

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

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)



Outside Director

Akihiko Kato