billion
Operating profit ¥36.2 billion
Return on equity 2.3%
Creation of social value
<ul style="list-style-type: none"> ● Better access to mobility and higher utilization value ● Contribution to economic activity by helping determine fair prices ● Reuse and recycling operations helps create a society where products and resources are recycled ● Activities to upgrade the skills of employees ● Contributions to the economies of emerging countries

Competitive position in the auto auction market

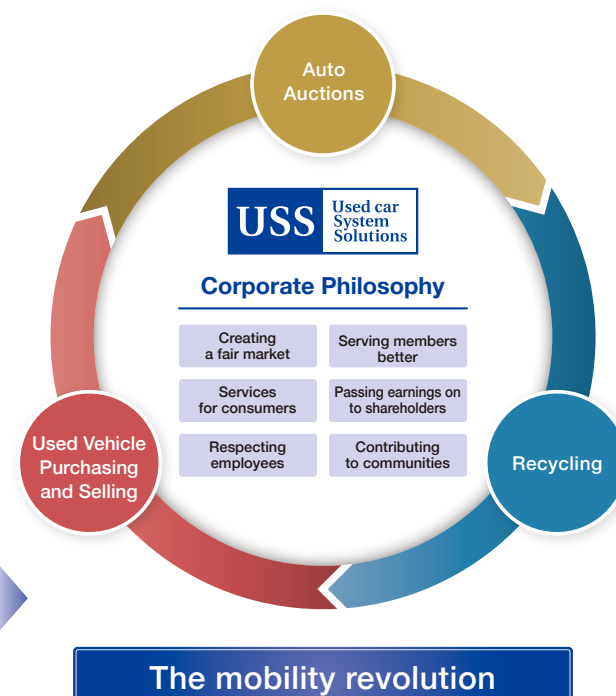


The USS Business Model and Its Strengths

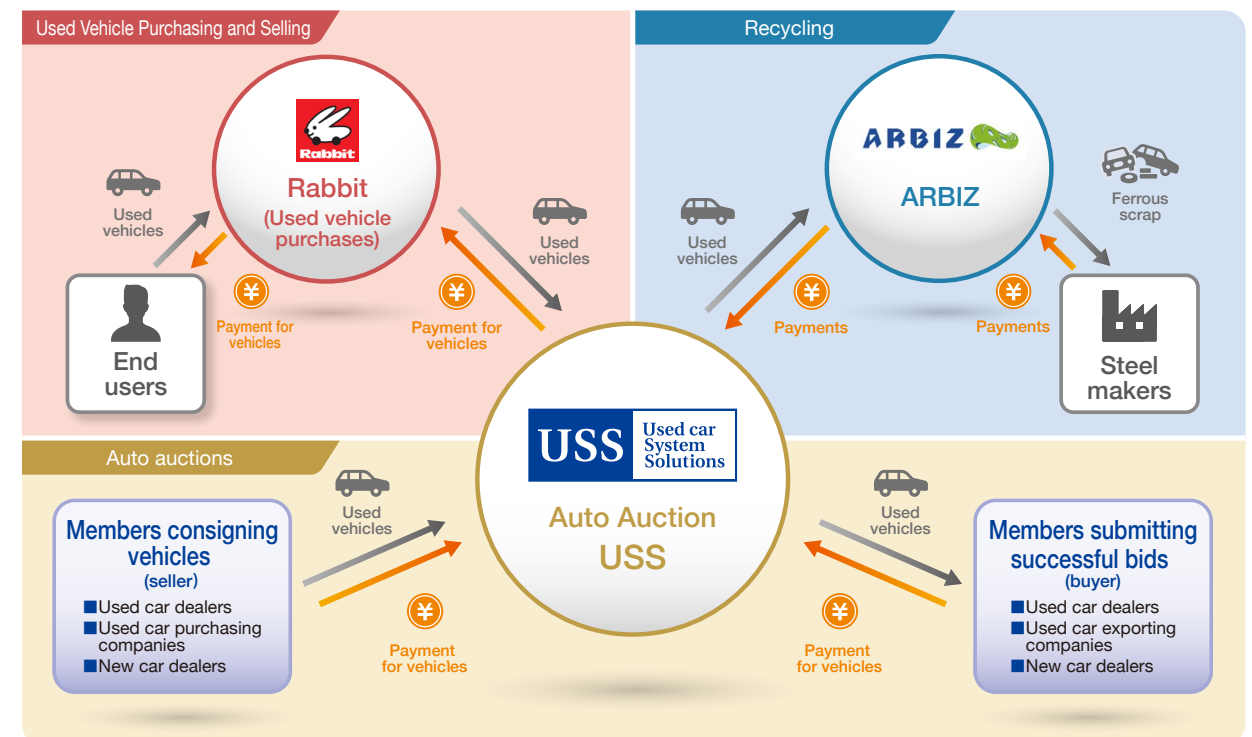
In Japan, more than 7 million used cars are bought and sold every year, resulting in a business volume of ¥2.5 trillion. USS is the largest auto auction company in Japan with a share of about 38% of all vehicles consigned at auctions. We have earned the trust of a large number of members by building an auction system that is innovative, fair and reliable. Our powerful and trusted brand is a major reason that our auctions handle the largest number of used vehicles in Japan. We operate 19 auction sites throughout Japan, including the locations in Tokyo and Nagoya that have the highest volume. The enormous volume of vehicles consigned at our auctions attracts large numbers of members and other auction participants. As a result, the percentage of vehicles at our auctions that are sold and the price paid per vehicle are both high. Maintaining a large volume of vehicles also has the benefit of creating a favorable cycle that more easily attracts high-quality cars. For added convenience, we developed satellite TV and internet systems that allow people to submit off-site bids from anywhere in Japan. Furthermore, we have a sound profit structure underpinned by consistent revenue from monthly fees from members and substantial income from auction fees when members purchase vehicles.

The Strengths of USS

Foundation	Activities
The operation of fair and equitable business activities for many years	The largest auto auction company in Japan 19 auction sites serving all areas of Japan
A sound reputation for reliability A powerful and highly respected brand	High-volume auction sites in the Tokyo and Nagoya and other locations
The market leader by a wide margin	Off-site bidding system using satellite TV and the internet



[Business Model]



Materiality



Based on the corporate goal we call “Challenge to the Next Stage,” we are aiming to achieve steady growth as the leader in Japan’s market for buying and selling used cars. A recycling and reuse ecosystem is the foundation for all our operations. We will continue to use this ecosystem for sustained growth as we create both economic and social value.

(Activities)

1	Ensure the fairness and reliability of auto auctions	 	<p>① Properly manage data about vehicles submitted to auctions.....P31</p> <p>② Prevent improper vehicle auction transactions.....P32</p> <p>③ Design auto auction sites that are easy to use.....P32</p>
2	Benefit from advanced technologies and increase our market share in Japan (Responses to the decline in demand in Japan)	 	<p>① Benefit from advanced technologies (self-driving vehicles, electric vehicles, fuel cell vehicles).....P5, 6</p> <p>② Provide more digital services.....P12, 18</p> <p>③ Increase the convenience of auto auction sites.....P32</p>
3	Advancement and utilization of human resources	 	<p>① Respect the human rights and diversity of the USS Group's workforce.....P33</p> <p>② Ensure that employees are properly evaluated and compensated.....P33</p> <p>③ Upgrade and expand education and other training programs.....P34</p> <p>④ A strong commitment to workplace health and safety.....P34</p>
4	Proper information management	 	<p>① Proper management of the information of auction members.....P32</p>
5	Corporate governance	 	<p>① Prevention of illegal and other improper activities.....P26</p> <p>② Risk management (business continuity planning).....P26</p>
6	Environmental protection	 	<p>① Activities to combat climate change.....P37</p> <p>② Reduce GHG emissions, such as by transporting vehicles more efficiently and reducing energy consumption by operating auctions more efficiently...P37,38</p> <p>③ Use resources effectively and properly manage waste materials.....P38</p>

Segment Information



Strategies – Auto Auctions

As the leader in Japan’s auto auction market, we are constantly seeking ways to revitalize the market.

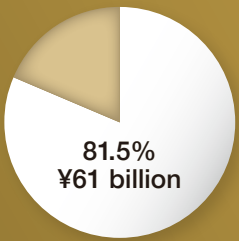
We are also dedicated to providing auction members with reliable services by building an even better environment for attracting and selling more quality vehicles.

USS Co., Ltd.
Senior Managing Director
Officer of the Auction
Operation Office
Masayuki Akase



Sales Composition

[Overview]



2020 (CY)	Vehicles consigned	Vehicles sold	Pct. of consigned vehicles sold
USS (Market share)	Vehicles consigned 2.67 million (37.7%)	Vehicles sold 1.65 million (36.3%)	61.9%
Auto auction market	7.10 million	4.56 million	64.2%

* Auto auction market figures are based on research of USED CAR Co., Ltd.,

SWOT Analysis

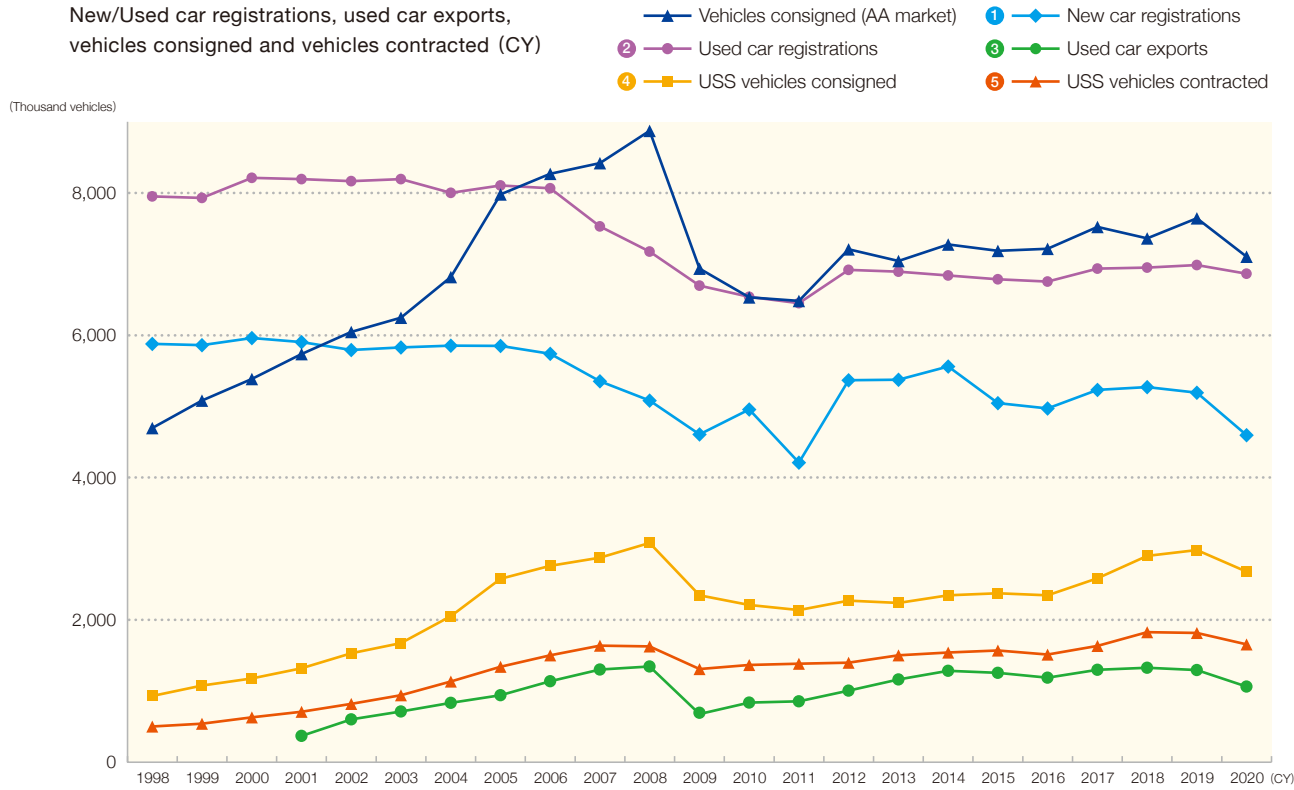
Strength	<ul style="list-style-type: none">● The largest number of members and vehicles in Japan’s auto auction industry● Highly advanced vehicle inspection technologies● Strict standards for fair and equitable transactions● High prices of vehicles sold at auctions due to the sale of quality automobiles● The industry leader using the digital transformation	Weakness	<ul style="list-style-type: none">● Decrease in vehicles auctioned because of the increasing diversity of channels for selling used cars● Weaknesses of vehicle procurement activities of the USS Group
Opportunity	<ul style="list-style-type: none">● The pandemic increased the demand to own cars● Growth in demand to replace older electric vehicles with new models	Threat	<ul style="list-style-type: none">● Major shifts in the automobile industry due to connected cars, car sharing and other new trends● Decreasing number of new cars sold in Japan● 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

Strategies

- Be the leader in the market in Japan for replacing gasoline-powered vehicles with battery electric vehicles while continuing measures to ensure fair and equitable transactions
- More progress with the digital transformation
 - Increase the efficiency of business operations
 - Quickly provide accurate information to increase opportunities to sell vehicles at auctions
 - Continue activities to upgrade inspection technologies and precision

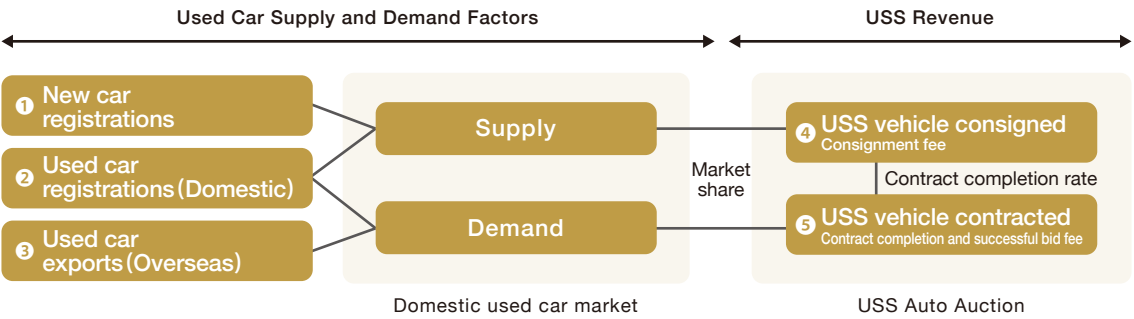
New/Used Car Registrations and Auto Auction Market

- The auction market continued to expand till 2000 as the share of used vehicles sold through the auction market increased as a share of the total used vehicle market. Starting in the mid-2000s, older vehicles and vehicles with high mileage which would normally have been scrapped started flowing into auto auction sites and steadily drove up the number of vehicles consigned.
- After the financial crisis of late 2008 the auto auction market was largely correlated to new car registrations (supply) and exports (demand).



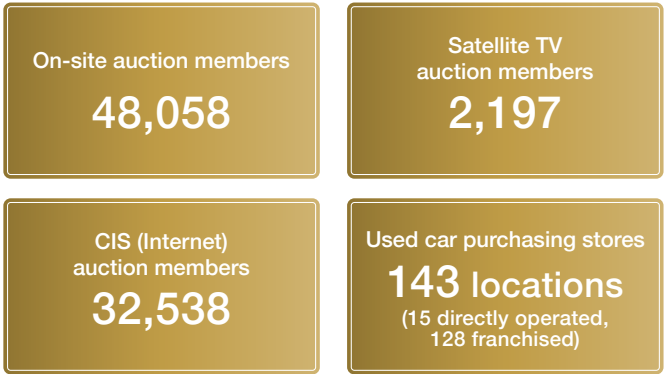
Automobile Market and USS Revenue

- The number of vehicles consigned is correlated through trade-ins to ① New car registrations and ② Used car registrations
- Total demand comprises domestic demand ② and overseas demand ③.
- In recent years, total demand has been driven mainly by overseas demand.
- In addition to the above, share of the used car auction market and contract ratio have an important bearing on USS auto auction profits.

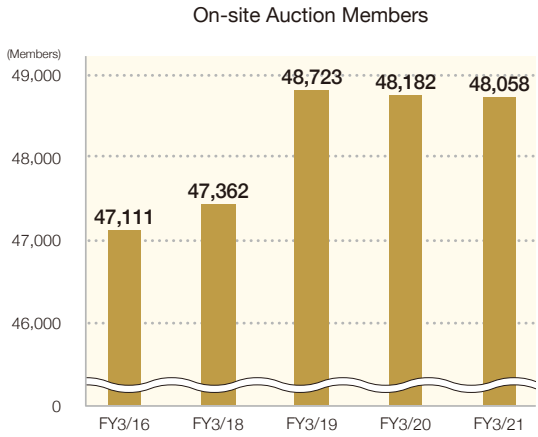


USS Competitive Advantage ①

[Overwhelming number of members]



* The number of members is on a group-wide basis.
* Satellite TV and internet members are required to be on-site auction members.



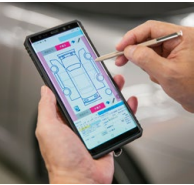
Includes HAA Kobe members added since the first quarter of FY3/19 and JAA members added since the second quarter of FY3/19.

USS Competitive Advantage ②

[DX (Digital transformation)]

TOPICS 1 Started trial use of digital vehicle auction data forms at the Nagoya auction site

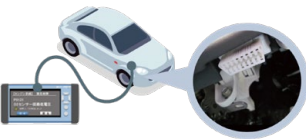
USS has started using digital auction data forms on a trial basis at the Nagoya auction site. Information obtained from this trial use is expected to result in the use of these forms at other auction sites beginning in the fiscal year ending in March 2022. In addition, USS has developed an app exclusively for these digital forms. Using this system will allow inputting all information needed for auction data forms by using a tablet or other device. This format will be easier to use for members and make auctions more efficient. We plan to explore even more ways to use this technology.



A tablet the size of a smartphone

TOPICS 2 The first on-board diagnostics tablet in Japan's auto auction industry

As one more way to verify the safety of vehicles at auctions, USS started using an on-board diagnostics system at the Nagoya auction site in March 2019. Automobiles that pass an inspection using this system are submitted at auctions by using a section exclusively for these vehicles. Inspecting vehicles with this system to verify safety is expected to increase the percentage of vehicles sold at auctions as well as the number of vehicles consigned at USS Group auctions. Currently, seven auction sites perform on-board diagnostics inspections. The plan is to expand these inspections to all auction sites while including the inspection items that will be added every year starting in October 2021 by the Ministry of Land, Infrastructure, Tourism and Transport.



Inspection of an automobile using the USS on-board diagnostics system

TOPICS 3 The first use in Japan of the vehicle inspection system of UVeye of Israel

In April 2020, the Nagoya auction site started using on a trial basis the underbody imaging system, including the tires and wheels, developed by UVeye Ltd. of Israel and Toyotsu Automotive Creation Corp. We plan to expand the use of this system to other auction sites., this system uses a specialized unit to look for dents and other imperfections under a vehicle that are not easily visible. To make inspections even more efficient, we have R&D programs for the use of AI to analyze images and for other innovations.

[The side of an automobile]



An image of the side of a vehicle

[Underneath an automobile]



An image of the underbody of a vehicle



Strategy – Used Vehicle Purchasing and Selling

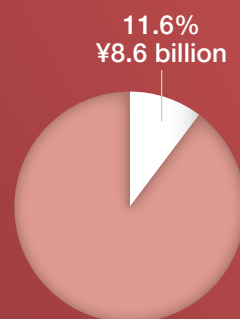
Buying cars at competitive prices to supply quality vehicles for auctions is an integral component of the USS business model

USS purchases vehicles directly from end users in order to maintain a steady supply of quality automobiles for the auction business. By offering attractive prices for vehicles, the purchasing business meets the expectations of customers and maximizes the number of vehicles acquired.

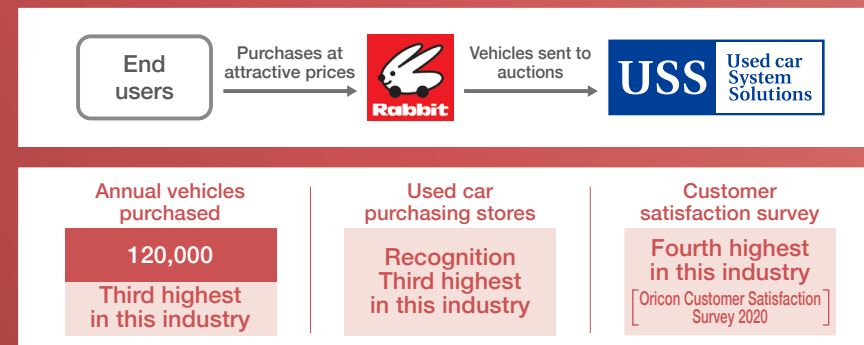
USS Co., Ltd.
Executive Officer
Rabbit
Car Network Co., Ltd.
President and
Representative Director,
Hiroshi Kojima



Sales Composition



[Overview]



SWOT Analysis

Strength	<ul style="list-style-type: none"> ● A business model closely linked to USS auctions ● An outstanding vehicle appraisal system using an exclusive USS methodology incorporating the massive volume of data at the USS Group ● A widely recognized brand in the used car purchasing market ● Consistently high customer satisfaction 	Weakness	<ul style="list-style-type: none"> ● Digital transformation delays for increasing efficiency, web marketing and other activities
	<ul style="list-style-type: none"> ● A stable auction market due to steady demand for exports of used vehicles from Japan ● 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 		<ul style="list-style-type: none"> ● New car sales are decreasing as people choose leases, subscriptions, sharing and other ways to use a vehicle. ● The result is a longer cycle for the replacement of automobiles.

Strategies

[Ensure a consistent supply of quality vehicles for auctions]

- Increase opportunities to contact end users by opening more stores
- Recruit and train people to upgrade vehicle appraisal skills; pass on know-how to younger employees
- Create stores that people select over others as competition becomes even more intense (Effective PR activities to raise awareness/Employee training to strengthen store services/ More franchised stores to increase procurement channels)



Strategies – Recycling

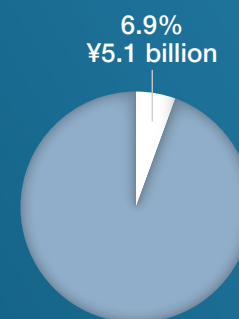
Use original technologies to contribute to society as the increasing speed of carbon-neutrality measures alters the business climate

The USS Group's recycling activities are conducted mainly by ARBIZ, which recycles industrial waste, and SMART, which provides disposal services for equipment and industrial plants. Environmentally responsible business activities are essential for achieving sustained growth. The recycling businesses of the USS Group play a role in solving social issues by properly processing end-of-life vehicles to enable the reuse of many types of materials and resources.

ARBIZ Co., Ltd.
Director and
Operating Officer
SMART Co., Ltd.
President and
Representative Director,
Takuya Sano



Sales Composition



[Overview]

Patented Technologies	<ul style="list-style-type: none"> ① ARBIZ has received a patent for a technology that allows combining light dust from vehicle shredding, which is difficult to reuse, with iron dust to create a material that can be reused. This material is used at blast furnace steel mills to prevent the scattering of molten iron particles. This technology reduces the volume of waste materials and allows materials to be reused as a resource. ② A joint academic-business sector venture created a patented technology for recycling bismuth telluride alloys and other materials in thermoelectric conversion devices.
Innovative Technologies No Company Can Match	<p>Only ARBIZ is capable of making an energy-conserving material fabricated by mixing thermoset resins that cannot be used with aluminum slag and using a hardening process. This material is used by electric arc furnace steelmakers to raise the furnace temperature and obtain the desired composition of slag. Less electricity is needed to melt steel for recycling.</p>

SWOT Analysis

Strength	<p>〈ARBIZ〉</p> <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 <p>〈SMART〉</p> <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 	Weakness	<p>〈ARBIZ〉</p> <ul style="list-style-type: none"> ● Difficulty of retaining people and passing on know-how to younger people because of Japan's labor shortage <p>〈SMART〉</p> <ul style="list-style-type: none"> ● Inadequate number of employees as the volume of business operations increases
	<p>〈ARBIZ〉</p> <ul style="list-style-type: none"> ● Started a recycling business for manufacturers ● Reuse of waste plastics <p>〈SMART〉</p> <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 <p>〈ARTIZ/SMART〉</p> <ul style="list-style-type: none"> ● Reexamining the recycling business to contribute to achieving carbon neutrality 		<p>〈ARBIZ〉</p> <ul style="list-style-type: none"> ● Difficult to differentiate services in a highly competitive market ● Not a significant presence in Japan's recycling industry <p>〈SMART〉</p> <ul style="list-style-type: none"> ● Emergence of other companies with similar business models

Strategies

■ Help solve social issues as part of the USS Group's business operations

- Use joint activities with manufacturers starting recycling operations to target opportunities for utilizing exclusive technologies.
- Establish a model for recycling.

(Reference) ARBIZ received a contract from the New Energy and Industrial Technology Development Organization (NEDO) to build a system in Thailand for recycling used electronic devices and products. NEDO plans to use this accomplishment to work with ARBIZ for establishing a recycling model for resources in other Asian countries.

FY 2020 Business Segment Performance

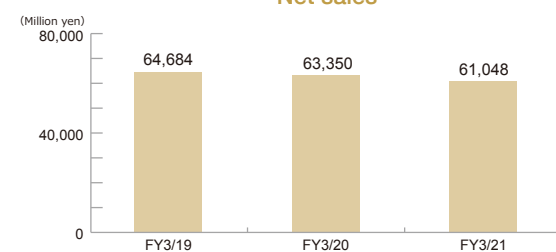
Auto Auction

- Vehicles consigned decreased 9.0% to 2,661 thousand; contract completions decreased 5.2% to 1,680 thousand (contract completion rate: 63.2% compared with 60.6% in the previous fiscal year)
- Although auction fees decreased because of the smaller number of vehicles consigned and contracted, operating profit increased because of decreases in guarantees involving purchases of low-priced vehicles and in personnel expenses.

Auto Auction Segment Performance

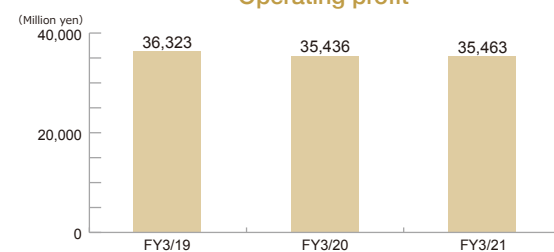
	FY3/19	FY3/20	FY3/21	YoY
Net sales	64,684	63,350	61,048	-3.6%
Consignment fees	15,269	15,047	14,151	-6.0%
Contract completion fees	14,898	14,499	14,088	-2.8%
Successful bid fees	22,313	21,758	21,573	-0.8%
Other	12,203	12,044	11,234	-6.7%
Operating profit	36,323	35,436	35,463	+0.1%
Operating margin	55.8%	55.6%	57.7%	-

Net sales

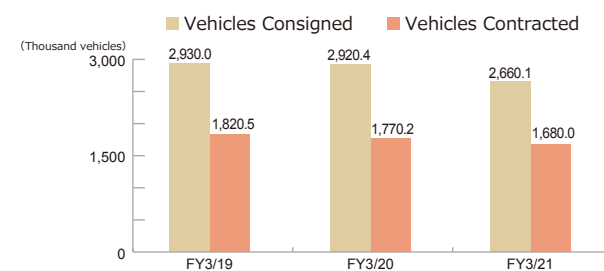


* Net sales are sales to external customers and operating profit is based on business segment earnings. Operating margins are calculated by dividing segment profit by segment sales.

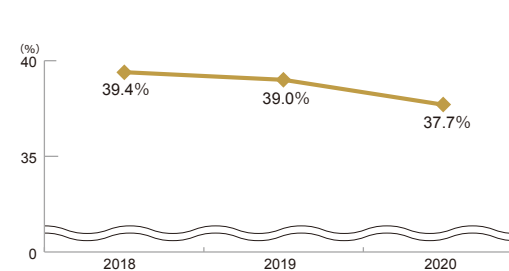
Operating profit



No. of Vehicles Consigned and Vehicles Contracted

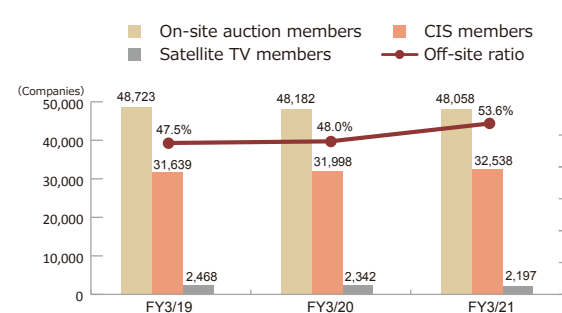


Market Share of Vehicles Consigned (CY)



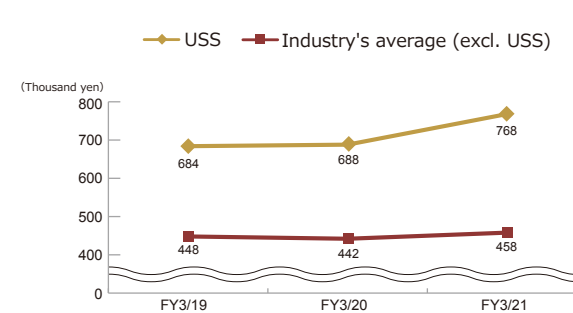
* The figures do not include JBA data.

No. of Members and Off-site Ratio(Members)



*The method used for calculating the off-site ratio was revised in April 2019.

Average Price of Vehicle Contracted



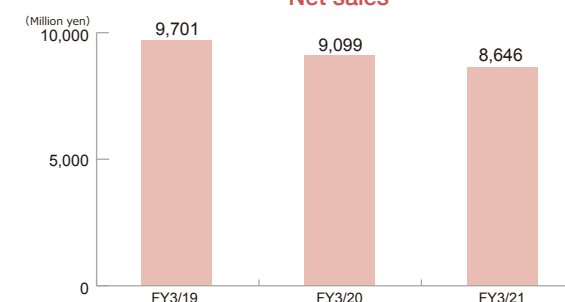
Used Vehicle Purchasing and Selling Segment

- At Rabbit, which purchases used vehicles, the sales volume decreased. But after the declaration of a state of emergency was lifted in May 2020, gross profit per vehicle improved due to higher auction prices, resulting in lower sales but higher profits. (Net sales decreased 2.2% to ¥4,947 million, operating profit increased 121.3% to ¥142 million)
- In the accident-damaged vehicle purchasing and selling business, the sales volume decreased, but after the emergency declaration was lifted in May 2020, the gross profit per vehicle increased. As a result, sales were down but earnings were higher. (Net sales decreased 8.4% to ¥3,699 million, operating profit increased 231.2% to ¥129 million)

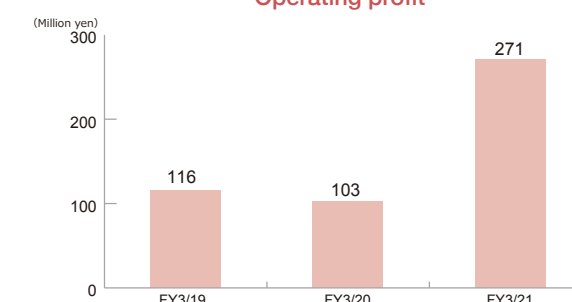
Used Vehicle Purchasing and Selling Segment

	FY3/19	FY3/20	FY3/21	YoY
Net sales	9,701	9,099	8,646	-5.0%
Operating profit	116	103	271	+162.8%
Operating margin	1.2%	1.1%	3.1%	-

Net sales



Operating profit



* Net sales are sales to external customers and operating profit is based on business segment earnings. Operating margins are calculated by dividing segment profit by segment sales.

Other Segment

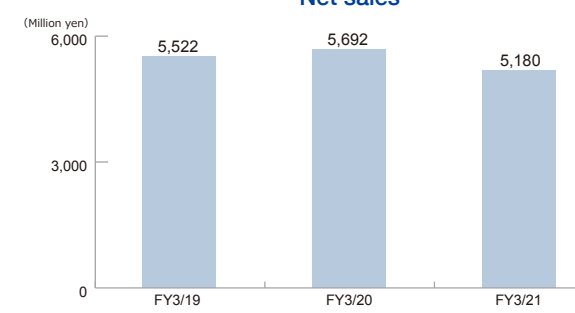
- In the recycle business, the combination of a smaller recycling volume but an increase in the price of ferrous scrap resulted in lower sales but higher earnings. (Net sales decreased 6.4% to ¥4,829 million, operating profit increased 21.6% to ¥376 million)
- There was an operating loss in the used vehicle export clearing service business*1 because of a smaller volume of orders received caused by a big downturn in the number of used vehicles exported. (Net sales decreased 41.5% to ¥263 million, operating loss ¥29 million (operating profit of ¥32 million in FY3/20))

*1 USS shut down this business on March 31, 2021 and the company that operated this business has started liquidation proceedings.

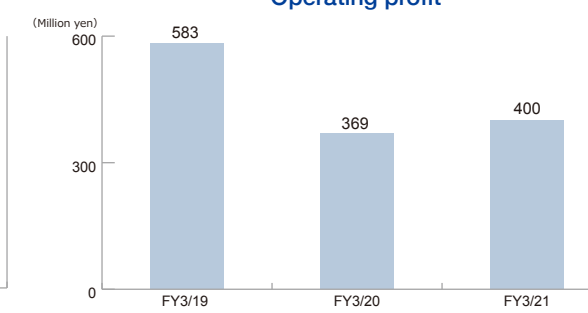
Other Segment Performance

	FY3/19	FY3/20	FY3/21	YoY
Net sales	5,522	5,692	5,180	-9.0%
Operating profit	583	369	400	+8.4%
Operating margin	10.5%	6.4%	7.7%	-

Net sales



Operating profit



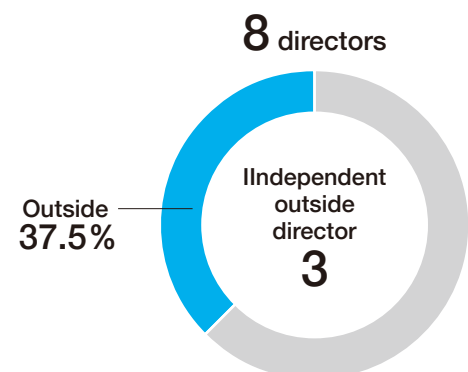
* Net sales are sales to external customers and operating profit is based on business segment earnings. Operating margins are calculated by dividing segment profit by segment sales.



In the USS Group's core auto auction business, our goal is to increase corporate value through continuous business expansion. 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 vision: the creation of a fair market, achieving symbiosis with our members, providing service to consumers, delivering returns to our shareholders, respecting our employees, and making a contribution to the community. 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.

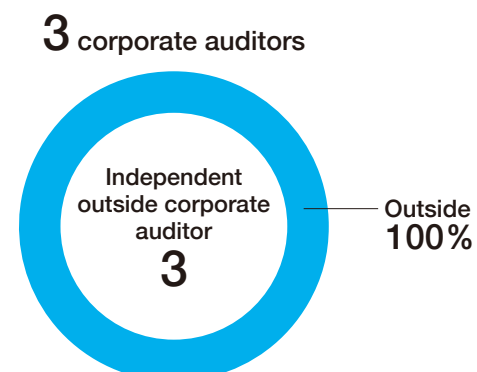
Board of Directors

The Board of Directors consists of eight directors, including five directors who are USS executive officers and three outside directors, which is within the limit of 12 directors specified in the Articles of Incorporation. Director candidates and executive officers are selected from among individuals with the extensive experience, outstanding knowledge and professional expertise required by these positions.

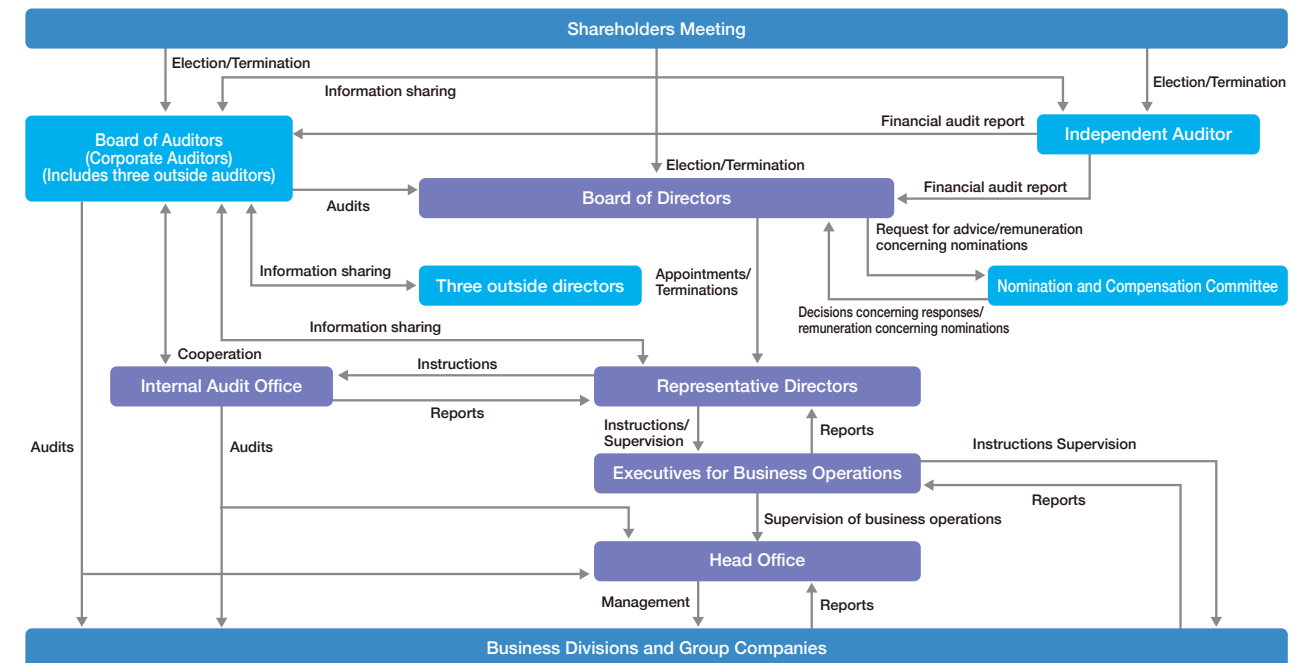


Board of Corporate Auditors

The Board of Corporate Auditors consists of three members (including three outside corporate auditors), who attend the meetings of the Board of Directors and conduct surveys and audits of the directors' performance and other business considerations. Furthermore, this board works with the Internal Auditing Office, which conducts audits of all divisions and offices (including at USS subsidiaries).



Corporate Governance Flowchart

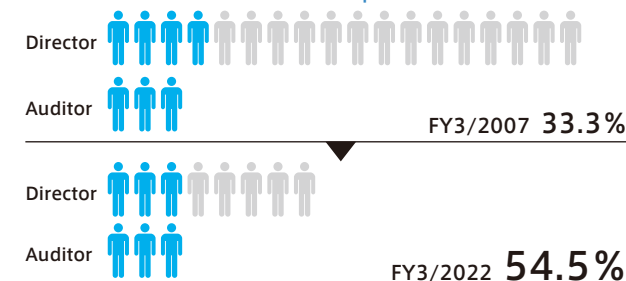


Internal Audits and Corporate Auditor Audits

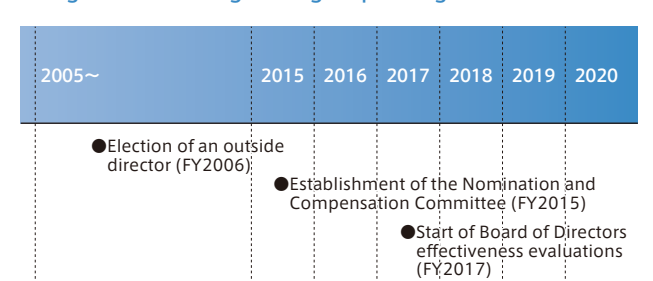
As the organization responsible for internal audits and corporate auditor audits, the Internal Audit Office (2 members) is an independent organization with the goal of strengthening the quality and effectiveness of its functions, including the operation and evaluation of internal controls related to financial reporting. Corporate audits involve three corporate auditors, including tax

accountants, in addition to certified public accountants and lawyers, attending the meetings of the Board of Directors and auditing the directors' performance. Moreover, the corporate auditors collaborate with the Internal Audit Office and the accounting auditors to further improve internal controls, including by performing on-site audits of subsidiaries.

<Pct. of outside directors and corporate auditors>

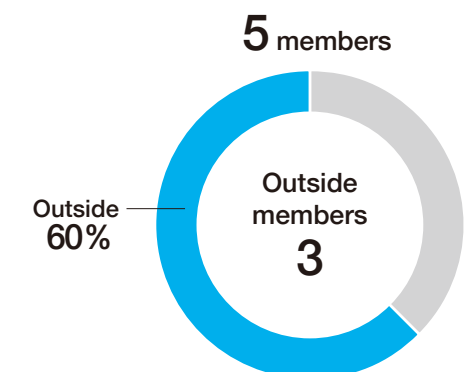


<Progress with strengthening corporate governance>



Nomination and Compensation Committee

The Nomination and Compensation Committee, as an advisory body to the Board of Directors, discusses the suitability of the following proposals submitted to the Board of Directors and submits reports about these proposals to the Board of Directors. During the fiscal year that ended in March 2021, the Nomination and Compensation Committee held three meetings. (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. In addition, the Nomination and Compensation Committee makes decisions concerning the remuneration of individual directors and executive officers in accordance with the policy for decisions concerning this remuneration.



Executive Remuneration

Remuneration in FY3/2021

Executive Classification	Total Amount of Remuneration etc. (Million yen)	Breakdown (Million yen)			Number of Eligible Executives
		Basic Remuneration	Performance-linked remuneration	Stock options	
Directors (Excluding Outside Directors)	251	201	-	49	7
Auditors (Excluding Outside Corporate Auditors)	6	6	-	-	1
Outside Executive Officers	24	24	-	-	5

1.The remuneration in this table includes the remuneration of two directors who were no longer directors following the end of the shareholders meeting held on June 23, 2020. 2.There are no officers who are also employees.

Basic policy for remuneration of directors and corporate auditors

The USS Group provides competitive remuneration in order to attract and retain talented managers who can contribute to the group's sustained growth and the medium to long-term growth of corporate value. Remuneration is divided in a suitable manner between fixed (basic) remuneration and variable remuneration (stock options used as remuneration linked to medium to long-term results of operations) for the purpose of using remuneration as a sound incentive for achieving sustained growth.

Level and composition of remuneration of internal directors

A suitable level and composition of remuneration is established based on the business environment for the USS Group and on business and personnel strategies. In addition, objective remuneration survey data from external organizations specializing in this field (Sumitomo Mitsui Trust Bank and Deloitte Tohmatsu Consulting) is used for reference when determining the level and composition of remuneration. For internal directors, the level, format and composition of remuneration are determined with the objective of further clarifying the

Process for determining remuneration for directors

To further increase the transparency and objectivity of decisions concerning remuneration for directors, these decisions are entrusted to the Nomination and Compensation Committee by a resolution of the Board of Directors. More than half of committee members are independent outside directors. This committee makes decisions based on all applicable factors, including an individual's title, responsibilities and contribution to results of operations, and within the limit established by a resolution approved by shareholders.

Evaluation of the Effectiveness of the Board of Directors

To evaluate the effectiveness of the Board of Directors, USS asks all directors and corporate auditors to complete questionnaires. The results of this survey are reported to the Board of Directors.

[Evaluation process]

Time: March 2021 Participants: All directors and corporate auditors (including outside directors and corporate auditors) 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

Type and category of remuneration for directors

Type of remuneration, etc.	Category		
	Internal Directors (Note.1)	Outside Directors (Note.2)	Auditors (Note.3)
Basic Remuneration	●	●	●
Stock-remuneration type stock options(Variable)	●	-	-

(*1) Internal directors receive basic remuneration and stock option remuneration. Basic remuneration is a fixed monthly payment based on the roles and responsibilities of each individual's executive position. Stock option remuneration is based mainly on points granted to individuals in accordance with the number of years as a director, contributions to results of operations and other accomplishments. The stock options can be exercised only after an individual is no longer a director, corporate auditor or executive officer. (*2) Remuneration for outside directors is only basic remuneration that is a fixed monthly payment because these directors oversee management from an highly objective and independent perspective. (*3) Remuneration for corporate auditors is determined by mutual agreement of the corporate auditors. This remuneration is only basic remuneration that is a fixed monthly payment because the corporate auditors oversee management and perform audits from a highly objective and independent perspective.

link between remuneration and results of operations and of further increasing motivation to contribute to the medium to long-term growth of sales and earnings and corporate value. The level, format and composition of remuneration are reexamined periodically.

Type of remuneration	Composition
Basic Remuneration	70~90%
Stock-remuneration type stock options	10~30%

Policy for determining remuneration for executive officers

The policy for determining the remuneration for executive officers is based on the policy for determining the remuneration of directors. Consequently, executive officer remuneration consists of basic and stock option remuneration.

[Items evaluated]

- (1) Composition of the Board of Directors - Size and composition (diversity, professional knowledge)
- (2) Operation of the Board of Directors - Frequency of meetings, length of discussions of agenda items, materials provided to directors
- (3) Support for the Board of Directors - Training programs, information provided to outside directors and corporate auditors
- (4) Discussions by directors - Discussions concerning management strategies and equity policies and actions
- (5) 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 activities to deal with the two issues identified by the last year's evaluation and that improvements have been made. (1) Increase the percentage of independent outside directorsFollowing the June 2020 annual shareholders meeting, three of the eight directors (37.5%) were independent outside directors as this percentage surpassed one-third. (2) Opportunities for outside directors and corporate auditors and the internal audit personnel to share information and opinionsOutside directors and corporate auditors and internal audit personnel hold meetings to provide a place for sharing information and opinions.

[Upcoming activities]

Based on the results of this effectiveness survey, the following actions will be used to further improve discussions at the Board of Directors and make the board more effective. (1) Discussions concerning medium to long-term business plans will be upgraded and directors will be provided with the necessary information. (2) Opportunities will be increased for the directors to hold discussions and receive reports concerning ESG, the SDGs, and other social and environmental issues.

Compliance

Basic Stance

The USS Group has a large volume of information about auction members, vehicles consigned, bids submitted and other items required for auto auctions. Conducting auctions that are fair and equitable requires strict compliance with laws, regulations and other guidelines. These auctions are vital for the establishment of a highly transparent market for the purchase and sale of used vehicles. We are committed to compliance for growth of the USS Group and for strengthening the social standing of the entire auto auction industry.

Risk Management System/Business Continuity Plan

Risk management is closely related to our internal compliance system. We have established our USS Behavior and Code of Ethics to improve awareness of corporate ethics and comply with laws and regulations. We have created and published a Compliance Manual and conducted training programs and other activities to comply with laws and regulations and social guidelines and to firmly establish a culture of sound corporate ethics. In addition, in order to promptly detect and correct behavior and actions that violate or are contrary to our code for behavior and ethics, we operate the USS Corporate Ethics Helpline, an internal reporting system for USS Group employees. The risk management system consists of the Auction Management Headquarters for risks related to the auto auction business, the IT System Headquarters for risks related to information processing, and the General Headquarters for risks related to finance, personnel, disasters and other items. We are determined to respond promptly and properly to problems and implement

Whistleblower System

In order to promptly respond to any actions that may result in USS losing the trust of the public, such as violations or infringements of laws and contracts, violations of the Articles of Incorporation and regulations, violations of the USS Code of Behavioral Ethics, or abuse of rank or status. To respond to these problems in a timely manner, USS operates the USS Corporate Ethics Helpline to provide an internal reporting system for group employees. The USS Corporate Ethics Helpline covers full-time employees as well as temporary and part-time people and accepts consultation and notification messages via email. The helpline reception desk is located at a third-party organization (Integrex Inc.), with the USS Headquarters subsequently being notified of reports received. However, unless required by law, the names and affiliations of people involved will not be reported to

Basic Policy for Compliance

We have established and codified the basic principles of our compliance policy as the USS Code of Conduct and Ethics, and our directors take the lead in adhering to our corporate ethics guidelines. We have also created and published a Compliance Manual in order to thoroughly enforce the USS Code of Conduct and Ethics. Training programs and other activities are used to be certain that all employees have a thorough understanding of the contents of this manual. We want everyone at the USS Group to have a resolute commitment to compliance with laws, social guidelines and corporate ethics.

preventive measures. We have a system for submitting reports to the president through the director who oversees the business section where the problem occurred. In addition, directors submit reports to the Board of Directors about risk factors that affect business operations. USS has a manual that prescribes responses to a major natural disaster. This manual includes items concerning responses to a major earthquake and measures to be prepared for an earthquake. In addition, there are training programs to give everyone at USS a thorough understanding of the business continuity plan. To confirm the safety of everyone at USS following a major earthquake, USS has system linked to the earthquake bulletins of the Japan Meteorological Agency that automatically sends messages to all USS personnel. This system makes it possible to quickly determine the status of everyone in the event of an earthquake.

the USS Headquarters without the consent of the adviser and the whistleblower. This ensures that the people providing information remain anonymous and that the neutrality of the system is maintained.

FY3/2021 Reports submitted to the USS Corporate Ethics Helpline	14
Significant violations of laws and regulations	0

(As of August 31, 2021)



Number of years in office 39
Board meetings attendance record 100%

Reelected

Yukihiro Ando (74 years old)

Chairman and Representative Director, Chief Executive Officer (CEO)



Number of years in office 17
Board meetings attendance record 100%

Reelected

Dai Seta (54 years old)

President and Representative Director, Chief Operating Officer (COO)



Number of years in office 17
Board meetings attendance record 100%

Reelected

Masafumi Yamanaka (66 years old)

Executive Vice President and Officer of the Supervisory Office



Number of years in office 17
Board meetings attendance record 100%

Reelected

Masayuki Akase (58 years old)

Senior Managing Director and Officer of the Auction Operation Office



Number of years in office 17
Board meetings attendance record 100%

Reelected

Hiromitsu Ikeda (60 years old)

Junior Managing Director and Manager of Nagoya and R-Nagoya Auction Site



Outside
Independent
Number of years in office 7
Board meetings attendance record 100%

Reelected

Hitoshi Tamura (75 years old)

Outside Director



Outside
Independent
Number of years in office 7
Board meetings attendance record 100%

Reelected

Akihiko Kato (74 years old)

Outside Director



Outside
Independent
Number of years in office 3
Board meetings attendance record 100%

Reelected

Nobuko Takagi (43 years old)

Outside Director



Outside
Independent

Newly elected

Kenichi Goto (61 years old)

Full-time Outside Corporate Auditor



Outside
Independent

Newly elected

Keiji Miyake (66 years old)

Outside Corporate Auditor



Outside
Independent

Newly elected

Jun Ogawa (60 years old)

Outside Corporate Auditor

Skill Matrix

Name	Position	Management experience	Sales/Marketing	Business site developable experience/ Auction system	Finance and accounting/M&A	Legal affairs/ Risk management
Yukihiro Ando	Chairman and Representative Director, Chief Executive Officer	●	●	●		
Dai Seta	President and Representative Director, Chief Operating Officer	●	●			
Masafumi Yamanaka	Executive Vice President				●	●
Masayuki Akase	Senior Managing Director		●	●		
Hiromitsu Ikeda	Junior Managing Director		●	●		
Hitoshi Tamura	Director		●			
Akihiko Kato	Director	●				
Nobuko Takagi	Director				●	
Kenichi Goto	Corporate Auditor				●	
Keiji Miyake	Corporate Auditor				●	
Jun Ogawa	Corporate Auditor					●

Reasons for selection as outside directors

Title	Name	Independent	Reasons for selection	FY3/21 Attendance Record
Director	Hitoshi Tamura	○	In his role as a Corporate Councilor of Ricoh, Mr. Hitoshi Tamura was involved with measures to increase the quality of Ricoh's management, the formulation of sales strategies and other activities. He has served for many years as a primary judge for the Japan Management Quality Awards. Overall, he has considerable experience and knowledge concerning the improvement of management. Since being elected as an outside director in June 2014, he has taken advantage of this knowledge to give advice on various issues involving management in general, and thereby contributed to the growth of corporate value. He has been reelected as an outside director in order to use his knowledge at meetings of the Board of Directors concerning the establishment of business plans from the perspective of improving management. Mr. Tamura also has the skills to supervise progress concerning this plan. Mr. Tamura is a member of the Nomination and Compensation Committee. Although he has no experience with corporate management other than as an outside director, USS believes that Mr. Tamura has the skills and knowledge needed to perform his duties as an outside director.	Board Meeting 8 out of 8 Nominations and Remuneration Committee 3 out of 3
	Akihiko Kato	○	Mr. Akihiko Kato has experience of working at the Bank of Japan, as a Director of the Gifu Shinkin Bank, and also of corporate management as a Managing Director. Since his election as an outside director in June 2014, he has used this knowledge to give advice concerning various issues involving management in general, and thereby contributed to the growth of corporate value. Mr. Kato was reelected as an outside director because he is properly performing his duties concerning important decisions involving management, the oversight of how business operations are conducted and other matters. He is a member of the Nomination and Compensation Committee.	Board Meeting 8 out of 8 Nominations and Remuneration Committee 3 out of 3
	Nobuko Takagi	○	As a certified public accountant, Ms. Nobuko Takagi has extensive experience and specialist knowledge concerning finance, accounting and M&A, including professional experience working in audit corporations and tax accountant corporations. Ms. Takagi has also played key roles involving M&A deals at M&A advisory companies and business corporations. Since her election as an outside director in June 2018, she has used this knowledge to give advice concerning various issues involving management in general, and thereby contributed to the growth of corporate value. Ms. Takagi was reelected as an outside director to enable her to continue using her professional skills concerning accounting and finance as well as her experience with management consulting and as an outside officer of other listed companies. This broad knowledge allows Ms. Takagi to oversee the management of USS from a new and different perspective than that of the directors who are directly involved with the business operations of USS. She is a member of the Nomination and Compensation Committee. Although Ms. Takagi has no experience with corporate management other than as an outside director, USS believes that she is well suited for performing the duties of an outside director for the above reasons.	Board Meeting 8 out of 8 Nominations and Remuneration Committee 3 out of 3
Corporate Auditor	Kenichi Goto	○	Mr. Kenichi Goto has expertise involving taxes and finance and experience in important posts in the public sector. He was elected as an outside full-time corporate auditor because of his ability to audit and oversee the management of USS from a neutral and objective standpoint. Although Mr. Goto has no direct experience with corporate management, USS believes that he is well suited for performing the duties of an outside full-time corporate auditor for the above reasons.	—
	Keiji Miyake	○	Mr. Keiji Miyake has many years of experience as a certified public accountant and expertise in the fields of finance and accounting. He was elected as an outside corporate auditor because of his ability to audit and oversee the management of USS from a neutral and objective standpoint. Although Mr. Miyake has no direct experience with corporate management, USS believes that he is well suited for performing the duties of an outside corporate auditor for the above reasons.	—
	Jun Ogawa	○	As an attorney for many years, Mr. Jun Ogawa has many years of experience as an attorney and an extensive knowledge of legal matters. He was elected as an outside corporate auditor because of his ability to audit and oversee the management of USS from a neutral and objective standpoint. Although Mr. Ogawa has no direct experience with corporate management, USS believes that he is well suited for performing the duties of an outside corporate auditor for the above reasons.	—

A Discussion with the Outside Directors



Our mission is to exchange and examine ideas for advancing to the next phase of growth

To give readers more insight into the activities of the directors and subjects they discuss, this publication includes a discussion with the outside directors.

A Board of Directors capable of examining a variety of issues and ideas in a frank and open manner

Kato: I have been an outside director at USS for seven years. During that time, USS acquired JAA, which was Japan’s third-largest auto auction company and took many actions to pass management on to a new generation of leaders. Mr. Seta, who is in his early 50s, became the new president as Mr. Ando, a founder of USS, became chairman and new managers were appointed at many auction sites where the current managers had opened these locations. Furthermore, more than one-third of the Board of Directors is outside directors and the election of Ms. Takagi three years ago added gender diversity to the board. I think the Board of Directors is even better structured to incorporate a broad spectrum of viewpoints and opinions.

Tamura: The operation of the Board of Directors has improved considerably since I was elected a director seven years ago. A reexamination of the standards for agenda items at board meetings reduced the number of items that we examined. This allowed us to spend a long time to thoroughly examine every proposal. As chairman, Mr. Ando is always asking the outside directors for their opinions. This makes it possible to state our positions with no restrictions and ask questions.

Currently, the Board of Directors also needs to study vital activities concerning two new issues, in part because of the April 2022 revision of the stock market listing category of USS. One issue is compliance with the revised Corporate Governance Code. The other is the disclosure of information



Outside Director
Hitoshi Tamura

based on the guidelines of the Task Force on Climate-related Financial Disclosures.

Takagi: At discussions at board meetings, there have been cases where a proposal was rejected or sent back for further consideration after the full-time directors stated their frank opinions and the outside directors responded with opinions from an external perspective. USS has a culture of holding thorough discussions by the directors before making decisions about important items. This is not a board that simply gives a follow-up approval to matters that were approved by the USS Executive Committee.

Measures to make the board more effective

Takagi: The effectiveness of the Board of Directors is evaluated every year. The method used for this evaluation was revised in the previous fiscal year. There was no change in the use of questionnaires completed by directors and corporate

auditors to identify issues that are subsequently examined by the board. We revised the questions that were submitted following a review performed mainly by the outside directors. Our review increased the number of questions about management issues that the outside directors believe are important. I think this change made management issues more easily visible to all of the directors.

Tamura: At board meetings, we frequently discuss proposals for new services, IT system improvements and other measures concerning auction operations. I think we need more opportunities to hold discussions about the USS business model by using a medium to long-term perspective. Is there a need to revise the business model for auctions because of the enormous changes, such as electric cars and self-driving cars, in the business climate? The effectiveness questionnaire revealed that many directors think these discussions are needed.

Takagi: Auction sites are starting to conduct operations that incorporate a diverse array of viewpoints as the new generation of auction site managers listen to the input of employees who directly serve customers. I think that even faster progress with this type of diversity in our operations will lead to the creation of a new business model and support our long-term growth.

Kato: The provision of information about fighting climate change, based on the Task Force on Climate-related Financial Disclosures, must be linked to the establishment of a long-term strategy for the entire USS Group. We should not disclose this information solely for USS. The broader disclosure of this information will contribute to the growth of corporate value. This is why the Board of Directors needs to play a leading and active role in climate-related financial disclosure activities.

The roles of the Nomination and Compensation Committee

Kato: The Nomination and Compensation Committee has five members: the three outside directors and the chairman and president. In the past fiscal year, in part due to amendments to the Companies Law, this committee placed priority on discussions about the remuneration structure and the establishment of a process for determining the remuneration of individuals.

Takagi: In 2007, USS stopped making retirement payments to directors and corporate auditors. Since then, we have used a simple compensation structure consisting of a monthly payment and the distribution of stock options. Decisions about monthly compensation are made solely by the chairman and representative director. I think it is difficult to obtain the understanding of investors concerning this point.

Tamura: I think the full-time directors are in the best position to understand why the CEO, who has a thorough knowledge



Outside Director
Akihiko Kato



Outside Director
Nobuko Takagi

of how USS executives are performing their jobs, has the authority to determine compensation. The compensation of directors, and especially the chairman and president, who are representative directors, should reflect evaluations of results of operations over several years rather than a single year.

From the standpoint of investors, the remuneration system is an important component of corporate governance. Compensation should use a unified framework incorporating a link to results of operations based on targets in medium-term plans to which management has made a commitment. At the Nomination and Compensation Committee, we will establish a framework for compensation that is easy to understand for investors while also reflecting evaluations of the performance of individual full-time directors by the chairman and president.

Kato: I agree with Mr. Tamura’s position. We held many discussions before reaching the decision to transfer the authority to determine the compensation of directors and corporate auditors to the Nomination and Compensation Committee. Furthermore, our discussions about the level of remuneration include the results of a survey by an external organization and other information. We used these activities to establish the process for reaching decisions about remuneration. Next, I think committee members need to examine even more thoroughly the framework for remuneration, including links to results of operations, and its purposes to create the best framework for USS.

Profile

Hitoshi Tamura

Apr. 1971 Joined Ricoh Company, Ltd.
Oct. 2002 Corporate Councilor of the said company
Apr. 2010 Adviser to the President, Ricoh Japan Corporation
Jul. 2011 President, Customer Satisfaction Research Institute (at present)
Jun. 2014 Director of USS (at present)
Jun. 2015 Outside Director, Kitamura Co., Ltd. (Retired in Jun. 2019)

Akihiko Kato

Apr. 1970 Joined Bank of Japan
May 1994 Senior Examiner, Examination Department of the said bank
May 1995 Director of Gifu Shinkin Bank
Oct. 1998 Managing Director of the said Bank
Jun. 2007 Full-time Auditor of the said Bank
Jun. 2010 Corporate Auditor of Gifu Shinkin Credit Guarantee Corporation (Retired in Jun. 2012)
Jun. 2014 Director of USS (at present)

Nobuko Takagi

Oct. 2002 Joined Tohmatsu & Co. (currently Deloitte Touche Tohmatsu LLC)
May 2006 Registered as a Certified Public Accountant
Nov. 2007 Joined GCA Corporation
Mar. 2011 Joined NEC Corporation
Jul. 2017 Representative, Nobuko Takagi Certified Public Accountants’ Office (at present)
Apr. 2018 Outside corporate auditor, I-ne CO., LTD. (at present)
Jun. 2018 Representative Director, COEING AND COMPANY Inc. (at present)
Director of USS (at present)



The USS Group plays an important role in society by operating an infrastructure for purchasing and selling used vehicles. The goal is to continue conducting business operations in a manner that earns the trust of customers, shareholders and the public. Operations are guided by USS management policies and the corporate philosophy and reflect the dedication to contributing to society while continuing to grow. Accomplishing these goals will require accurately determining the expectations of customers and employees concerning the USS Group and taking actions that make meaningful contributions to the regions where we operate and society.

Activities with Customers

Auto auctions are transactions between members who consign vehicles and members who submit bids for vehicles. Successfully operating these auctions requires the ability to provide member companies with a place where it is easy to do business. This is one of our most important obligations. We are also well aware that the used vehicles purchased at our auctions are ultimately sold to end users. To ensure that end users can buy and use these vehicles with confidence, USS must accurately inspect vehicles that are auctioned and maintain a framework for selling all vehicles at a suitable price. USS will remain a leader of the used car distribution industry and use many activities in order to create and maintain a market infrastructure that can be trusted by member companies as well as individuals who buy used cars.

Ensure the fairness and reliability of auto auctions

Providing places that member companies can use with ease for buying vehicles is one of our greatest obligations. We also have a responsibility to ensure the safety of the used vehicles sold at our auctions that are eventually purchased by end users. This is why every automobile consigned at our auctions undergoes an accurate inspection to enable vehicles to be sold at prices that properly reflect their value.

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.



Prevention of fraudulent and other improper auction transactions

We use our own surveillance system and other activities for the thorough oversight of auction transactions. These activities are based on our firm commitment since our inception of conducting auctions that are fair and equitable.

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.

Operation of auctions that are easy to use

● USS members can participate in auctions in three ways.

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.



USS Auto Auctions



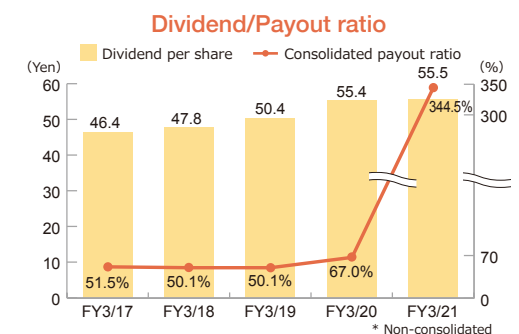
Dedicated satellite TV terminal for Satellite Auctions

Our commitment to shareholders and investors

We are dedicated to the growth of corporate value in order to earn the support and trust of shareholders and other investors. In addition, we disclose information properly and have many other activities to maintain strong lines of communication with shareholders and investors.

Distribution of earnings

USS uses the consolidated dividend payout ratio as the basis for a policy of paying dividends that reflect results of operations. The goals are dividend stability and the distribution to shareholders of a suitable amount of earnings. The guideline for the dividend payout ratio was increased to at least 55% beginning with the fiscal year that ended in March 2020.



Major activities in FY 2020

● Shareholders meeting (June 23, 2020)

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



The shareholders meeting

Pct. of voting rights exercised
87.9%

● A dialogue with analysts of institutional investors

One-to-one meetings with analysts 148

A conference 12

Total of 160 company participations

● A dialogue with individual investors

Company information meeting for individual investors 12

* There were two online meetings for results of operations

Activities with Employees

The people who work at USS are the source of our group's ability to grow and remain competitive. We are dedicated to providing our people with an environment where they can realize their full potential and perform their jobs to the best of their ability. Another priority is providing workplaces where people can work with no worries and upgrade their skills while respecting one another. We also recognize the importance of maintaining a framework for fair and proper employee performance evaluations and compensation.

Fair Evaluations and Compensation

Local emphasis for recruiting

We believe that recruiting people who live in areas near the auto auction sites where they will work contributes to the vitality of these areas. Our policy is to conduct initial interviews of job applicants at auction and other business sites. The next step is an interview at the head office. Following the interviews, new employees are assigned to USS Group locations under the basic premise that they will be able to work near their homes.

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 the USS Corporate Ethics Help Line. There were no serious violations of human rights or incidences of discrimination at the USS Group during the fiscal year that ended in March 2021.

Our commitment to equal opportunity

The USS Group is dedicated to equal employment opportunities and compensation for everyone regardless of gender and other personal characteristics. We recruit people with many backgrounds in order to maintain a diverse workforce with outstanding skills. We treat everyone fairly, whether hired as a new graduate or as an experienced professional, regarding promotions and raises and ensure that our people have opportunities to advance and accomplish their goals. At USS, there is one female outside director (9.1% of board members).

Salary structure

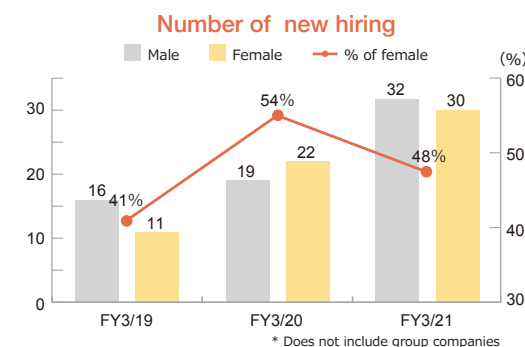
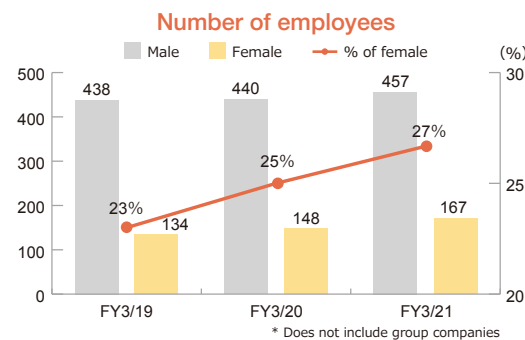
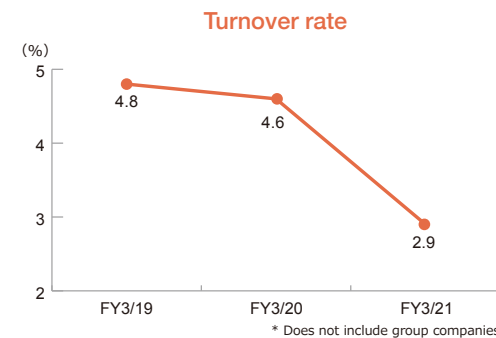
The USS Group pays salaries at a rate that is higher than the minimum wage in the area where each employee is located. In addition, employees who are highly motivated and interested in improving themselves and our business activities receive favorable evaluations. We do our best to incorporate their ideas and suggestions in our business operations. In 2014, we established personnel and salary frameworks that placed emphasis on the performance and capabilities of individuals in order to retain people and enable employees to advance their careers. The average annual salary at the USS Group was ¥6,169,000 in the fiscal year that ended in March 2021.

Average age of employees

	FY3/2019	FY3/2020	FY3/2021
Total	39.3	39.4	38.9
Male	40.8	41.1	41.2
Female	34.6	34.2	32.6

Average time at the USS Group (years)

	FY3/2019	FY3/2020	FY3/2021
Total	12.6	13.1	13.0
Male	13.7	14.4	14.6
Female	8.8	9.4	8.8



Upgrading education and training programs

Training for new employees

We have a training program structured specifically for newly hired people in order to give them information about the used car auction industry, the knowledge needed to do their jobs and guidance on proper workplace behavior. Newly hired people first work with a mentor to learn about business operations and receive advice about any issues and uncertainties involving their responsibilities.

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.

Customer interaction and personal appearance

The USS Basic Policy for Customer Services has five components: (1) Proper personal appearance; (2) Always serve customers with a smile; (3) Always greet customers; (4) Use proper words and expressions; and (5) Proper conduct for telephone calls with customers. Once every week, we check the personal appearance of everyone up to and including general managers. Results of these checks are incorporated in performance evaluations.

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 year, all inspectors are given a test covering practical skills concerning evaluations in order to assign certifications from level one to four. We have a team of instructors and trainers for this certification system who help inspectors improve their skills. Every geographic block of Japan has one instructor and every auction site has one trainer. Using this system allows us to perform accurate inspections based on a uniform set of standards nationwide.



Productive and pleasant 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.

Use of paid vacation

Pct. of annual vacation days used

FY3/2019	FY3/2020	FY3/2021
54.8%	50.0%	50.6%

Average monthly overtime (Target is no more than 20 hours)

FY3/2019	FY3/2020	FY3/2021
25.4	26.0	17.7

Average monthly overtime in FY3/21 was 17.7 hours, well below 26.0 hours in the previous fiscal year. Activities are continuing to hold this figure below 20 hours, including measures to improve efficiency and use the latest technologies. These measures contribute to maintaining a productive and pleasant workplace environment.

Employees taking time off for child care

FY3/2019	FY3/2020	FY3/2021
1	11	10

Workplace health and safety

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. There is no cost to employees. 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 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. We have a framework for properly responding to all complaints and requests for consultations.

Health and hygiene committees

Every USS Group business site with at least 50 people has a Health and Hygiene Committee that is responsible for improving workplace health and hygiene. As a rule, these committees meet once each month. Committee members discuss measures for keeping employees healthy and subjects involving workplace hygiene.

Contributing to communities and society

In accordance with our management philosophy of "Contributing to Communities and Society" and as a responsible corporate citizen, we aim to actively engage with communities and contribute to the advancement and development of the region. Our auto auction sites enable the efficient reuse and recycling of cars, leading to the revitalization of used-car-related businesses and expansion of business opportunities in the areas where these sites are located. In addition, by creating employment in these areas and paying taxes to the local government, we believe that we can contribute to the vitality of the area to achieve co-existence and co-prosperity.

Activities at auction sites

Since our auto auction sites are huge facilities, we have a strategy of locating these sites in industrial areas. We also take great care and consideration to ensure that the operation of the sites will affect the lives of local residents as little as possible. Furthermore, as there are large numbers of visitors and trucks transporting vehicles at our sites, we do everything possible to prevent accidents. When we receive comments or suggestions from residents regarding these concerns, we make whatever improvements we can to the utmost of our ability. We aim to respond in accordance with the characteristics of each site and to create auction sites that are trusted by everyone in the surrounding area.



Car transporter truck

Participation in community activities

The USS Group cooperates with companies in areas where our auto auction sites or other operations are located and participates in discussions and clean-up activities to help create better communities. In addition, we cooperate with events held by neighborhood associations and with festivals and other activities to deepen our relationship with residents.

Environmental Activities



The USS Group is fulfilling its social obligations by using its leading position in Japan's auto auction industry to provide services that accurately meet customers' needs while reducing its environmental impact and helping protect the global environment. Activities include a recycling business that processes end-of-use vehicles and sorts and recycles parts and materials. We remain dedicated to using business activities to protect the environment and to conducting many environmental programs based on the following five-point policy.

Five-point Environmental Policy

- 1 **Conduct environmental management and comply with laws and regulations**
- 2 **Establish and accomplish energy use reduction targets**
- 3 **Recycle used vehicles and lower the environmental impact of these vehicles**
- 4 **Disclose information about targets for environmental impact reductions**
- 5 **Provide environmental education for all employees and conduct environmental impact reduction programs**

Environmental management

The USS Group has many activities for minimizing the environmental impact of its business operations. Energy conserving equipment at auto auction sites and measures to lower electricity use in offices are two examples. USS Group member ARBIZ Co., Ltd. , which operates a recycling business for vehicles and other items, has established its own Integrated Policy for the Environment and Workplace 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.

Compliance with environmental laws and regulations

The USS Group has a firm commitment to the strict compliance with all laws, regulations, ordinances and other guidelines involving the environment. In the fiscal year that ended in March 2021, there were no violations or other infractions concerning any laws or other environmental regulations and requirements.

Activities to combat climate change

The USS Group is committed to slowing global warming, reducing the group’s exposure to risk associated with climate change and playing a role in creating a sustainable low carbon society that preserves a healthy environment for people and all other living things. We strongly believe that one of our most important social missions is to accomplish these goals by using less energy and lowering greenhouse gas emissions associated with the operation of auctions.

Significant environmental incidents

In the fiscal year that ended in March 2021, there were no significant incidents involving the environment. There were also no complaints or consultations concerning environmental issues.

Policy for environmental activities

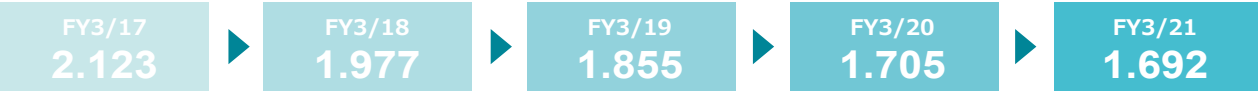
To contribute to establishing a low carbon society, we are building and operating auction sites with lower energy requirements and greenhouse gas emissions. In addition, we encourage group companies, business partners and auction members to engage in energy conservation and other activities for combating global warming.

Targets



*Carbon dioxide associated with the consumption of energy is the primary greenhouse gas produced by the USS Group’s business operations. Although we have no target for the reduction of greenhouse gas emissions, we have established a target for lowering energy consumption and many initiatives are under way to accomplish this goal.
*Formula used for calculating the energy intensity of USS business operations:
Energy intensity = Energy consumption (converted to kl of crude oil) / Number of vehicles consigned at auto auctions (thousand vehicles)
* Does not include group companies

Annual Energy Intensity



Evaluation by the METI of energy reduction activities

For the third consecutive year, starting in 2018, USS was classified as an outstanding energy conservation company (class S) under the business classification system for energy conservation measures. The Japanese Ministry of Economy, Trade and Industry (METI) assigns one of four ratings (S, A, B, C) to all companies that submit periodic reports prescribed by the Energy Conservation Act. We will continue to use a broad range of energy conservation activities in order to retain our S rating.

Energy Consumption and CO2 Emissions

Category	FY3/17	FY3/18	FY3/19	FY3/20	FY3/21
Energy consumption (kl of crude oil)	5,265	4,773	4,661	4,396	4,210
Kerosene (kl)	-	2	2	3	2
A Heavy oil (kl)	13	-	-	-	-
LPG (t)	24	53	179	159	184
City gas (thousand m3)	57	144	81	71	93
Electricity (thousand kWh)	20,039	17,967	17,170	16,217	15,317
CO2 emissions (tons)	9,181	9,349	8,196	7,365	7,204

* Does not include group companies

Initiatives for reducing environmental load

Reduction of Energy Consumption

Energy conservation at auto auction sites

We use LED lights throughout the main building of the Nagoya auction site as well as in the customer parking facility and other locations. We are switching to LED lights at other auction sites, too. There are also investments to install more efficient air conditioning systems and make other improvements to cut energy requirements. For the convenience of our members, we have added recharging facilities at some auction sites to serve the increasing number of electric and plug-in hybrid vehicles. We plan to install these recharging stations at more of our locations.
All of our auction sites use suppliers of electricity other than traditional utilities. Selections of electricity providers place priority on companies with a low reliance on fossil fuels. In addition, auction sites have numerous measures for the efficient use of energy.

A lower environmental impact for logistics

USS Group member US Butsuryu Co., Ltd. transports vehicles and provides other logistics services. The company has a desk at all auction sites where customers can arrange land and sea transportation. Providing this service is another way to offer customers greater convenience as well as to lower our environmental impact by using efficient logistics for reducing truck and other emissions associated with transporting vehicles.

Recycling

The vehicle recycling operations of ARBIZ use a highly accurate sorting and reuse system for steel, aluminum, copper, rare earths and other metals as well as for plastics and other materials that are recovered from end-of-life vehicles. ARBIZ processes about 15,000 of these vehicles every year and recycles 97% of these vehicles based on their weight. ARBIZ started using a vertical shredder designed solely for miscellaneous scrap in the fiscal year ended in March 2020. This shredder adds 1,000 tons of recycling capacity. ARBIZ will continue to consider other investments in equipment in order to meet the growing demand in Japan for processing waste materials, which results in part from China’s decision to stop importing waste plastics.



Metals are recovered from the final remaining automotive shredder residue. Gold, silver, copper and palladium are recovered in the form of concentrated precious metal residue.

Example of recycling: Effective reuse of dust from an automobile shredder

When a vehicle is recycled, airbags, tires, batteries and other parts are first removed for separate processing or reuse. The remainder of the vehicle becomes automotive shredder residue. A sorting process is then used to separate and recycle the metals, glass, ceramics, synthetic rubber, hard plastics, light dust (foamed plastics, nonwoven textiles, etc.) and other materials in this residue.
In the past, light dust was difficult to reuse as fuel because it contains chlorine and lead. To solve this problem, ARBIZ mixes this dust with iron powder to create a substance that suppresses the formation of slag in blast furnaces.
We have developed a thermo-reactor for producing a material incorporating aluminum smelting slag for raising the temperature of electric arc furnaces used for steelmaking. The development of this process makes it possible to reuse about 7,000 tons of light dust every year. Furthermore, this new process lowers the cost of steelmaking, the volume of waste materials sent to landfills and CO₂ emissions.



Thermoactor is a material used in the steel industry that is patented by ARBIZ.

Highlights and Analysis of FY3/2021 Performance

Net sales

¥74.8 billion yen
(-4.2% yoy)

Operating profit

¥36.2 billion yen
(+0.6% yoy)

Ordinary profit

¥36.9 billion yen
(+0.8% yoy)

Profit attributable to owners of parent
¥4.0 billion yen
(-80.5% yoy)

During the fiscal year that ended in March 2021, new car registrations in Japan (including minicars) were 2,028 thousand in the fiscal year's first half, down 22.6% from one year earlier because of COVID-19. In the second half, new car registrations were up 8.7% to 2,628 thousand, which was attributable in part to lower sales after the October 2019 consumption tax hike but nevertheless higher than one year earlier.

Used car registration (including minicars) decreased 3.8% from one year earlier in the first half to 3,263 thousand and increased 3.0% in the second half to 3,643 thousand. For the fiscal year, new car registrations (including minicars) decreased 7.6% to 4,656 thousand and used car registrations (including minicars) decreased 0.3% to 6,907 thousand. (Source: Japan Automobile Dealers Association, Japan Light Motor Vehicle and Motorcycle Association) Japan's exports of used cars, which have a significant effect on the demand for used cars, were down significantly because of COVID-19, falling 19.0% to 1,041 thousand. (Source: Trade Statistics of Japan Ministry of Finance)

In Japan's auto auction market, the number of vehicles consigned decreased 6.3% to 7,077 thousand and the number of contracted vehicles decreased 3.9% to 4,628 thousand, resulting in a contract completion rate of 65.4% compared with 63.7% in the previous fiscal year. (Source: USED CAR Co., Ltd.)

Consolidated net sales decreased 4.2% to 74,874 million yen, operating profit increased 0.6% to 36,227 million yen and ordinary profit increased 0.8% to 36,996 million yen.

In August 2017, USS acquired JAA, which operates the JAA auction site (Edogawa-ku, Tokyo), and its subsidiary HAA Kobe, which operates the HAA Kobe auction site

(Kobe, Hyogo prefecture). After joining the USS Group, the operations of these two auction sites were shifted to the same membership standards, auction rules, fee structure and other aspects of other USS auction sites. The purpose was to establish the same highly profitable operating structure as at these other USS auction sites. However, revising standards for the operation of the JAA and HAA auction sites made it difficult to differentiate these sites from other USS auction sites. As a result, there were decreases in the number of people using these two sites as well as in the number of vehicles handled.

In the fiscal year that ended in March 2020, USS posted an extraordinary loss of 3,863 million yen for the impairment of goodwill associated with the JAA auction site. As the external environment has deteriorated further due to the length of the pandemic, we reviewed our original plans. This process led to the conclusion that the HAA Kobe auction site can no longer be expected to generate the level of earnings that was initially forecast. Consequently, an extraordinary loss of 18,801 million yen was posted in the fiscal year that ended in March 2021 for the impairment of goodwill associated with the HAA Kobe auction site.

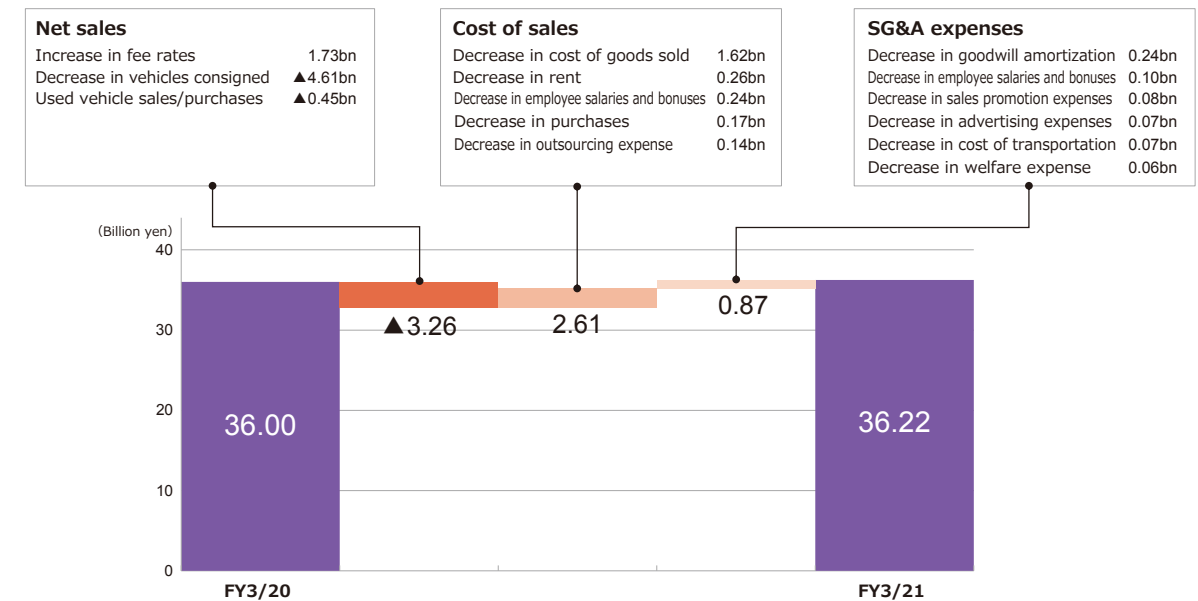
In addition, an assessment of customer-related assets at the JAA auction site and HAA Kobe auction site revealed that more than half of the current members at both of these sites do not meet USS standards for becoming members and are therefore unable to become USS members. This resulted in an extraordinary loss of 2,923 million yen for the disposal of non-current assets. After these extraordinary losses, there was an 80.5% decrease in profit attributable to owners of parent to 4,022 million yen.

least 55% beginning with the fiscal year that ended in March 2020. For the fiscal year ending in March 2022, USS plans to pay a dividend per share of 58.40 yen. USS has raised the dividend every year since the initial public offering and this will be the 22nd consecutive fiscal year dividend increase.

Dividend Policy and Dividend Payments

USS uses the consolidated dividend payout ratio as the basis for a policy of paying dividends that reflect results of operations. The goals are dividend stability and the distribution to shareholders of a suitable amount of earnings. The guideline for the dividend payout ratio has been raised in stages in prior years and was increased to at

Analysis of Change in Operating Profit



Summary of Consolidated Results of Operations

●Consolidated Balance Sheets

(Million yen)

	FY3/20	FY3/21
Current assets	68,096	81,528
Cash and deposits	50,729	67,770
Receivables due from member dealers at auction, etc.	17,367	13,757
Non-current assets	151,037	129,171
Property, plant and equipment	106,747	103,302
Other	44,289	25,869
Total assets	219,133	210,699
Current liabilities	24,497	26,922
Payables due to member dealers at auction	8,721	11,788
Other	15,776	15,133
Non-current liabilities	10,656	10,253
Total liabilities	35,153	37,175
Total net assets	183,980	173,524
Total liabilities and net assets	219,133	210,699

●Consolidated Statements of Income

(Million yen)

	FY3/20	FY3/21
Net sales	78,143	74,874
Cost of sales	30,954	28,341
Gross profit	47,188	46,533
Selling, general and administrative expenses	11,179	10,306
Operating profit	36,009	36,227
Non-operating income	866	950
Non-operating expenses	165	181
Ordinary profit	36,710	36,996
Extraordinary income	38	57
Extraordinary losses	4,013	21,832
Profit before income taxes	32,736	15,220
Income taxes	11,914	10,962
Profit	20,821	4,258
Profit attributable to non-controlling interests	187	235
Profit attributable to owners of parent	20,634	4,022

●Consolidated Statements of Cash Flows

(Million yen)

	FY3/19	FY3/20	FY3/21	Changes
Net cash provided by (used in) operating activities	32,894	27,245	38,407	11,161
Net cash provided by (used in) investing activities	▲1,496	▲4,906	▲9,330	▲4,424
Free cash flow	31,398	22,339	29,076	6,736
Net cash provided by (used in) financing activities	▲19,668	▲16,963	▲15,035	1,927
Capital expenditures (Terms of cash flows)	2,428	4,523	8,985	4,461
Depreciation	5,299	5,037	5,334	297

Major Consolidated Financial Data

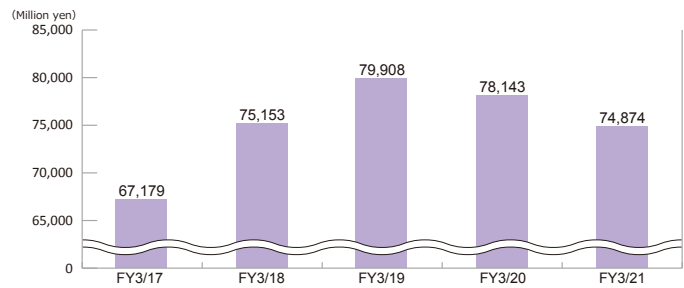
(Million yen)

	FY3/12	FY3/13	FY3/14	FY3/15	FY3/16	FY3/17	FY3/18	FY3/19	FY3/20	FY3/21
Consolidated Operating Results										
Net sales	64,009	63,243	67,949	67,466	68,607	67,179	75,153	79,908	78,143	74,874
Operating profit	27,952	29,304	32,680	33,411	34,491	32,396	36,071	37,123	36,009	36,227
Ordinary profit	28,588	29,884	33,275	34,027	35,218	32,999	36,676	38,039	36,710	36,996
Profit attributable to owners of parent	17,054	18,346	19,966	21,661	22,477	22,909	24,285	25,543	20,634	4,022
Comprehensive income	16,752	18,453	20,204	21,454	22,473	22,895	25,132	25,848	20,764	4,628
Consolidated Financial Position										
Assets	154,639	154,543	164,182	174,106	186,831	197,374	222,292	232,703	219,133	210,699
Cash and deposits	36,840	37,033	46,318	49,862	62,290	74,778	39,622	51,352	50,729	67,770
Liabilities	33,541	34,866	32,080	30,067	31,647	38,176	50,102	49,168	35,153	37,175
Interest-bearing debt	1,746	1,148	670	360	255	4,092	3,569	3,112	3,060	3,174
Net assets	121,097	119,676	132,102	144,039	155,183	159,197	172,190	183,535	183,980	173,524
Equity capital	120,582	119,112	131,348	143,098	154,155	158,029	170,767	181,698	181,939	171,394
Per Share Data										
EPS (yen)	60.92	69.35	77.29	83.79	86.92	90.02	95.59	100.54	82.44	16.13
Dividends (yen)	24.40	30.75	34.70	37.70	40.80	46.40	47.80	50.40	55.40	55.50
Other										
Operating margin (%)	43.7	46.3	48.1	49.5	50.3	48.2	48.0	46.5	46.1	48.4
ROE (%)	14.1	15.3	15.9	15.8	15.1	14.7	14.8	14.5	11.3	2.3
ROA (%)	18.7	19.3	20.9	20.1	19.5	17.2	17.5	16.7	16.2	17.2
Dividend payout ratio (%)	40.0	44.3	45.1	45.1	47.0	51.5	50.1	50.1	67.0	344.5
Equity ratio (%)	78.0	77.1	80.0	82.2	82.5	80.1	76.8	78.1	83.0	81.3
Number of shares outstanding (excl. treasury shares) (thousand shares)	271,969	258,182	258,421	258,558	258,147	253,977	254,105	253,075	249,532	249,306
Treasury shares (thousand shares)	41,280	55,067	54,828	54,691	55,102	59,272	59,144	60,174	63,717	63,943
On-site auction members (excl. JBA)	44,796	45,139	45,712	46,307	46,850	47,111	47,362	48,723	48,182	48,058
CIS (Internet) auction members	25,957	27,072	28,007	28,815	29,512	29,966	30,337	31,639	31,998	32,538
Satellite TV auction members	3,921	3,651	3,486	3,291	3,101	2,894	2,623	2,468	2,342	2,197
Number of auction sites (excl. JBA)	17	17	17	17	17	17	19	19	19	19
Number of employees	1,374	1,377	1,348	1,325	1,252	1,220	1,369	1,295	1,260	1,268

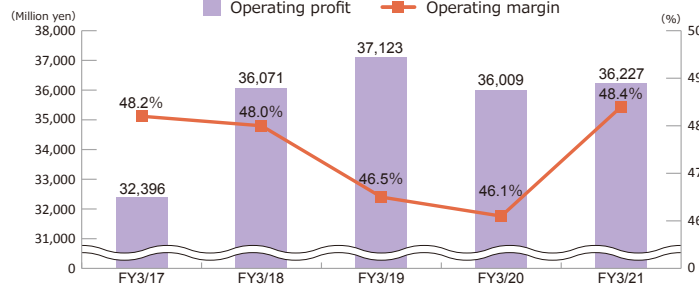
* All CIS (Internet) and TV (satellite) members are also on-site members because on-site membership is prerequisite for CIS (Internet) or TV (satellite) membership. * Number of treasury shares includes the shares owned by the USS employee stock ownership plan trust.
 * The Company started using Partial 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.

* 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.

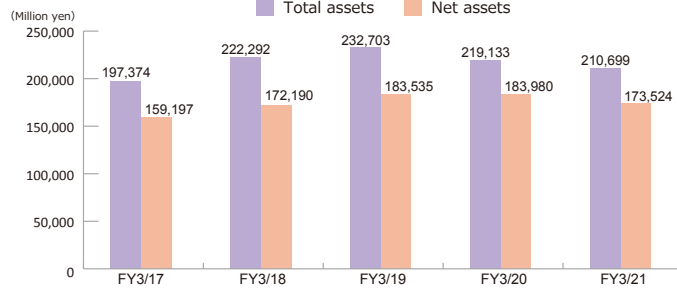
Net sales



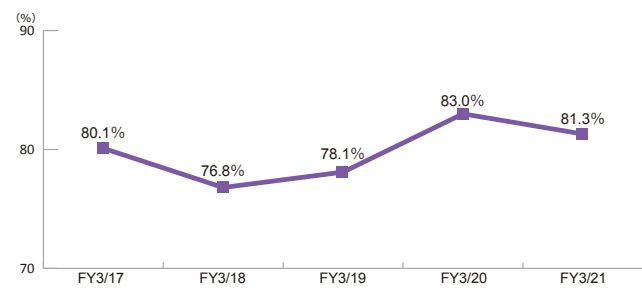
Operating profit/Operating margin



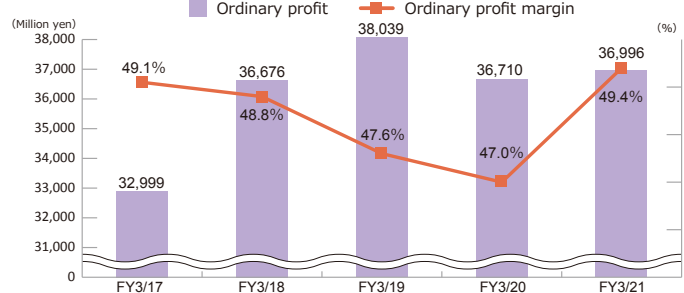
Total assets/Net assets



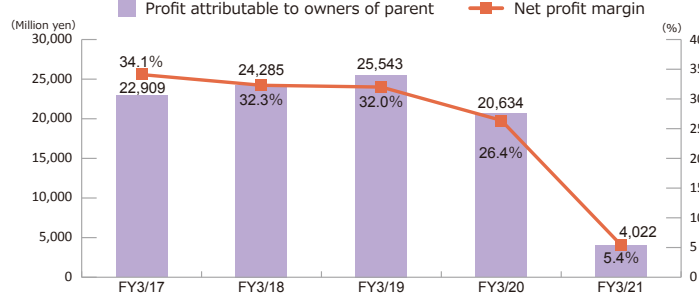
Equity ratio



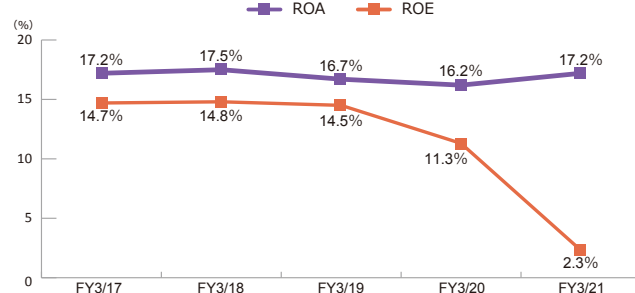
Ordinary profit/Ordinary profit margin



Profit attributable to owners of parent/Net profit margin



ROA/ROE



EPS

