

Toward a Circular Economy

USS Integrated Report

2022

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Toward a Circular Economy

The leader in Japan's auto auction industry



Corporate philosophy

Creating a fair market

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

Serving members better

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

Providing services for consumers

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

Passing profit on to shareholders

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

Respecting employees

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

Contributing to local communities

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

Corporate strategy

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

Editorial policy

The USS Group publishes this integrated report to create a foundation for a constructive dialogue with not only its shareholders and other investors but also all of its stakeholders. Our second annual integrated report aims to expand information about the USS Group to provide a greater understanding of our approaches and initiatives to enhance medium- to long-term corporate value. The main improvements to the integrated report this year are:

- The "Interview with the USS Chief Executive Officer" explains the purpose of the USS Group—our reason to exist—and presents a long-term growth vision.
- The "Interview with the USS Chief Operating Officer" introduces our new plant recycling business.
- We have revised the value creation process and clarified the value provided by the USS Group.
- We have revised our priority subjects (materiality) and now clearly state specific reasons for these priority issues and the long-term financial impact of the risks and opportunities.
- We have added an "Interview with the Executive Vice President in Charge of Finance", who describes medium- to long-term actions intended to improve ROE, which is an important management indicator.
- We outline the climate-related disclosure at USS, which follows the TCFD recommendations.
- The report includes more comprehensive employee data.
- The report provides more comprehensive information on governance, such as a detailed description of officer skill matrices and the officer remuneration policy.

Period covered by this report

Period: Fiscal 2021 (April 1, 2021 to March 31, 2022)
Coverage: USS and its consolidated subsidiaries
* Also includes some information about other periods and recent or current activities

Guidelines used as reference

International Integrated Reporting Framework published by the IFRS Foundation

Precaution concerning forward-looking information

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

Highly trusted automotive professionals

Vehicle inspectors (as of March 31, 2022)

239

Our experienced vehicle inspectors use a 10-step scoring system to strictly evaluate vehicles submitted for auction. These automotive professionals are the key to succeeding in fair and equal auto auctions with a high-level of customer convenience.



Out of the 681 employees (non-consolidated):

35.1%



• **Largest** market share

- Vehicles consigned: **2.73** million
- Vehicles contracted: **1.78** million

The market share is calculated from January to December 2021. The number of vehicles consigned and contracted indicates USS results during the fiscal year ended March 31, 2022.

Overwhelming share leading the used car market

Market share

(January to December 2021 based on research of USED CAR Co., Ltd.)

39.5%

USS has steadily expanded its share in the auto auction market since its founding. We will continue to increase our market share by properly adapting to a greater presence of electric and self-driving vehicles in the future.

State-of-the-art network enabling anyone to participate from anywhere

On-site auction members (as of March 31, 2022):

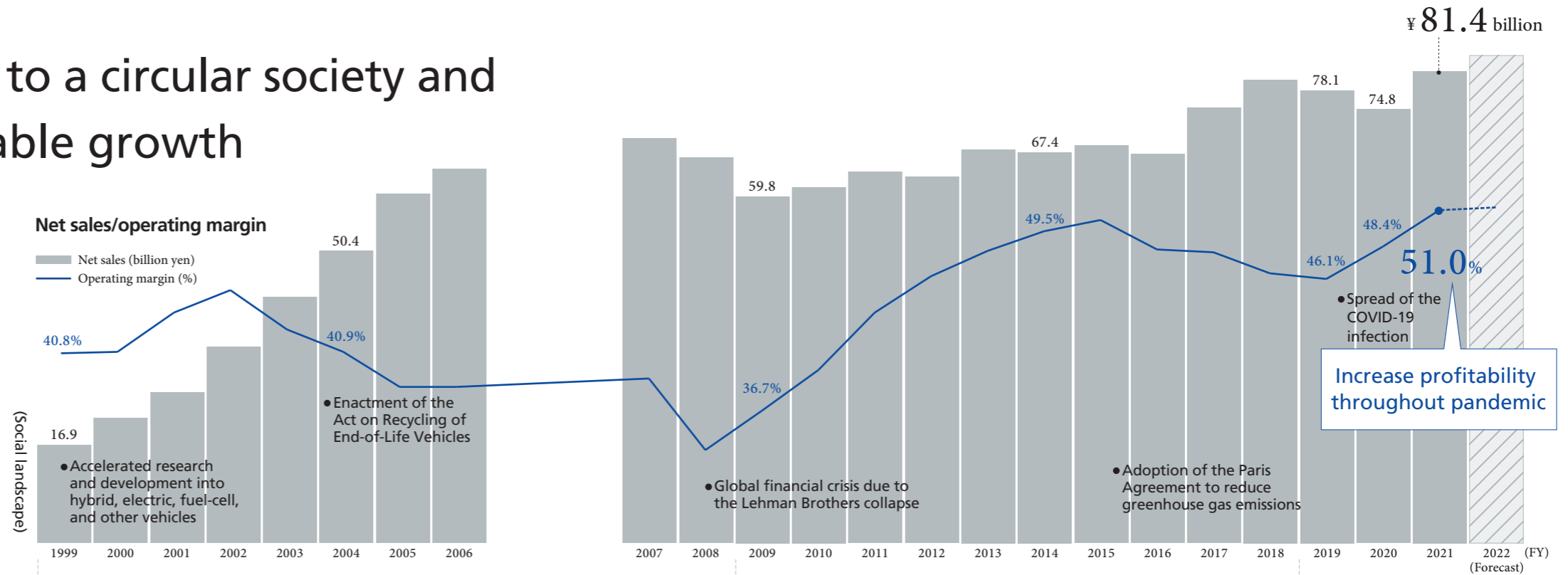
48,362

USS has been expanding its auctions at 19 of its on-site and six of its affiliate auction sites through satellite TV and internet auction services. Our member base has clearly grown thanks to these active efforts to incorporate cutting-edge technologies and fully enhance the convenience of auto auctions.



Broader contributions to a circular society and realization of sustainable growth


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




1980
Auto auction business 1,253 (FY 1981)

1990
Entry into non-auto auction businesses


November 1999
Established USS CarbankNet Co., Ltd.




October 2001
Started used vehicle purchasing and selling business




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



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




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




July 1995
Started satellite TV auctions


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




October 2005
Started live internet services



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



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



Consinged vehicles: 2,148,300 (FY 2004)

Consinged vehicles: 2,930,127 (FY 2018)

Auto auction business

For more information, see: Pp. 29-30

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

Business

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

Business model

The diagram shows 'Members consigning vehicles (seller)' providing 'Used vehicles' to 'USS Auto auction'. The seller pays a 'Consignment fee' and 'Contract completion fee'. 'USS Auto auction' provides 'Used vehicles' to 'Members submitting successful bids (buyer)'. The buyer pays a 'Successful bid fee'. Sellers include 'Used car dealers', 'Used car purchasing companies', and 'New car dealers'. Buyers include 'Used car dealers', 'Used car exporting companies', and 'New car dealers'.

Used vehicle purchasing and selling business

For more information, see: P. 31

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

Business

Rabbit Car Network Co., Ltd.

- Used vehicle purchasing

Reproworld Co., Ltd.

- Purchase and sale of accident-damaged vehicles

Business model

The diagram shows 'End users' providing 'Used vehicles' to 'Rabbit (Used vehicle purchases)'. Rabbit pays 'Payment for vehicles' to end users. Rabbit provides 'Used vehicles' to 'USS Auto auction'. USS Auto auction pays 'Payment for vehicles' to Rabbit.

Recycling business*

For more information, see: P. 32

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

Business

ARBIZ Co., Ltd.

- Recycling of end-of-life vehicles and other items

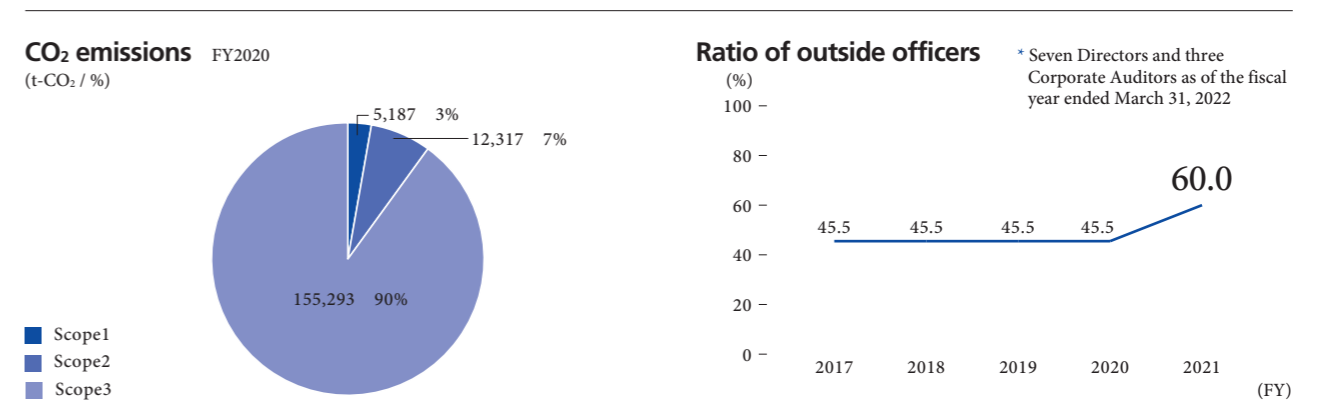
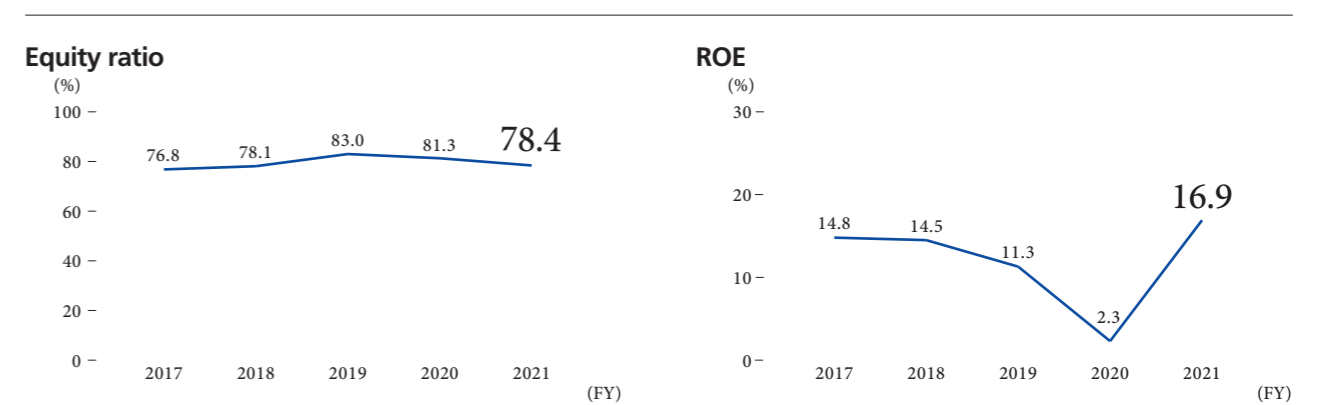
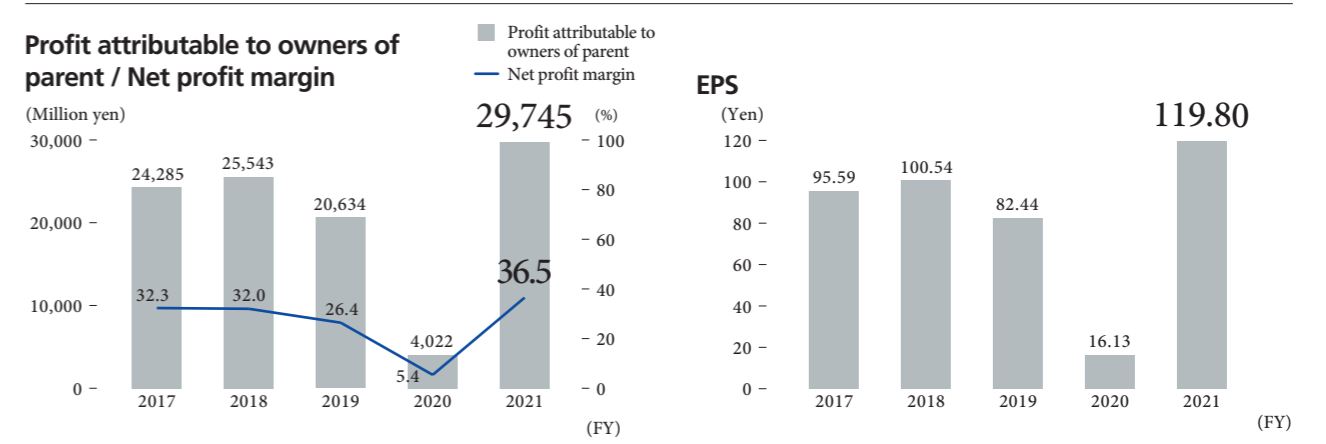
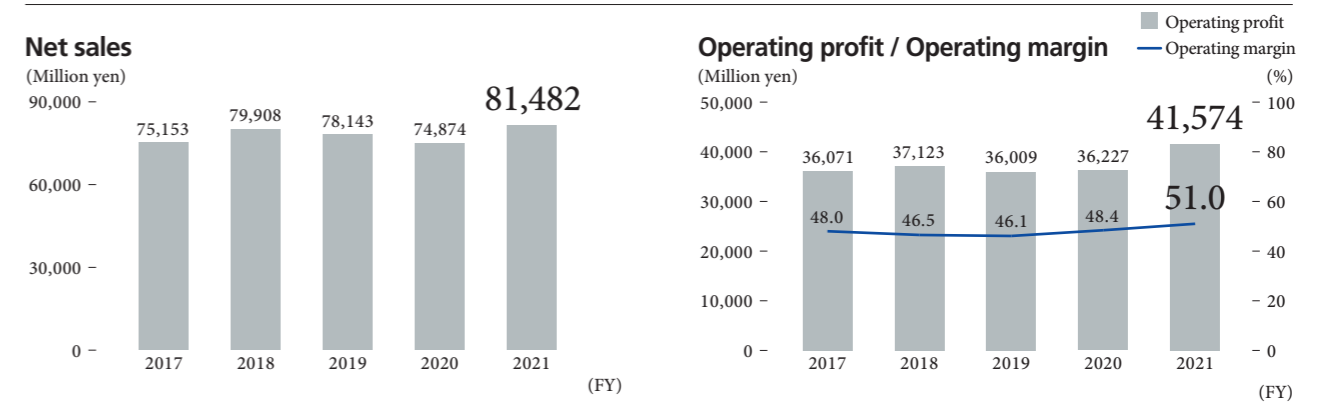
SMART Inc.

- Disposal of equipment and industrial plants

Business model

The diagram shows 'USS Auto auction' providing 'Used vehicles' to 'ARBIZ Resource recycling'. ARBIZ provides 'Scrap, etc.' to 'Steel makers' and receives 'Payment' from them. 'Manufacturers, plants, etc.' provide 'Machinery, equipment, etc.' to 'SMART Resource recycling'. SMART provides 'Resource recycling' to 'Steel makers' and receives 'Payment' from them. SMART also handles 'Dismantling and other processing fees' from 'Manufacturers, plants, etc.' and provides 'Payment for vehicles' to 'USS Auto auction'.

* Other businesses are included in the Recycling Segment. Although the recycling segment is included in other businesses for the fiscal year ended March 31, 2022, these businesses only make up a small percentage of the segment.



USS will launch new ventures with the Auto Auction Segment at its core.

Yukihiro Ando

Chairman and Representative Director (CEO)

Executive profile

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



CEO Message

Question 1 : ——— **What makes USS competitive in the auto auction market?**

Answer 1: ——— **USS is competitive because it has consistently pursued the most convenient auto auctions which also ensure everyone a fair and equal standing. That is our purpose and the source of our competitive advantage.**

Since its founding, USS has carefully inspected vehicles on auction and carried out the proper management to achieve fair and equitable auctions. We have also actively adopted the latest technologies and consistently revised auction frameworks in the ongoing pursuit of greater convenience. This approach has won us a high level of market trust and enabled us to acquire tremendous 39.5%*1 share of the auto auction market in Japan. USS will continue to make sure the auto auction market remains fair and equitable while enhancing convenience. This is the reason that USS exists. I would even go as far as to say this unwavering mission has built the foundation for our competitiveness.

*1
The market share in terms of the number of vehicles consigned based on results from January through December 2021. Source: USED CAR Co., Ltd.

Our history illustrates the uncompromising drive of USS to adhere to its principles. A small management team from various used car dealerships in Aichi Prefecture came together to establish USS in 1980 based on the belief that everyone should have a fair and equal standing in the auto auction market. Odometer tampering, and other illicit and unfair practices were rampant in the auto auction market at the time. There were many people in the industry who were extremely frustrated with this business climate. That is why we founded USS as a company that would conduct business with the goal of creating a highly trusted distribution source of used vehicles throughout the entire market. It is also the reason that we became involved in the Nippon Auto Auction Association (NAK). All of our efforts have contributed to the development of a sound and transparent auto auction market free from odometer tampering and other illicit practices. Moreover, USS has been consistently enhancing the convenience of its services from a user-oriented perspective. One good example is the introduction of the point-of-sale (POS) system*2 in 1982. During the 1980s, almost all auto auctions in Japan solicited participants to bid by raising their hands. The development of this POS system dramatically reduced the time required for bidding in addition to other benefits, which offered a much smoother auction process. USS was also the first company to try auto auctions using video. This began with satellite TV auctions in 1995 before starting live internet auctions in 2005, which let people bid in real time.

*2
The POS system uses a bidding system in which participants press a button to bid in an auction. Unlike an open bidding, this type of bidding system eliminates any unfairness as well as any unconfirmed bids.

President Dai Seta and myself as Chairman both take on the auto auction business with a high awareness of the user perspective based on our experience managing used car dealerships. Our mission is what gives this approach purpose. USS will always remain steadfast in the pursuit of auto auctions providing a fair and equal standing to everyone.

Question 2 : ——— **Could you please tell us about the long-term growth strategies for USS?**

Answer 2: ——— **USS will secure stable earnings through the Auto Auction Segment while developing other ventures into new core businesses.**

Our main segment will of course remain the auto auction business. We will secure a higher share of the market and stable earnings by further enhancing the convenience of auto auctions. At the same time, I believe that USS must create and develop other ventures that can become main pillars of our business from a long-term perspective to foster sustainable growth.

The environment surrounding the auto auction market will surely change drastically over the next decade. In particular, I expect to see a significant shift in demand toward purchases of electric

and self-driving automobiles. In light of these market trends, USS is already preparing an inspection and management system for electric vehicles. Through these types of measures, I believe USS will build agile auction infrastructure that can satisfy diverse customer needs.

The promotion of a digital transformation will also be indispensable in further enhancing the convenience of USS auctions. USS will refrain from taking part in an excessive price war in the industry. Our customers will always pay standard fees, which will fund these new IT investments. For instance, we will advance a shift to digital auction sheets to drive customer convenience and operational efficiency. These entry forms are typically filled out by hand to include the various information about a vehicle. The shift to a digital format enables us to enter all of this information using a keyboard. Some information can even be reflected on these digital auction sheets by scanning the QR code on vehicle certificates. USS will continue to actively invest in the latest technology in its Auto Auction Segment to improve the convenience of auctions for everyone who would like to participate. By doing so, we will be able to increase our share of the market as well as sustain and improve profitability in a changing market environment.

To cultivate new core businesses from a long-term perspective building off the Auto Auction Segment, USS will expand its recycling segment and strive to create peripheral businesses around the Auto Auction Segment. In terms of the Recycling Segment, USS launched SMART Inc. as a joint venture with SMFL MIRAI Partners, Limited, a Sumitomo Mitsui Finance and Leasing subsidiary. SMART Inc. is developing a plant recycling business which dismantles plants to reuse and recycle various machinery and other equipment. SMART Inc. will develop the plant recycling business as a field in ever higher demand due to the social need driven by plants and infrastructure built during periods of rapid economic growth that have become old and decrepit.

In May 2022, USS concluded a partnership agreement with Global Mobility Service Inc. to provide financing services primarily in developing nations. This partnership will help facilitate personal car loans for people who have been denied loans for one reason or another. In the future, we plan to start new auto financing programs by taking advantage of the systems and services from Global Mobility Service through our Group company USS Support Service, Inc. I recognize it may take some time to increase the number of users by raising awareness about these financial services when personal car loans already exist. However, USS will put in the time and effort over the next four to five years toward its success.

Long-term growth vision

Greater contributions to a circular economy and business expansion

Establish an additional core business by 2050

Expand the scale of business (Recycle business, etc.)

Secure stable earnings (Auto auction business)

2050

Question 3 : — Could you tell us about your environmental, social, and governance (ESG) policies?

Answer 3: — USS will not only contribute to a circular economy but also further the value it provides to society. We carefully identified our risks and opportunities and will revise our materiality during the fiscal year ending March 31, 2023.

USS has also reviewed its stance on materiality to focus efforts on addressing social challenges during the fiscal year ending March 31, 2023. We will push forward various ESG initiatives based on the opportunities and risks that have been identified for each material subject.

Our environmental initiatives will of course contribute to the reuse of automobiles through the auto auction business. USS Group aims to contribute even more broadly than that toward the realization of a circular economy though. The Recycling Segment is one example that contributes to the recovery of resources from end-of-life automobiles as well as the reuse and recycling of plants and other facilities. Climate change is a serious global issue. That is why USS is also spearheading



^{*3} The Task Force on Climate-related Financial Disclosures (TCFD) advocates and provides a framework for climate-related corporate disclosure through the TCFD recommendations released in 2017.

initiatives and disclosure in line with the TCFD recommendations^{*3}. We have set greenhouse gas emissions targets and will promote solar power generation and the use of renewable energy to achieve those goals.

Our social initiatives will focus on maintaining and developing the human resources who support the auto auction business. USS must recruit and nurture automotive inspectors who can handle assessments of electric vehicles as well as human resources versed in digital technologies who can carry out digital transformation strategies. This human capital will continue to sustain highly convenient USS auto auctions providing a fair and equal standing to everyone.

Our governance initiatives have dramatically reformed the officer remuneration policy for the fiscal year ended March 31, 2022 through the fiscal year ending March 31, 2023. USS has also established a performance-linked stock remuneration and adopted external ESG evaluations as part of its officer evaluation criteria. These reforms further incentivize executive officers to more fully commit to business performance as well as ESG.

USS will celebrate its 40th anniversary since the launch of its auto auction business in 2022. Our dedication to the fair and equal auto auctions advocated at the founding of USS will never change. USS will continue to develop its auto auction business while contributing to a circular economy even more in the future through peripheral and recycling businesses to ensure sustainable growth.

Yukihiro Ando

Chairman and Representative Director (CEO)

Value creation process

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

Management resources

Financial capital (FY 2021)

- Total assets **¥229.3 billion**
- Equity ratio **78.4%**

Human capital (As of March 31, 2022)

- Employees (Non-consolidated) **681**
- Vehicle inspectors **239**

Social capital (As of March 31, 2022)

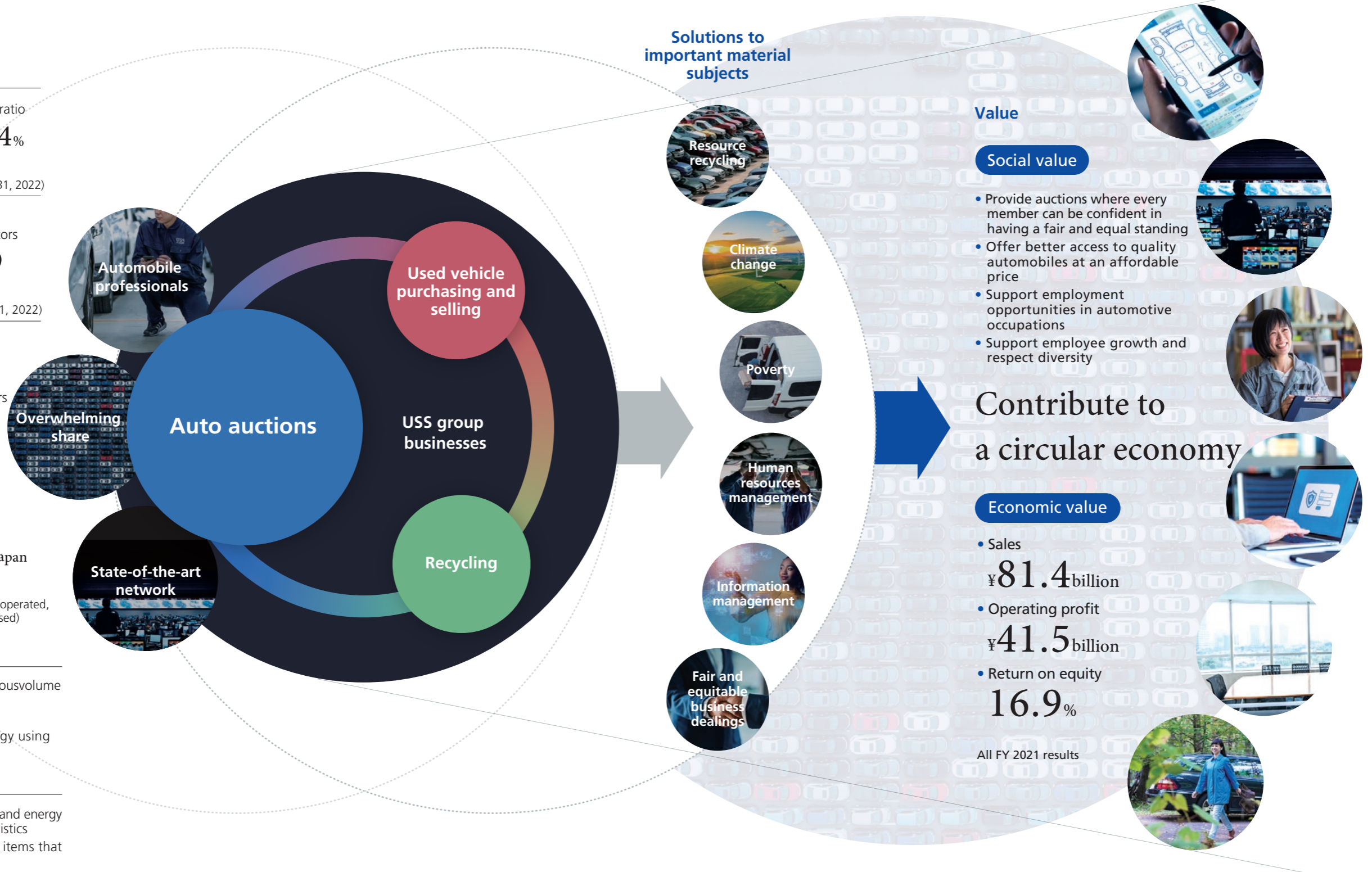
- On-site auction members **48,362**
- CIS (Internet) auction members **33,359**
- Satellite TV auction members **2,081**
- Auction sites **19** locations throughout Japan
- Used car purchasing stores **144** locations (15 directly operated, 129 franchised)

Intellectual capital

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

Natural capital

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



Value

Social value

- Provide auctions where every member can be confident in having a fair and equal standing
- Offer better access to quality automobiles at an affordable price
- Support employment opportunities in automotive occupations
- Support employee growth and respect diversity

Contribute to a circular economy

Economic value
















- Sales **¥81.4 billion**
- Operating profit **¥41.5 billion**
- Return on equity **16.9%**

All FY 2021 results

Priority subjects (materiality), risks, and opportunities

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

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

Materiality (priority subjects)	Reason	Long-term financial impact (R :Risk O :Opportunity)	Main initiatives	Relevant pages	Relevant SDGs
 <p>Resource recycling</p>	<p>In the pursuit of securing the circular economy required by society at large:</p> <ul style="list-style-type: none"> The auto auction business will contribute to the reuse of automobiles. The recycling business will contribute to the resource recovery and recycling of automobiles and plant facilities. 	<ul style="list-style-type: none"> O Stable demand of used vehicles (auto auction business) O Broader dismantling and recycling needs for automobiles and plants (recycling business) R Shrinking used car market due to a sharing economy and other shifts in values 	<ul style="list-style-type: none"> The auto auction business will enhance the efficiency and member convenience of automotive inspections through the use of digital technologies. The recycling business will promote plant recycling through SMART Inc. 	<p>Pp. 29 -30 P. 32</p>	
 <p>Climate change</p>	<p>In the pursuit of carbon neutrality throughout society at large:</p> <ul style="list-style-type: none"> An increase in the EV share of the new car market could have a financial impact on the auto auction business. USS and everyone throughout the value chain must engage in initiatives to reduce greenhouse gas emissions. 	<ul style="list-style-type: none"> O Demand to shift to EV alternatives energizing the used car market R Increasing costs related to the reduction of greenhouse gas emissions (net zero emissions) at USS and throughout the value chain 	<ul style="list-style-type: none"> Surveys and research on handling EV Identification and reduction of greenhouse gas emissions (In the process of promoting activities to reduce Scope 1 and 2 emissions and identifying Scope 3 emissions) Introduction of energy-saving measures, renewable energy, and solar power generation at business sites 	<p>Pp. 46 -50</p>	 
 <p>Poverty</p>	<p>There are people in the world who cannot escape from poverty due to a lack of access to an automobile and in turn a loss of employment opportunities.</p>	<ul style="list-style-type: none"> O Increase in people taking out loans using financial technology 	<ul style="list-style-type: none"> Support of loans for people without access to traditional financing through a capital business alliance with Global Mobility Service (tentative launch in October 2022) 	<p>Pp. 21 -22</p>	 
 <p>Human resources management</p>	<p>The auto auction business must secure and maintain automotive inspectors, digital professionals, and other diverse human resources to foster long-term growth as the workforce in Japan dwindles.</p>	<ul style="list-style-type: none"> O Recruitment of human capital with a wide range of skills R Lower number of job seekers due to a smaller workforce R Adverse health effects of work on employees 	<ul style="list-style-type: none"> Respect of human rights and diversity Fair and equal treatment and working conditions A higher level of education and training Occupational health and safety management 	<p>Pp. 43 -45</p>	 
 <p>Information management</p>	<p>The auto auction business handles personal member information and confidential information.</p>	<ul style="list-style-type: none"> O Business expansion versatily capitalizing on big data R Loss of reputation and decline in membership in the event of any personal or confidential information leaks 	<ul style="list-style-type: none"> Establishment of a privacy policy Proper management of member information Acquisition of the PrivacyMark 	<p>P. 41</p>	
 <p>Fair and equitable business dealings</p>	<p>Unfair and unequal auctions due to preferential treatment of some members or other inappropriate behavior.</p>	<ul style="list-style-type: none"> O Enhanced brand power made possible by securing and promoting a fair and equal standing for everyone R Loss of reputation and decline in membership in the event of any improper business dealings 	<ul style="list-style-type: none"> Thorough awareness-raising about the corporate philosophy to create a fair market Operation of a unique system to monitor inappropriate transactions Formulation and distribution of anti-corruption and other basic policies on websites 	<p>P. 41</p>	

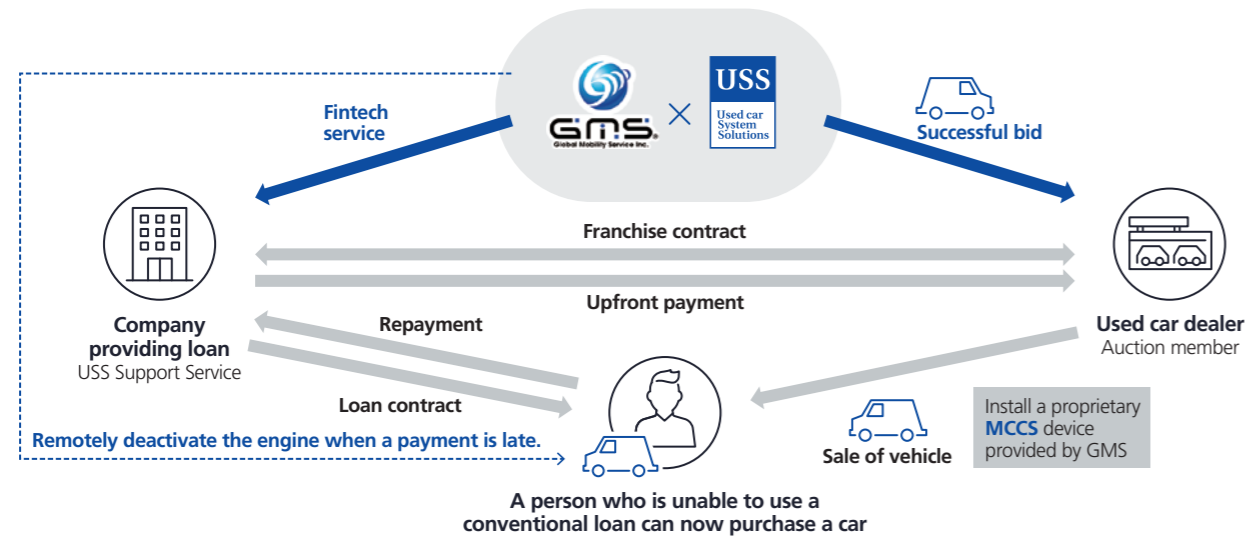
Capital alliance with Global Mobility Service, Inc.

Business expansion by addressing social issues through new financial services

USS has entered into a capital alliance with Global Mobility Service (GMS), which provides financial inclusion and fintech services worldwide. Through this partnership, USS plans to start offering new auto loans that take advantage of these financial technologies. USS-GMS loans can provide a means for people who cannot use conventional lending for various reasons to own a vehicle, whether a foreign national, a newly hired employee, freelancer, or part-time employee. This will inevitably increase used car buyers, which will invigorate the auto auction market.



New auto loan business model



People who cannot obtain traditional auto loans can use these financial services

Traditional auto loans:

- 1 Loan application through a bank or finance institution
- 2 Credit assessment by the bank or financial institution (required)
- 3 Denial of loan application
- 4 No loan provided to purchase a car

GMS fintech service:

- 1 Loan application through USS Support Service
- 2 Mandatory review (MCCS installation requirements)
- 3 Approval of loan application even if denied for a traditional loan

The loan process goes more smoothly by satisfying the MCCS installation requirements. This device allows USS to remotely deactivate the engine in the event of a late payment. If the owner still does not provide payment, the MCCS identifies the location to repossess the vehicle.

Broad stakeholder benefits



Capital GMS alliance

GMS operates under a corporate vision to build a fairer world that values workers equally. To fulfill this vision, the company provides financial services in cooperation with local finance partners in Japan and ASEAN nations as a way to make it easier for people from low-income demographics to purchase an automobile or other types of mobility. Through this business, GMS has assisted people in escaping poverty through employment that relies on the use of a vehicle.

USS has joined this effort by investing ¥1.0 billion into a capital alliance with GMS to earn the exclusive domestic rights to sell MCCS*1 devices required by these new financial services. As a USS Group company, USS Support

Service takes the lead as a GMS finance partner in Japan to build a new auto loan system distinctly different from traditional personal car loans.



MCCS

Greater access to automobiles for diverse people

Our new auto loans take advantage of GMS MCCS devices. The installation of these devices on an automobile enables remote operation of the engine. This allows the lender to deactivate the engine*2 due to a late payment, which encourages the borrower to make the payment. If the owner still does not provide payment, the MCCS device can identify the location to repossess the vehicle as the collateral against the loan. This is how GMS and USS Support Service can provide auto loans to people who cannot generally obtain a personal car loan for various reasons through the traditional loan assessment process*3.

These financial services not only provide these people

with access to vehicle purchases but also should increase vehicle sales at used car dealerships by invigorating the used car distribution market. We also anticipate this will energize the auto auction market for the USS Group. USS Support Service is working to roll out these financial services in October 2022 to provide greater value to society and realize our own Group growth.

*1 MCCS is a proprietary on-board IoT device provided by GMS that can communicate with various mobility and data worldwide (GMS has acquired the patent for this technology).
 *2 The MCCS is equipped with a fail-safe as a safety feature to prevent the engine from being deactivated while on the road.
 *3 Excluding anti-social forces, applicants with multiple debts or involved in disputes, and people facing other such extenuating circumstances.

USS will endeavor to foster further growth never satisfied with record breaking profits.

Dai Seta
President and Representative Director (COO)

Executive profile

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



COO Message

Question 1 : Could you please tell us about the USS initiatives and results during the fiscal year ended March 31, 2022?

Answer 1: USS achieved record-breaking profits driven by the robust demand for used vehicles.

A semiconductor and part shortage reduced the number of new vehicle registrations during the fiscal year ended March 31, 2022. Even while the total number of vehicles consigned to the auto auction market at large did decline, there was strong demand for used cars as an alternative to new cars. Our auto auction has a tendency to gather quality used vehicles, which brings together a large number of bidders. This often results in a high winning bid. USS is proud to have a higher average price for vehicles contracted than the market average. This favorable turnover is significant with a declining supply of used vehicles. USS was even able to increase the number of quality used vehicles consigned to its auctions during the fiscal year ended March 31, 2022. SUVs, sports cars, and other common passenger vehicles in Japan often sold at a price almost equivalent to a new vehicle. This dramatically increased our average price per vehicle contracted.

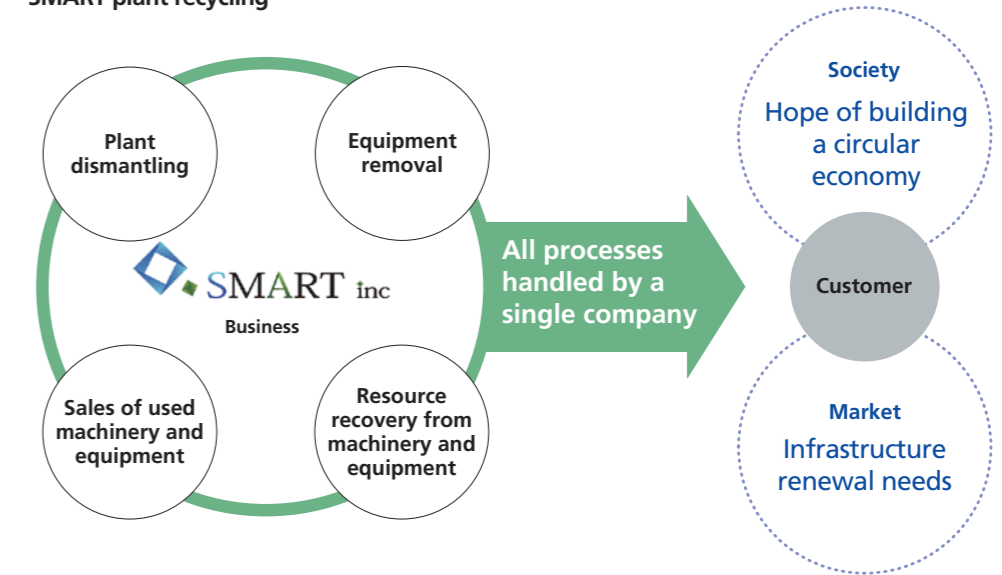
The demand for the centralized management of plant reuse, recycling, and disassembly is higher than ever before due to shutdowns of those built during periods of high economic growth. Therein, SMART Inc. is receiving large scale orders, which are generating profit above our profit targets. Although the scale of this revenue is small, the Recycling Segment will surely generate growth by responding to the needs of the times.

Auto auction market and USS versus market results

Source: USED CAR Co., Ltd. (FY 2021)

	No. of vehicles consigned	No. of contract completions	Contract completion rate	Average price of vehicle contracted
USS	2.73 million (Up 2.7% year on year)	1.78 million (Up 6.3% year on year)	65.4%	¥909,000 (Up 18.4% year on year)
Market average	6.78 million (Down 4.1% year on year)	4.67 million (Up 0.9% year on year)	68.8%	¥657,000 (Up 15.2% year on year)

SMART plant recycling



Question 2 : Could you please tell us about the business policy for the fiscal year ending March 31, 2023?

Answer 2: Our 40th anniversary campaign will attract new members and further capital investments.

The auto auction business is hosting events throughout all of Japan to retain and gain customers in celebration of its 40th anniversary. We will also strive to further enhance convenience through active capital investment. For example, USS plans to complete construction on a two-story enclosed parking garage at the Tokyo auction site in January 2023, which will accommodate 2,600 vehicles. Measures to drive a digital transformation have been rolled out to test a digital auction management format at the Nagoya auction site for use on roughly 15% of the consigned vehicles. We hope to further this usage rate in the future. In addition, USS plans to start using digital management at its other auction sites starting in the fall of 2022.

The recycling business is cultivating greater dismantling needs even outside of the plant sector. This includes orders for the redevelopment of resorts as well as one to dismantle a large Ferris wheel as part of the redevelopment of the Tokyo Odaiba area in the spring of 2022. In the spring of 2022, SMART also opened a Tokyo sales office as well as further expanded its Tokyo, Nagoya, and Osaka network. My hope is that this network will fully capitalize on the robust demand.

Question 3 : Could you please tell us about the long-term vision for USS?

Answer 3: We want to incorporate the ideas of our young up-and-comers to create an ideal and agile organization.

The auto auction business has not typically handled many commercial vehicles in the past. However, I plan to steadily increase the number that we do handle in anticipation of high demand for them. The Ministry of Land, Infrastructure, Transport and Tourism has announced a policy to strengthen the traceability of used vehicles. As the corporate conglomerate holding the top share in the industry based on vehicles consigned, I am positive USS has inevitably aggregated the highest quantity of data on used vehicles in Japan. That is why I know USS can promote a digital transformation that will contribute to more precise traceability of used vehicles in Japan.

I hope USS can also actively persevere in creating new ventures which will become core businesses in the future. Therefore, USS needs to incorporate the ideas of young professionals as a way to accelerate the transformation of the Group into an organization that can quickly respond to various needs.

USS will always retain a high ROE standard.

Masafumi Yamanaka

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

Executive profile

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



Question 1 : Could you please tell us about the basic policy on finance?

Answer 1 : The USS Basic Policy on Finance emphasizes growth investments and shareholder returns, and aims to ensure management with high capital efficiency.

The core aspects of this capitalization strategy seek investments expected to foster sustainable growth while retaining a standard of shareholder capital that can tolerate the risks brought by our business activities. The USS stance on shareholder distribution will provide a return on profits in line with business performance. We aim to provide a dividend payout ratio of at least 55%. USS considers the return on equity (ROE) an important management indicator. That is why we have set an ROE target of at least 15%.

Question 2 : Could you please tell us about the financial condition of USS during the fiscal year ended March 31, 2022 and the outlook for the fiscal year ending March 31, 2023?

Answer 2 : USS has realized a shareholder return which exceeds our initial targets thanks to fantastic business performance.

The operating results for the fiscal year ended March 31, 2022 saw ¥81.482 billion in net sales, up 8.8% year on year, ¥41.574 billion in operating profit, up 14.8% year on year, and ¥29.745 billion in profit attributable to owners of the parent, up 639.5% year on year. We also achieved the 16.9% ROE target. This favorable business performance enabled USS to increase its shareholder returns for the 22nd consecutive fiscal term. The year-end dividend per share rose to ¥66.20. This surpassed our fiscal target for a payout ratio of 55.0%. To further increase the total payout ratio, USS spent ¥9.6 billion to acquire 5.09 million shares of treasury stock between November 2021 through May 2022 and canceled 56.25 million shares on June 30th. This left 12.39 million shares of treasury stock after the cancellation, or 4.82% of the total number of shares issued.

As for the outlook in the fiscal year ending March 31, 2023, USS forecasts ¥84.100 billion in net sales, up 3.2% year on year, ¥43.100 billion in operating profit, up 3.7% year on year, and ¥30.000 billion in profit attributable to owners of the parent, up 0.9% year on year. We have also set a fiscal target to once again raise the year-end dividend per share to ¥67.40, a payout ratio of 55.1%.

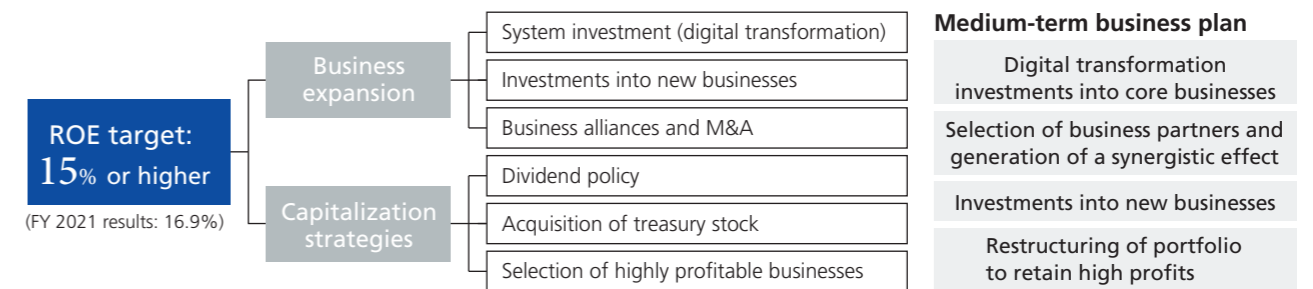
Question 3 : Could you please explain the future financial strategies for USS?

Answer 3 : USS will strive to retain a high ROE standard in terms of both business expansion and capitalization.

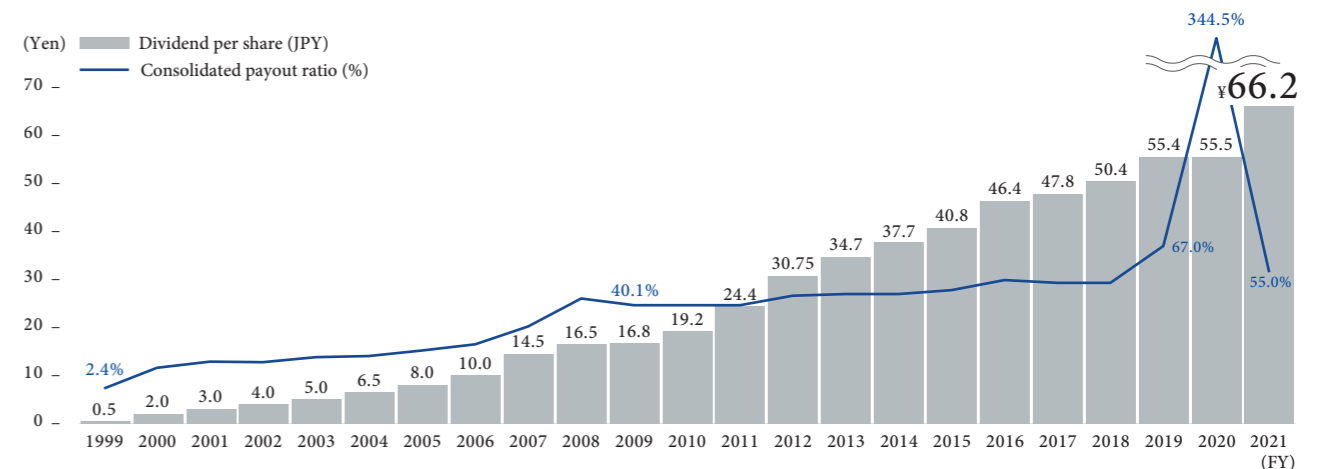
The Group will continue to play a predominate role in the distribution of used vehicles as a means to steady ongoing profitability. Our operating profit margin is also one of the best in the industry for public companies. However, there is a risk that the used car market in Japan will shrink over the long term. To retain a 15% ROE, USS will need to launch and invest in new businesses through corporate partnerships as an initiative toward business expansion. One such venture is the capital alliance with Global Mobility Service. We will also emphasize capital investments into next-generation digital infrastructure. Our capitalization strategies will allow us to raise financial leverage by increasing the amount borrowed from financial institutions as well as other debt capital in addition to a reduction in equity capital. USS will also pay close attention to the shareholders' equity ratio as an important management indicator. USS will reform its business portfolio to select and concentrate on highly profitable businesses as well. These efforts will maintain a highly sound financial structure. We also revised the USS officer remuneration policy in June 2022. These reforms set a 15% ROE as a fundamental aspect of evaluations for bonuses and performance-linked stock remuneration. The new policy intends to foster the highest level of commitment from the management team.

In June 2022, USS adapted its information disclosure according to the TCFD recommendations. We have calculated and disclosed the financial impact of climate-related risks and opportunities. USS will continue to strive to grasp the financial impact of ESG issues to formulate financial strategies over the medium to long term.

Higher ROE and action in the medium-term business plan

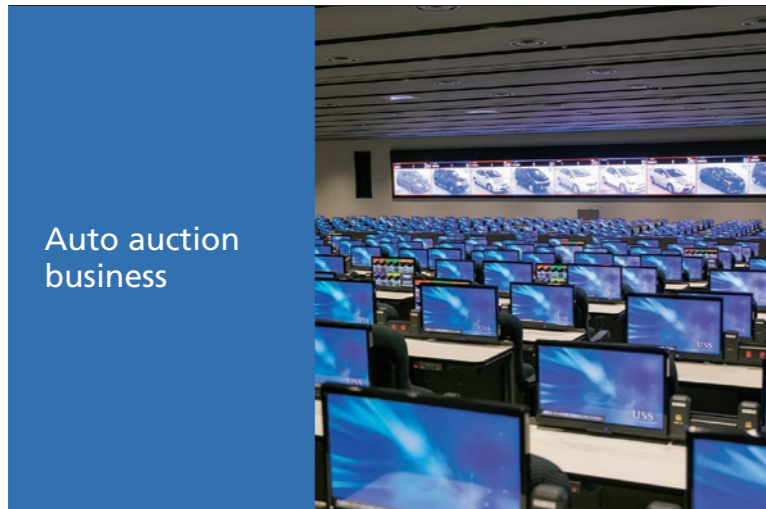


Long-term track record of dividends



Note: The above data for the dividend per share indicates retrospective values due to the stock split executed on October 1, 2013.

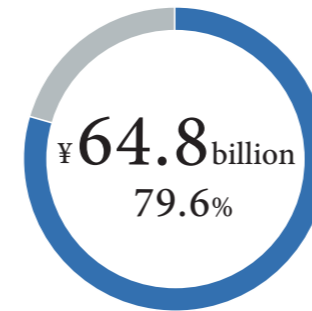
At a glance



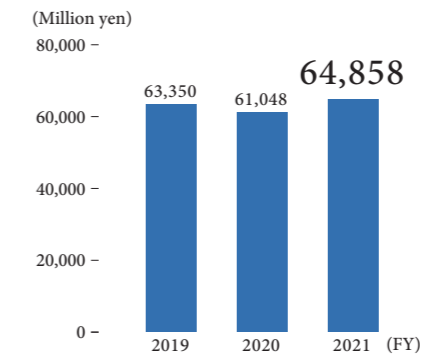
Auto auction business

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

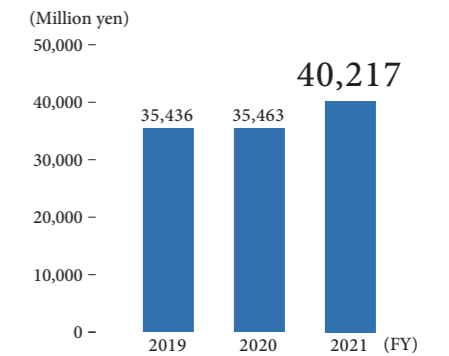
Sales composition



Changes in net sales



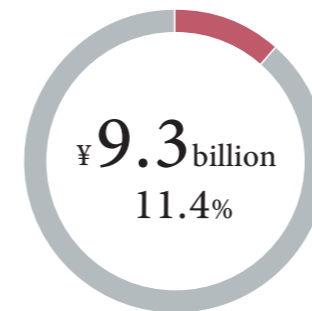
Changes in operating profit



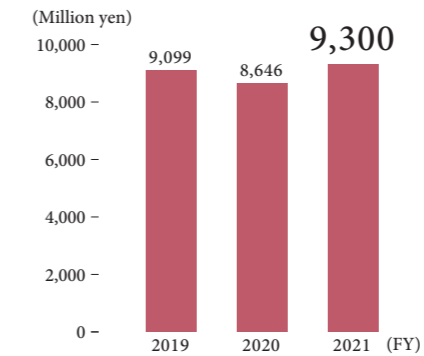
Used vehicle purchasing and selling business

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

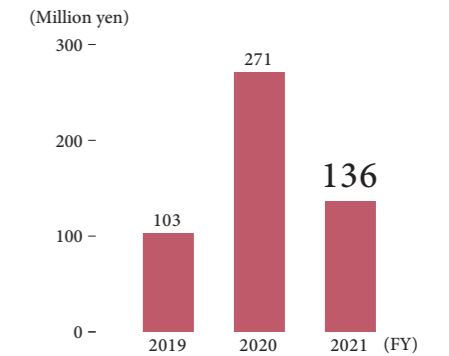
Sales composition



Changes in net sales



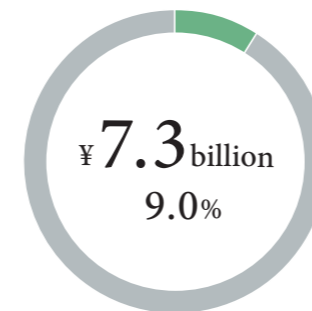
Changes in operating profit



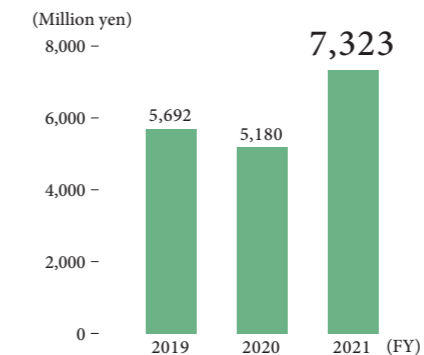
Recycle business*

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

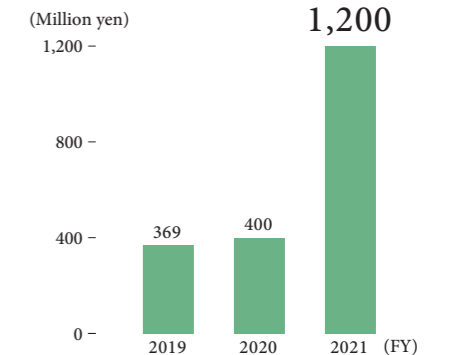
Sales composition



Changes in net sales



Changes in operating profit



* Other businesses are included in the recycling segment. Although the recycling segment does include other businesses for the fiscal year ended March 31, 2022, these businesses only make up a small percentage of the segment.

* Net sales are sales to external customers. The operating profit is based on business segment earnings.

Auto auctions



The Auto Auction Segment will work to support electric vehicles while ramping up its digital transformation.

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

Fiscal review and future strategies

The Auto Auction Segment has increased net sales during the fiscal year ended March 31, 2022 thanks to a higher contract completion rate. The business also handled a larger number of vehicles in its auto auctions. Meanwhile, goodwill amortization, depreciation, and other operating expenses declined. As a result, the segment achieved record results with ¥64.858 billion in net sales from outside customers, up 6.2% year on year, and an operating profit of ¥40.217 billion, up 13.4% year on year.

In this favorable business climate, the Nagoya auction site began testing digital entry sheets and adopted a system to provide members with images of vehicle undercarriages. During the fiscal year ending March 31, 2023, the Auto Auction Segment plans to expand the use of digital entry sheets throughout Japan. In addition, USS introduced the system to provide images of undercarriages to three large-scale auction sites before its expansion to other areas. The Tokyo auction site is tentatively scheduled to open the multi-story parking garage under construction in January 2023. Through these initiatives, we forecast ¥67.035 billion in net sales from outside customers during the fiscal year ending March 31, 2023, up 3.4% year on year with the aim of increasing operating profit.

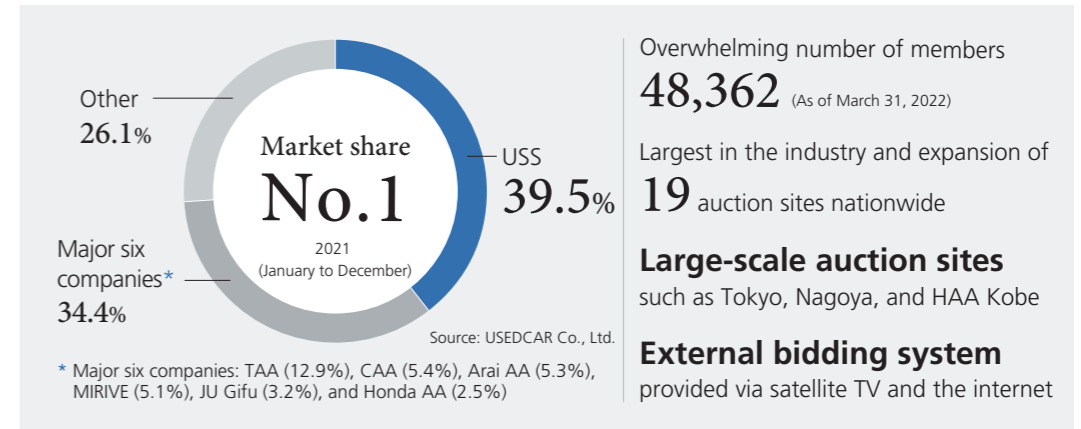
In preparation for EVs becoming a market standard, the Auto Auction Segment will build a framework for proper vehicle appraisals. In particular, USS will cooperate with companies developing technologies for degradation diagnostics of the lithium-ion batteries essential to electric vehicles. We are also looking into the precise information to disseminate to members at auctions. Moreover, the Auto Auction Segment will strive to develop human resources who can properly inspect EVs.

SWOT analysis

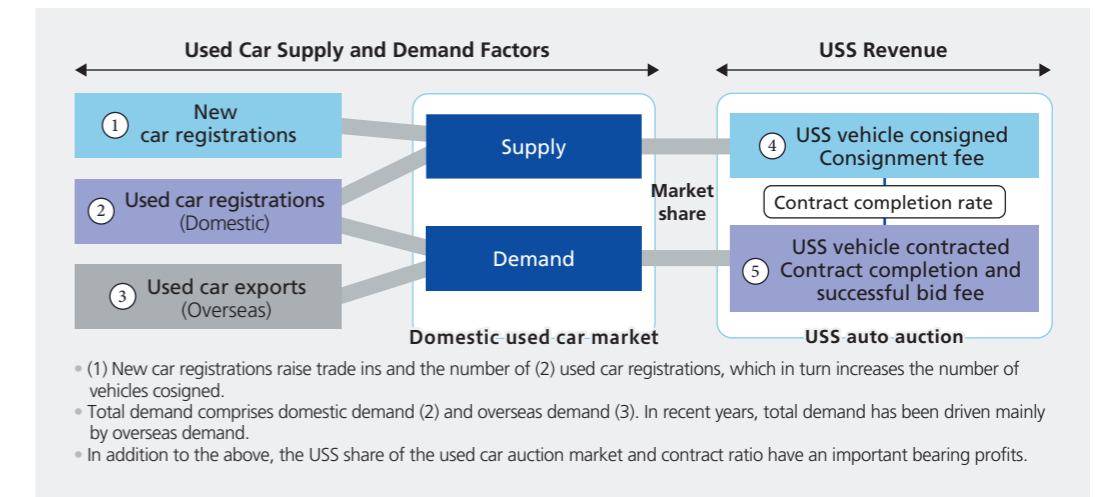
Strengths	<ul style="list-style-type: none"> The largest number of members and vehicles in Japan's auto auction industry Highly advanced vehicle inspection technologies Strict standards for fair and equitable transactions High prices of vehicles sold at auctions due to the sale of quality automobiles The industry leader using the digital transformation
Weaknesses	<ul style="list-style-type: none"> Decrease in vehicles auctioned because of the increasing diversity of channels for selling used cars An insufficient number of vehicles procured by Group companies for auction A labor shortage including automotive inspectors and management
Opportunities	<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
Threats	<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

Data

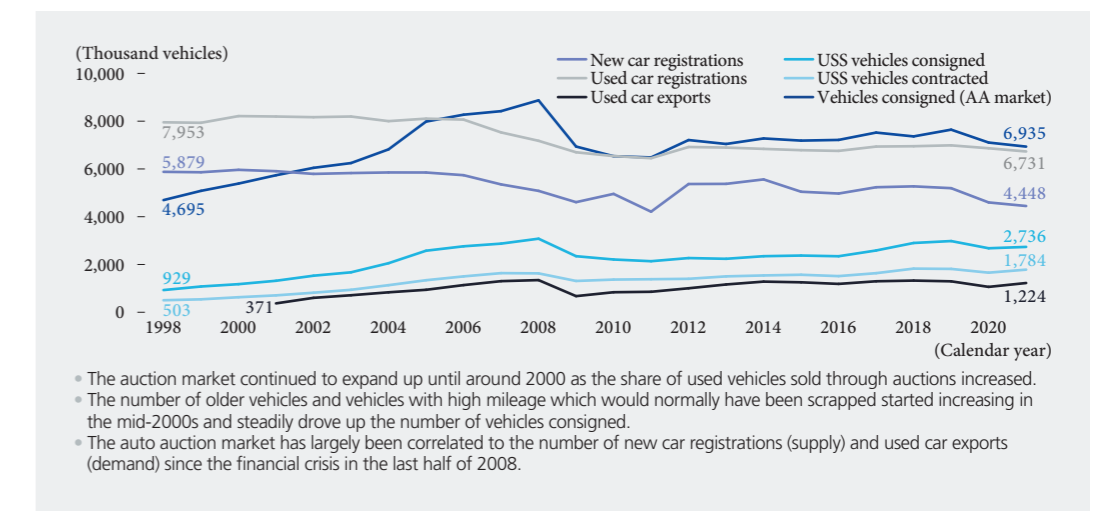
Competitive position in the auto auction market



Automobile market and USS revenue



New/used car registrations and auto auction market



Used vehicle purchasing and selling



The Used Vehicle Purchasing and Selling Segment will not only aim to increase earnings and profit but also focus on securing human resources.

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

Fiscal review and future strategies

The Rabbit Car Network is a specialized company purchasing used vehicles with 15 chains stores and 129 franchises expanding throughout Japan. It increased earnings thanks to steady high prices in the auction market during the fiscal year ended March 31, 2022. However, delays in the delivery of new vehicles reduced the actual number of vehicles available for purchase in the industry, which drastically drove up costs of purchases. This resulted in a decline in operating profit due to a decrease in the number of vehicles that Rabbit was able to acquire. The accident-damage vehicle purchasing and selling business saw a decline in the number of vehicle transactions and a fall in profits as well in spite of handling a higher number of high-priced vehicles and greater earnings. As a result, this segment generated ¥9.30 billion in net sales from outside customers, up 7.6% year on year, and an operating profit of ¥136 million, down 49.8% year on year.

In May 2022, a company under the BIKE O & COMPANY umbrella with 67 locations became a member of the Rabbit Car Network in May 2022. Building on this momentum, the Rabbit Car Network and BIKE O opened several stores together in July. In the future, this partnership plans to expand to even more locations by capitalizing on various synergies.

As a medium- to long-term strategy, the Rabbit Car Network will improve its employee retention rate. The fiscal year ending March 31, 2023 will be a chance to reform personnel policies and salary structures as well as further enhance internal training programs.



First joint location

SWOT analysis

Strengths	<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
Weaknesses	<ul style="list-style-type: none"> • Digital transformation delays for increasing efficiency, web marketing and other activities • Low employee retention rate
Opportunities	<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
Threats	<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.

Recycling



The Recycling Segment aims to engage in initiatives to create energy resources and increase the number of orders.

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

Fiscal review and future strategies

The Recycling Segment saw a dramatic increase in earnings and profit during the fiscal year ended March 31, 2022 with ¥7.323 billion in net sales, up 41.4% year on year, and ¥1.20 billion in operating profit, up 200.1% year on year. A financial breakdown shows ARBIZ realized record-breaking profits as a business recycling end-of-life vehicles and other equipment thanks to higher sales and gross profit in the wake of high prices in metal scrap markets. As a company developing a plant and equipment dismantling business, SMART received a series of large-scale projects, which also generated record-breaking sales and gross profit.

Although these two companies did struggle with labor shortages, they have already put in place measures to overcome the issue. ARBIZ is promoting greater plant automation by introducing autonomous heavy machinery while developing and testing robots to handle overnight operations. SMART has not been able to secure the sufficient number of qualified professionals mandated for plant dismantling sites. Therefore, it will focus its efforts on recruitment while planning to develop a sales network throughout Japan that can attract qualified human resources locally.

In the future, the Recycling Segment will promote technological development and capital investments encouraging a shift to next-generation energies. This includes novel techniques to recycle plastic waste into clean hydrogen. These initiatives will propel USS toward the goal of carbon neutrality in its business activities. The Recycling Segment will also generate a greater number of orders by incorporating CO₂ emissions reductions throughout the supply chain in proposals to customers.

SWOT analysis

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



Corporate governance

Basic approach

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

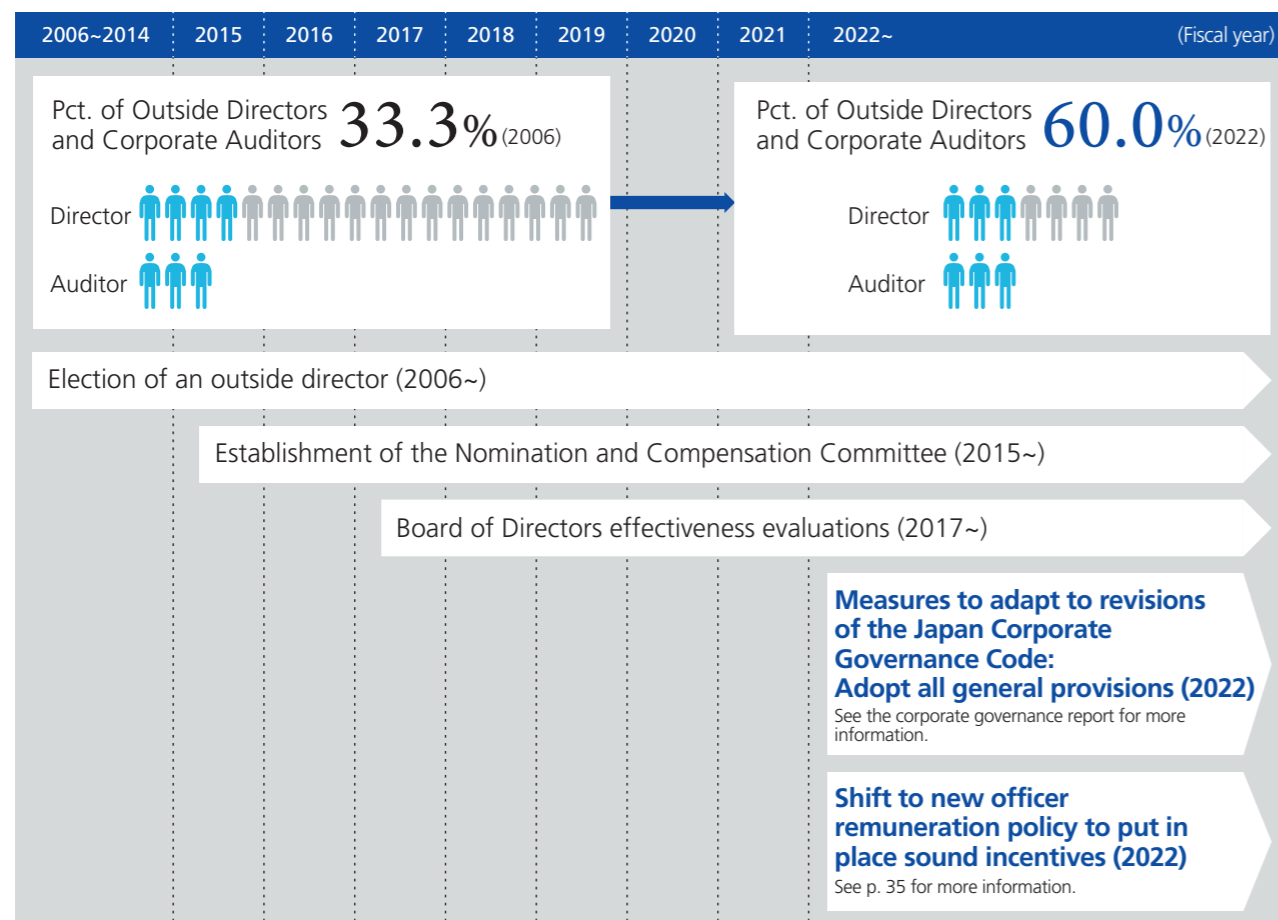
The growth of shareholder value is clearly our most important objective as a publicly owned company. But corporate value is the result of fulfilling our responsibilities to all our stakeholders. This stance is embodied in the six core elements of our corporate philosophy: creating a fair market, serving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

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

In addition, as members of society, companies have an obligation to comply with social norms. Therefore, it is essential to comply with and to fully satisfy the requirements of both the Basic Policy on Corporate Governance and the Corporate Governance Code.

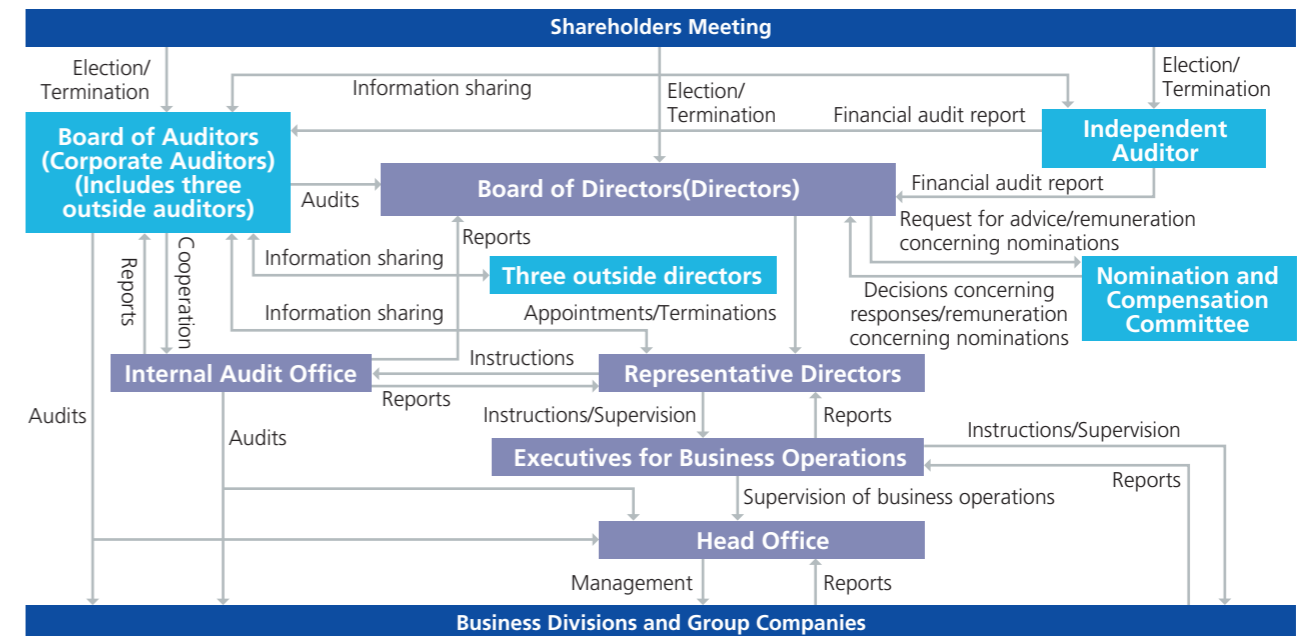
By performing thorough evaluations of our operations and formulating an improvement plan for the next fiscal year at the Board of Directors meeting at the end of each business year, we make every effort to achieve outstanding performance in terms of our accountability (duty to explain and account for our activities) and management transparency, and to improve our corporate governance.

Organizational reforms



Structure

Framework (June 2022)



Composition ratio (June 2022)

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

No. of meetings (FY 2021)

Board of Directors	9
Board of Corporate Auditors	7
Nomination and Compensation Committee	3

Board of Directors

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

Board of Corporate Auditors

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

Main topics (FY 2021)

- Board of Directors**
 - Effectiveness evaluations of the Board of Directors
 - Review of the cross-shareholding policy
 - Enhancements to corporate governance
 - Measures to combat climate change
- Nomination and Compensation Committee**
 - Remuneration policies and compensation systems
 - Director candidate nominations and executive officer appointments
 - Selection of Representative Director and Executive Directors

Nomination and Compensation Committee

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

- Nominations of director candidates and the appointment of executive officers
- Policy for the remuneration of directors and executive officers
- The selection and dismissal of representative directors and directors who are also USS executives
- The termination of directors and executive officers
- Details of director succession plans

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

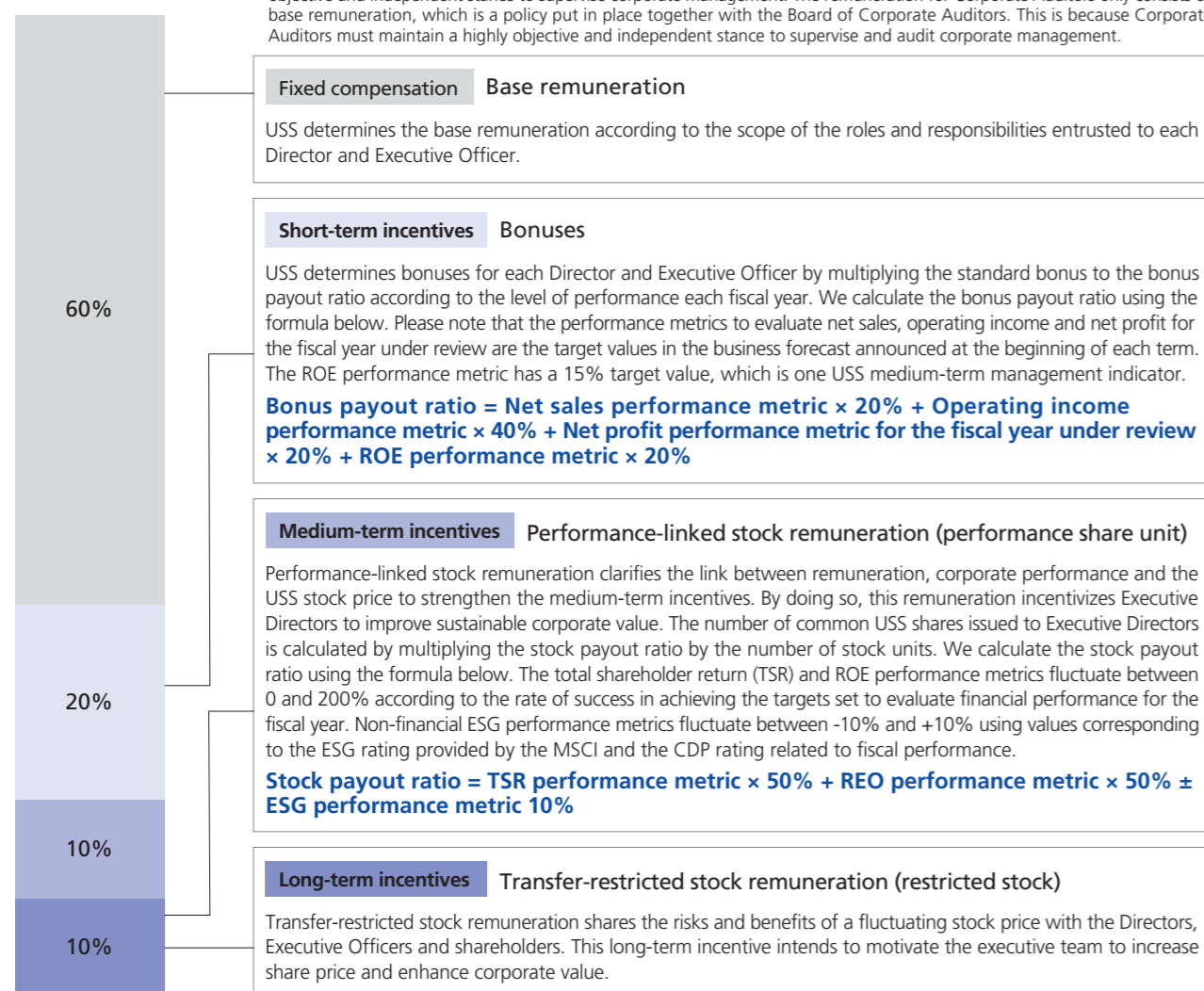
Officer remuneration policy

USS revised its officer remuneration policy for the fiscal year ending March 31, 2023 for the purpose of putting in place sound incentives toward sustainable growth.

Summary of the officer remuneration policy

Ratio of remuneration*

* The ratio of remuneration is an estimate when a Director or Executive Officer achieves all business performance targets. The remuneration for Outside Directors only consists of base remuneration. This is because Outside Directors must maintain a highly objective and independent stance to supervise corporate management. The remuneration for Corporate Auditors only consists of base remuneration, which is a policy put in place together with the Board of Corporate Auditors. This is because Corporate Auditors must maintain a highly objective and independent stance to supervise and audit corporate management.



Deductions or recovery of remuneration (Malus and Clawback clause)

USS has put in place a Malus and Clawback clause to deduct or recover performance-linked stock remuneration and transfer-restricted stock remuneration provided to Executive Directors. This clause shall apply to any Executive Director that the Board of

Directors has found to have gravely violated a law, regulation, or internal rule, or engaged in serious accounting fraud. The clause shall also pertain to large-financial losses and other specific conditions designated by the Board of Directors. In this case, the Malus and Clawback clause will enable USS to either not issue common shares to such Directors and Executive Directors, or to

deduct or recover a monetary equivalent to the stock price at the time as an alternative to some or all of the common shares already issued to an Executive Officer. USS shall determine any deductions or recovery and the details through a resolution by the Board of Directors.

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.

Overview of FY 2021 effectiveness evaluations

Evaluation process

Time: March 2022
 Respondents: All Directors and Corporate Auditors (10 including outside officers)
 Method: Self-assessment using a questionnaire
 (1) All directors and corporate auditors complete a self-evaluation questionnaire
 (2) Responses to the questionnaire are compiled and analyzed by the secretariat of the Board of Directors
 (3) Results and issues are reported to the Board of Directors, which then discusses these subjects

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 measures to deal with the two issues identified the previous fiscal year and that improvements had been made.

- (1) **Discussions concerning medium to long-term business plans will be upgraded and directors will be provided with the necessary information.**
 Although there have been discussions concerning medium to long-term strategies, there is still more room for improving the thoroughness of these discussions. This is an issue that still requires more action.
- (2) **Opportunities will be increased for the directors to hold discussions and receive reports concerning ESG, the SDGs, and other social and environmental issues.**
 The Directors held several discussions about measures to comply with the revised Corporate Governance Code and decided to disclose targets, such as the ratio of female managers. As for our environmental activities, the Directors took the first step regarding actions for reducing CO₂ emissions by approving the installation of solar power generation systems at the Nagoya and R-Nagoya auction sites.

Upcoming activities

- (1) **The Board of Directors will deepen discussions on medium to long-term management strategies.**
- (2) **More comprehensive training opportunities will be provided on ESG, the SDGs, and sustainability.**

Compliance and risk management

Basic approach and compliance systems

The USS Code of Conduct and Ethics defines the basic principles of compliance. We have also created a compliance manual to ensure these principles are put into practice.

USS also launched the USS Corporate Ethics Helpline as an internal reporting system for all USS Group employees. This reporting system gives not only regular employees but temporary and part-time staff an avenue to consult or report any concerns by email.

Anti-corruption

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

Risk management

USS endeavors to mitigate legal and regulatory risks through its compliance system. Each department tackles other

risks and reports those that may impact corporate management to the Board of Directors in this risk management system.

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



Directors

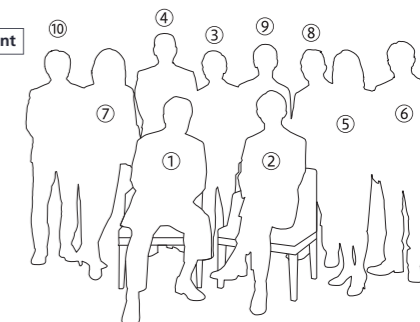
- ① **Yukihiko Ando**
Chairman and Representative Director, Chief Executive Officer (CEO)
- ② **Dai Seta**
President and Representative Director, Chief Operating Officer (COO)
- ③ **Masafumi Yamanaka**
Executive Vice President and Officer of the Supervisory Office
- ④ **Hiromitsu Ikeda**
Junior Managing Director and Officer of the Auction Operation Office
- ⑤ **Nobuko Takagi**
Outside Director
Outside Independent
- ⑥ **Shinji Honda**
Outside Director
Outside Independent
- ⑦ **Yoshiko Sasao**
Outside Director
Outside Independent

Corporate Auditors

- ⑧ **Kenichi Goto**
Full-time Outside Corporate Auditor
Outside Independent
- ⑨ **Keiji Miyake**
Outside Corporate Auditor
Outside Independent
- ⑩ **Jun Ogawa**
Outside Corporate Auditor
Outside Independent

Executive Officers

- Yukiyasu Sugata**
Executive Officer and Manager of Sapporo Auction Site
- Hiroshi Kojima**
Executive Officer in charge of the System Office



	Yukihiko Ando	Dai Seta	Masafumi Yamanaka	Hiromitsu Ikeda	Nobuko Takagi	Shinji Honda	Yoshiko Sasao	Kenichi Goto	Keiji Miyake	Jun Ogawa
Age	75	55	67	61	44	64	62	62	67	61
Years of service	40	18	18	18	4	New appointment	New appointment	1	1	1
Attendance to Board of Director meetings	100%	100%	100%	100%	100%	-	-	-	-	-
Nomination and Compensation Committee member	● Chair	●			●	●	●			
Attendance to Committee meetings	100%	100%			100%	-	-			
Skill matrix										
Corporate management	●	●				●	●			
Accounting/finance			●		●			●	●	
Business strategy/marketing	●	●		●	●	●				
Digital transformation				●						
Legal affairs/risk management			●	●						●
Administration/human resource development			●				●			
ESG	●	●			●	●	●	●	●	●

USS expects the Directors and Corporate Auditors to contribute to the fields described below. We have also selected three fields in which USS expects each to make a particularly large contribution according to the experience illustrated by their skill matrix. However, these skill matrices do not indicate the full knowledge possessed by each Director and Corporate Auditor.

- Corporate management: A person who can anticipate changes in the management environment to make appropriate management decisions based on experience and expertise as a top executive in corporate management.
- Accounting/finance: A person who can spearhead proper financial activities to ensure a sound financial constitution based on their knowledge in financial strategies, capital markets, accounting and finance.
- Business strategy/marketing: A person who can accurately anticipate the business environment surrounding USS to build forward-looking strategies and secure a competitive edge in the industry.
- Digital transformation: A person who can review the introduction of new auction systems toward further business development and growth.
- Legal affairs/risk management: A person who can strengthen risk management through expert knowledge in corporate legal and regulatory affairs and compliance to build sustainable growth infrastructure.
- Administration/human resource development: A person who can promote the active use and participation of diverse human resources and the organizational development supporting that goal to foster sustainable growth.
- ESG: A person who can execute management while taking into account ESG factors to foster stable and sustainable USS growth.

G

Message from the Outside Directors



Nobuko Takagi
Outside Director

Director Profile

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

Active debate will fulfill the expectations of USS in capital markets.

I was appointed an Outside Director of USS in 2018. During my tenure, I have used my extensive experience in not only finance and accounting but also management consulting and as an outside officer of other public companies to provide insight on overall management matters. The USS Board of Directors is not simply a body to ratify proposals but also deepen debate. I try to focus my advice on ways to foster medium to long-term growth and sustain earnings power.

Deliberations on reforms to the remuneration policy, which is essential to corporate governance, left a particularly strong impression on me at the Board of Directors meetings held during the fiscal year ended March 31, 2022. The Directors had numerous debates about the best way to incorporate USS business performance in officer remuneration while seeking advice from outside consultants. As a result, USS shifted away from the typical fixed compensation plus stock options to adopt restricted and performance-linked stock remuneration systems. I believe this combination of stock-based remuneration can expect the Executive Officers to reach management targets, enhance medium to long-term corporate value, and better consider capital markets.

USS has also steadily strengthened corporate governance each year through various other measures. Some of these initiatives include decreasing the number of Directors while increasing the ratio of female Directors as well as better disseminating information by publishing an integrated report. The Group must continue to step up to the expectations of all its stakeholders and pursue potential opportunities to expand its business domain by actively seeking partnerships with other companies. Moreover, USS needs to avidly seek out new technologies and seriously discuss the unique value only its Group can provide. Therefore, I know we must create more opportunities to deepen Board of Directors deliberations. A time when a company has shown higher earnings and profit is exactly the time it must work with even greater resolve.



Shinji Honda
Outside Director

Director profile

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

I will fulfill my role to help foster sustainable growth on monitoring and advisory boards.

I have served as a manager and director in a variety of corporate functions at multiple companies expanding global businesses. My work has focused on establishing and carrying out group management policies, corporate strategies, and management plans as well as developing overseas business and increasing profits. It is important for USS to continually innovate never satisfied with the current results to solidify its positions as an industry leader and realize sustainable growth. To do this, USS needs to not only pursue clear and highly convincing medium to long-term growth strategies as well as the environmental, social, and economic value described by ESG and SDG principles but also a transformation throughout the entire corporate group. Throughout my career, I have gained a wealth of experience and knowledge in these fields. I will actively offer advice as an Outside Director so that USS can continue to remain highly profitable and show consistent growth as the leader of the auto auction industry as well as enhance corporate value in the future.

First, I will fulfill my duties on the monitoring board by sharing my thoughts from an objective standpoint separate from the Executive Directors to maintain sound corporate management and governance. On the advisory board, I will provide advice and support in formulating and carrying out Group-wide management strategy and annual plans looking to foster appropriate growth. I will do the same for the planning and execution of environmental strategies that respond to more stringent TCFD, CDP, and SBT requirements and on other initiatives to overcome priority management issues.

Proper valuations incorporating risks and ensuring profitability are vital to investments necessary to foster this corporate growth, especially large strategic investments. I will work to provide the best advice I can considering these needs and offer positive support to contribute to sustainable growth through high USS earnings over the medium to long term.

Diversity promotion will enhance corporate value.

USS has carried out its organizational reforms through human resource development according to a business policy that builds a highly motivating and productive workplace. The Company has also striven to promote diversity, empower women, and reform work styles. I have firsthand experience with the particular difficulties in growing a business while trying to satisfy all stakeholders, especially customers and employees. USS has instilled a powerful commitment to give everyone a fair and equal standing and established a unique inspection system. I am impressed how all of these efforts have earned trust from the auto auction market. I hope USS will focus its efforts now on human resource strategies and reforms to the corporate culture to realize further growth by transitioning to the next stage of a transformation that maintains the wonderful existing qualities of the organization.

For example, one unique strength of the USS Auto Auction Segment is its highly profitable business model. Further business expansion is necessary too though to achieve sustainable growth. This not only includes an extension to the management structure and organizational climate which support existing businesses but also diversity promotion. The acceptance of diverse human resources reforms management and helps create new value. I hope to support USS in establishing policies and frameworks to create an organization where women can actively participate with enthusiasm and motivation. This work should revolve around raising management awareness about diversity promotion and the development of management skills. USS also should strive to strengthen communication strategies, which enhance a constructive stakeholder dialogue and clearly illustrate the strengths and appeal of USS. I will contribute to greater corporate value by helping promote reforms to the organizational culture and human resource strategies in line with the medium to long-term strategies that will bring USS into its next stage of its evolution.



Yoshiko Sasao
Outside Director

Director profile

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

S

Activities with customers

Ensure the fairness and reliability of auto auctions

Responsible management of vehicle data

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



Odometer inspection and control system

The used vehicle market has had issues of odometer tampering, which has lost

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

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

Prevention of illicit transactions

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

Proper management of member information

All participants in USS used car auctions are registered members and many are businesses that sell used cars. Since the information provided by members includes personal information, we handle this information very carefully in accordance with our personal information protection policy.

In March 2022, JIPDEC granted USS license to use the PrivacyMark as a business operator. USS also holds regular training sessions to teach all employees how to properly handle sensitive personal information.

There were no issues with inappropriate handling of personal information during the fiscal year ended March 31, 2022.

Greater convenience at auto auctions

Building welcoming auction sites

USS members can participate directly in on-site auctions USS Auto Auctions at any of 19 USS sites throughout the



Dedicated satellite TV terminal

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.

Member seminars and training courses

USS auto auction sites host a variety of member seminars and training courses. This includes briefings on how to take part in auctions, training courses on vehicle inspections, and seminars on bidding in USS auctions online. Our members rave about these educational opportunities for providing the information that they need to alleviate any business issues or concerns.

Appealing auto auction sites

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

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

Need-driven adoption of equipment and systems

USS always strives to ensure smooth

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

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

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

many members who spend a long period of time at our auction sites. USS has even set up a massage and other relaxation facilities.

Member claim processing

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

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

Our commitment to shareholders and other investors

Proper information disclosure and communication

Shareholders meeting (June 21, 2022)

The 42nd annual shareholders meeting used a virtual meeting format with hybrid participation.

Pct. of voting rights exercised **89.5%**



The shareholders meeting

A dialogue with analysts of institutional investors (Results in FY2021)

One-to-one meetings with analysts

132 people from

66 companies

* One-on-one meetings were held several times with some investors.

Conferences **2** times/

10 companies

A dialogue with individual investors Company information meeting for individual investors

18

* There were two online meetings for results of operations.

Response to feedback from investors

Shareholders and other investors indicated a desire for USS to hold its financial briefings at an earlier date. In light of this feedback, we revised the schedule for all of our financial disclosures to hold financial briefings immediately after announcing our financial results. During the second quarter of the fiscal year ended March 31, 2022, USS announced its financial results on Monday, November 8th before holding its financial briefing on Wednesday, November 10th. During the fourth quarter, we announced our financial results on Tuesday, May 10th before holding the financial briefing on Wednesday, May 11th.

Activities with employees

Respect for human rights and diversity

Respect for human rights

The USS Code of Conduct and Ethics prohibits discrimination in the USS Group's workforce based on race, ethnicity, nationality, gender, religion, beliefs, disability, sexual orientation, gender identity and other personal characteristics.

As auto auctions in Japan are the primary activity of the USS Group, problems involving child labor and forced labor are unlikely to occur. There has never been an instance of these problems at the group.

As part of our normal business activities, we perform checks for the prevention of infringements on human rights, discrimination, child labor and forced labor. Violations by employees of any of these guidelines can be reported by using the USS Corporate Ethics Help Line. During the fiscal year ended March 31, 2022, the Help Line received 17 reports, up 3 from the 14 reports in the year ended March 31, 2021. However, there were no serious cases of discrimination or violations of human rights in the Group during the fiscal year ended March 31, 2022.

Prevention of harassment

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

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

Our commitment to equal opportunity

The USS Group is dedicated to equal employment opportunities and compensation for everyone regardless of gender. USS recruits people with many backgrounds in order to maintain a diverse workforce with outstanding

skills. We actively hire these excellent human resources as both new graduates and as experienced professionals. At USS, 28.5% of directors are women and there are two female outside directors.

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

Management training to promote the active participation of women

Management level	No. of participants	Description
Management	Approx. 60 persons	- 90 minutes of e-learning - 90 minutes of online group training
Female employees who are management candidates	Approx. 50 persons	- Two 90-minute sessions of online and in-person group training

Workplace health and safety

Employee health promotion and management

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

We plan to increase activities for

preserving and improving the health of our workforce as well as for providing our people with pleasant and safe workplaces.

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.

Prevention of long working hours

The USS Group closely manages the amount of overtime to maintain a

pleasant workplace environment and prevent excessive working hours during peak periods of auction volume. Measures to perform tasks more efficiently and the use of shifts are two ways we are holding down working time. Furthermore, every auction site and subsidiary submits working time reports to the Board of Directors and other supervisory bodies. Directors and others hold discussions in order to

determine actions to take as needed.

The average overtime during the fiscal year ended March 31, 2022 was 23.2 hours. This year-on-year rise in overtime is due to a return to business as usual during the fiscal year ended March 31, 2022 after a steady decline in working hours driven by the COVID-19 pandemic in the fiscal year ended March 31, 2021. Please do note that USS has lowered overtime

compared to pre-pandemic levels.

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

Main data

Item	Breakdown	Unit	FY2018	FY2019	FY2020	FY2021
Employees	Number of employees	People	572	588	624	681
	Male employees (ratio)	People	438(77%)	440(75%)	457(73%)	502(74%)
	Female employees (ratio)	People	134(23%)	148(25%)	167(27%)	179(26%)
	Average age of employees	Age	39.3	39.4	38.9	39.6
	Male employees	Age	40.8	41.1	41.2	41.7
	Female employees	Age	34.6	34.2	32.6	33.8
	Average years of service	Years	12.6	13.1	13.1	13.4
	Male employees	Years	13.8	14.4	14.7	14.9
	Female employees	Years	8.9	9.4	8.8	9.3
	Number of new hiring	People	27	41	62	18
	Male employees (ratio)	People	16(59%)	19(46%)	32(52%)	11(61%)
	Female employees (ratio)	People	11(41%)	22(54%)	30(48%)	7(39%)
Management	Total number of managers	People	31	33	33	31
	Male managers (ratio)	People	31(100%)	33(100%)	33(100%)	31(100%)
	Female managers (ratio)	People	0(0%)	0(0%)	0(0%)	0(0%)
Management candidates*	Total number of management candidates	People	270	284	299	329
	Male candidates (ratio)	People	244(90%)	252(89%)	261(87%)	283(86%)
	Female candidates (ratio)	People	26(10%)	32(11%)	38(13%)	46(14%)
Childcare leave	Employees taking time off for child care	People	1	11	10	10
	Male employees	People	0	0	2	4
	Female employees	People	1	11	8	6
Paid leave	Percentage of paid leave taken	%	54.8%	50.0%	50.6%	64.4%
Overtime	Average monthly overtime	Hours	27.3	26.0	17.7	23.2
Regular employee turnover rate		%	4.8%	4.6%	2.9%	4.7%

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

S

Upgrading education and training programs

Training for new employees

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

Training for managers

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

In July 2022, USS introduced a management and compliance

training system as e-learning programs for managers.

Training for automobile inspectors

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

USS established its Inspector Certification Program in 2006 in order to improve the methods used for inspecting and evaluating vehicles and ensure the consistency of inspections. Every inspector undergoes annual written and practical examinations to acquire a certification from level one to four. USS has assigned one instructor to each territory and one trainer at each auction site throughout

Japan to guide and develop the skills of automobile inspectors and manage inspection certification programs. These training programs strive to build a consistent inspection framework.

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



Our commitment to society

Social contributions to local and international communities

Contribution to our neighbors

USS employs a strategy of building auto auction sites in industrial zones. Our hope is to minimize any impact we might have on people living in local communities around these sites. We also strive to prevent any accidents due to the many visitors and large trucks with car carrier trailers coming and going from our auction sites. USS takes any complaints and feedback from the local community seriously and is sincere in its efforts to address and rectify these issues.

Cooperation with local communities

USS has entered into agreements for cooperation during disaster based on requests from local municipalities. Therein, some of our auction sites will use their multistory parking garages as evacuation areas in the event of a disaster.

USS also takes part in community involvement activities, such as cleanup efforts and discussions on ways to build a better community, in cooperation with local companies. We help with local festivals and other events, which deepens our bond to each of these communities.

Economic contributions to emerging and developing nations

The USS Group exports some of the used vehicles it handles to emerging and developing nations, which contributes to the development of those local economies.

Our meticulous inspections of each and every vehicle ensures that we export safe and secure automobiles to these countries.

E

Environmental management

Basic approach and environmental systems

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

Our environmental policy actively strives to reduce the environmental burden of our business activities as much as possible. These efforts include

saving energy at offices and other business sites.

USS Group member ARBIZ which operates a recycling business for vehicles and other items, has established its own Integrated Policy on the Environment and Occupational Health and Safety. This company has received ISO 14001 certification for its environmental management system, which is operated under the oversight of its Environment and Safety Secretariat. One aspect of this system is maintaining close ties with government agencies in order to comply with the frequent revisions to laws and regulations in Japan

concerning recycling.

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

USS did not have any violations or legal disputes related to environmental laws, regulations, ordinances, or other guidelines in the year ended March 31, 2022. There were also no serious environmental incidents, complaints, or reports.

Five-point environmental policy

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

Activities to combat climate change

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

Basic stance

The major social mission of the USS Group is to run auto auctions which minimize energy consumption and greenhouse gas emissions. Work to limit the average global temperature rise benefits both the Group and society. It not only reduces risks arising due to climate change but also shapes

a sustainable carbon-neutral society, which protects the environment.

Our public declaration of support for the Task Force on Climate-Related Financial Disclosure (TCFD) shapes the Group's approach to disclosures on governance, strategies, risk management, key performance indicators, and targets.

Main climate change initiatives

	Initiative
FY2021	Participation in the CDP climate change questionnaire
FY2022	Disclosure satisfying the TCFD recommendations

Detailed overview of financial disclosures under TCFD

Recommendation	Description												
Governance	<p>Oversight of the Board of Directors The Board of Directors is responsible for overseeing and monitoring the initiatives and targets set to overcome climate-related challenges. To do so, the president and representative director provides reports to the Board of Directors on climate-related risks and opportunities at least once per year. The Board of Directors considers all necessary climate-related risks and opportunities when determining Group management strategies, plans, annual budgets, profit targets, and all other relevant corporate matters.</p> <p>Manager in charge of climate-related oversight The president and representative director oversees Group management in its evaluation and adaption to the climate-related risks and opportunities which impact its businesses. To minimize climate-related risks and maximize climate-related opportunities, we incorporate those that impact our businesses into policies, strategies, plans, budgets, and targets at least once a year. We also set climate-related key performance indicators (KPIs) to review and monitor progress. The president and representative director reports leads these efforts as the manager in charge of climate-related oversight, while reporting to and receiving guidance from the Board of Directors at least once a year.</p> <p>New External ESG rating for assessing officer remuneration The General Meeting of Shareholders approved a resolution to revise the Officer Remuneration Policy on June 21, 2022. The amendments to this policy integrate MSCI and CDP external ESG ratings as non-financial indicator to determine performance-linked stock remuneration.</p>												
Strategy	<p>Identification and assessment of climate-related risks and opportunities USS has identified, assessed, and prioritized climate-related transition and physical risks as well as opportunities. We have also created specific climate-related scenarios to gain even greater insight into these risks and opportunities.</p> <p>Scenario analysis Please see "Overview of Scenario Analyses" and "Impact Assessments and Response Strategies" for more information.</p>												
Risk management	<p>Framework to identify and evaluate climate-related risks and opportunities As the manager in charge of climate-related matters, the president and representative director leads relevant departments and Group companies in identifying and understanding climate-related risks and opportunities. Our approach leverages a defined risk management framework to make headway. The president and representative director shares this progress with the Board of Directors at annual and extraordinary meetings. The Board of Directors uses these reports to monitor risk management progress as well as the initiatives and targets set to overcome various challenges.</p> <p>Climate-related risk management framework As the manager in charge of climate-related risks, the president and representative director reports and advocates initiatives to combat climate change to the Board of Directors. This includes the planning, proposal, and oversight of a risk management framework to identify, evaluate, and address its Group-wide impact. The Board of Directors has the duty to deliberate on and assess the overall risks presented by climate change using what has been learned from the reports and proposals presented by the president and representative director at these annual and extraordinary meetings. The Board of Directors will also create risk management policies and strategies to minimize risks from a Group-wide perspective. It will also properly incorporate those policies and strategies into plans, budgets, and targets.</p>												
Indicators and targets	<p>The USS Group has set specific targets for reducing CO₂ emissions as part of its measures to address climate-related risks and opportunities. To reach our greenhouse gas (GHG) reduction targets, we will promote solar power generation and shift to CO₂-free electricity.</p> <table border="1"> <thead> <tr> <th></th> <th>GHG emissions (t-CO₂) in FY2020</th> <th>Ratio</th> </tr> </thead> <tbody> <tr> <td>Scope 1</td> <td>5,187</td> <td>3%</td> </tr> <tr> <td>Scope 2</td> <td>12,317</td> <td>7%</td> </tr> <tr> <td>Scope 3</td> <td>155,293</td> <td>90%</td> </tr> </tbody> </table> <p>Targets* and progress</p> <p>Total scope 1 & 2 emissions (tCO₂)</p> <p>Scope 3 emissions (tCO₂)</p> <p>* Certified science based targets</p>		GHG emissions (t-CO ₂) in FY2020	Ratio	Scope 1	5,187	3%	Scope 2	12,317	7%	Scope 3	155,293	90%
	GHG emissions (t-CO ₂) in FY2020	Ratio											
Scope 1	5,187	3%											
Scope 2	12,317	7%											
Scope 3	155,293	90%											

Overview of scenario analyses

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

economy with a 2°C or lower scenario. The second is a business-as-usual scenario. Through the data (parameters) rooted in these scenarios and internal and external information, we assess the business and financial impact of climate-related risks and opportunities.

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

	2°C or lower scenario	Business-as-usual scenario
Overview of scenario	<ol style="list-style-type: none"> Stronger laws and government regulations Full adoption of carbon taxes (carbon pricing) Global shift to electric vehicles (EVs) Presumed EV sales ratio in Europe: 80% (2030) Presumed EV sales ratio in Japan: 55% (2030) Note: EV sales ratio for all passenger vehicles sold 	<ol style="list-style-type: none"> Delay in the shift to electric vehicles in developing nations Presumed EV sales ratio in other nations: 5% (2030) Note: EV sales ratio for all passenger vehicles sold Manifestation of climate-related risks*⁵ - Approx. 4.5°C average temperature rise - More than a roughly 230% increase in the torrential and heavy short-term rains - Approx. 0.71 m average rise in sea levels along Japan coasts
Reference scenarios	<ul style="list-style-type: none"> - IEA Sustainable Development Scenario (SDS) *¹ - Representative Concentration Pathway (RCP) 2.6 *³ 	<ul style="list-style-type: none"> - IEA Stated Policies Scenario (STEPS) *² - Representative Concentration Pathway (RCP) 8.5 *⁴

* 1, 2 World Energy Outlook 2021 trajectories and temperature outcomes created by the International Energy Agency (IEA) <https://www.iea.org/reports/world-energy-outlook-2021>

* 3, 4 Fifth Assessment Reports (AR5) created by the Intergovernmental Panel on Climate Change (IPCC)

* 5 Climate change forecasts for Japan reference the Climate Change in Japan (2020) report published by the Ministry of Education, Culture, Sports, Science and Technology and the Japan Meteorological Agency

2°C or lower scenario

Scenario analysis results	Types of risks and opportunities		Risk of manifestation	Potential	Financial impact	Financial impact	Response strategies
	Type	Factors					
Business risks: - An increase in energy costs brought by the adoption of European-style carbon taxes and pricing even in Japan to achieve net-zero GHG emissions - A decline in auction sales due to lower demand for used gasoline car exports as more nations prohibit the sale of gasoline vehicles from Japan	Transition Risk (Regulatory/legal changes)	An increase in energy costs due to carbon pricing	Short to medium	High	Medium	Tax burden when unable to reduce GHG emissions 2030: Approx. ¥250 million 2050: Approx. ¥420 million <P.49 Table 1>	- Set CO ₂ reduction targets - Promote on-site adoption of renewable energy (solar power generation) - Shift to CO ₂ -free electricity to reduce GHG emissions
		A decline in demand for used car exports due to a larger number of nations prohibiting gasoline car sales	Medium to long	Medium	Medium	A decline in combustion engine vehicles sold worldwide from its peak of 78 million vehicles in 2023 to 69 million vehicles in 2030 <P.50 Table 2>	- Research and develop appraisal criteria and inspection systems for electric vehicles - Spearhead collection and sales initiatives to expand electric vehicle auctions
Business opportunities: - An increase in the number of vehicles put on auction due to a shift in demand from gasoline to electric vehicles - An increase in the number of vehicles put on auction by developing the new inspection technologies and rules driven by industries working toward zero emissions - An increase in the number of vehicles put on auction due to the lifting of export regulations resulting from a higher demand for electric vehicles in countries restricting used car exports from Japan	Opportunity: (Energy sources)	Higher demand for electric vehicles	Short to medium	High	Medium	- A 55% ratio of electric passenger vehicles in Japan by 2030	- Increase the number of charging stations for electric vehicles
	Opportunity: (Products and services)	An increase in demand for high-value added services due to new inspection technologies for electric vehicles	Short to medium	Medium	Medium	- Growth in the global EV market reaching 39 million vehicles by 2030 (130% increase compared to 2020 <P.50 Table 2>)	
	Opportunity: (Markets)	Growth in global new market demand for used electric vehicles	Short to medium	Low	Low		

<Risk of Manifestation> Short term: Within 5 years; Medium term: 5 to 10 years; Long term: 10 to more than 30 years

<Potential of Manifestation> High: High potential; Medium: 50-50; Low: Low potential

<Financial Impact> Small: ¥100 million or less; Medium: ¥100 to ¥5,000 million; Large: More than ¥5,000 million

E

Business-as-usual scenario

Scenario analysis results	Types of risks and opportunities		Risk of manifestation	Potential	Financial impact	Financial impact	Response strategies
	Type	Factors					
Business risks: - Suspension of business, additional costs to repair equipment, and higher insurance premiums due to damage of the auction house inflicted by typhoons or other natural disasters - Costs to rebuild or move the auction house on the coast due to damage caused by flooding and high tides resulting from rising sea levels	Physical Risks (Acute)	Damage to the auction house caused by typhoons and other natural disasters	Medium to long	Low	Medium	Approximately ¥200 million loss in revenue if USS Nagoya has to cancel an auction due to power outages or other such damage caused by a typhoon	- Regularly revise Business Continuity Plans (BCP) - Identify the risks of flooding through hazard maps and enhance evacuation training - Establish data management systems in preparation for disasters
	Physical Risks (Chronic)	Damage to the auction house caused by rising sea levels	Medium to long	Low	Large	Extra capital investment from ¥5,000 to over ¥10,000 million if USS Nagoya has to move its auction house on the coast due to rising sea levels	
		Higher average temperature and risk of heatstroke	Medium to long	High	Low	An increase in costs for facility ventilation and heatstroke prevention measures	

<Risk of Manifestation> Short term: Within 5 years; Medium term: 5 to 10 years; Long term: 10 to more than 30 years
 <Potential of Manifestation> High: High potential; Medium: 50-50; Low: Low potential
 <Financial Impact> Small: ¥100 million or less; Medium: ¥100 to ¥5,000 million; Large: More than ¥5,000 million

Impact assessments and response strategies

Risk

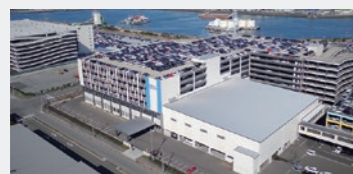
Increasing businesses costs due to carbon taxes and pricing

USS has calculated the potential financial impact of carbon taxes (carbon pricing). The 2°C or Lower Scenario has a potential financial impact of ¥250 million by 2030 and ¥420 million by 2050. The Business-as-Usual Scenario has a potential financial impact of ¥130 million by 2030 and ¥180 million by 2050.

Response strategy

Promoting solar power and other renewable energy on-site

USS will employ several response strategies to address the potential impact of carbon taxes. These initiatives have been put in place to not only achieve our CO₂ emission reduction targets but also promote on-site renewable energies. These efforts will mitigate our future tax burden. The first step of these initiatives will equip both the USS Nagoya and USS-R Nagoya auction houses with solar panels. We will continue to devise plans with the highest benefit to the entire Group to achieve swift results. Plans with the highest benefit to the entire Group to achieve swift results.



USS Nagoya (Tokai City, Aichi)



USS-R Nagoya (Tokai City, Aichi)

Opportunity

Higher demand for electric vehicles

Table 2 and Table 3 show the number of passenger vehicle sales that USS estimates in 2030. Table 2 estimates these sales based on the 2°C or Lower Scenario. Table 3 estimates these sales based on the Business-as-Usual Scenario. In both, we foresee a dramatic increase in passenger vehicle sales compared to 2020. The particular popularity of Battery Electric Vehicles (BEV) and Plug-in Hybrid Electric Vehicles (PHEV) is expected to drive the shift from gasoline to electric vehicles. USS predicts this will have a positive impact on the auto auction business.

Response Strategies

Upgrading systems to offer electric vehicles at auctions

USS will research and develop appraisal criteria and inspection systems for electric vehicles as it offers more electric vehicles in its auctions. Thereafter, we will take collection and sales steps to expand these electric vehicle auctions and actively increase the number of available EV charging stations.

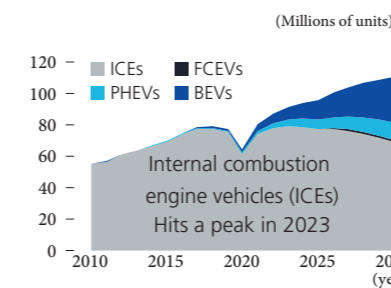
<1> Important parameters (indicators) taking into account the financial impact in 2030 and 2050

	Scenarios	2°C or Lower scenario		Business-as-usual scenario		
		Year	2030	2050	2030	2050
Without achieving GHG emission reduction targets	Carbon tax (billions of yen)		0.25	0.42	0.13	0.18
When achieving GHG emission reduction targets	Carbon tax (billions of yen)		0.14	0.24	0.07	0.10
Difference	Tax liability (billions of yen)		0.11	0.18	0.06	0.08
Carbon tax and pricing (US\$ per t-CO ₂)			120	200	65	90

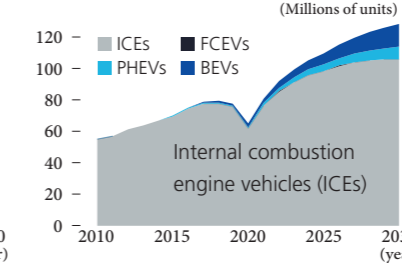
(Prerequisites)
 - The calculation presumes Japan will put in place a carbon tax with carbon pricing equivalent to nations committed to the IEA and WEO 2021 SDS net-zero pledge as well as EU STEPS.
 - Conversion: Scope 1 & 2 Emissions for the Fiscal Year Ending March 31, 2021 x Carbon Tax Price

Note: Currency converted at US\$1 to ¥120

<2> Number of passenger vehicles sold in a 2°C or lower scenario



<3> Number of passenger vehicles sold in terms of the effects of a business-as-usual scenario



(Prerequisites)
 Refer to the following for global passenger vehicle sales data.
 •IEA Global EV Outlook 2021
<https://www.iea.org/reports/global-ev-outlook-2021>
 •Global EV Data Explorer
<https://www.iea.org/articles/global-ev-data-explorer>
 •Figures for the number of internal combustion engine vehicles are calculated from the ratio of EVs, and for future figures other than 2025 and 2030, the figures are calculated based on the assumption that they will change consistently.
 •ICE: internal combustion engine vehicles, PHEV: plug-in hybrid electric vehicle, BEV: battery electric vehicle, FCEV: fuel cell electric vehicle

Reduction of energy consumption

USS strives to reduce its greenhouse gas emissions by limiting its energy intensity, especially because energy consumption is the main contributor to CO₂ emissions.

The Business Operator Classification Evaluation System rated USS as an S-rank business operator with excellent energy savings for four consecutive

years from fiscal 2017 through fiscal 2020. Through this program, the Ministry of Economy, Trade and Industry program classifies every business operator that submits a regular report in accordance with the Energy Conservation Act as either an S, A, B, or C business operator.

Energy intensity*

Fiscal year	Energy consumption
2017	1.977
2018	1.855
2019	1.705
2020	1.692

* The non-consolidated energy consumption is calculated using the formula below.
 Energy consumption (converted to kl of crude oil) / Number of vehicles consigned at auto auctions (thousand vehicles)

Resource recycling

Metal and plastic recycling in the recycling business

ARBIZ vehicle recycling operations use a highly accurate sorting and reuse system for the metals and plastics recovered from end-of-life vehicles. The company processes about 15,000 of these vehicles every year and recycles 97% of these vehicles based on weight. As a subsidiary of USS, Smart is growing as a business disposing of equipment and industrial plants, which reuses machinery and reclaims metal scrap.

Effective use of dust from automobile shredders

The process for recycling automobiles produces automotive shredder residue (ASR) after reclaiming air bags and

other such parts. ASR contains metals, glass, ceramic, synthetic rubber, hard plastics and light dusts, such as foamed plastics and nonwoven textiles, in addition to other material residue.

ARBIZ has succeeded in mixing this dust with iron powder to create a substance that suppresses the formation of slag in blast furnaces. In addition, we have developed a thermo-reactor for a material incorporating aluminum smelting slag for raising the temperature of electric arc furnaces used for steelmaking. This process makes it possible to reuse about 3,500 tons of light dust every year.

Waste processing at business sites

We sort all waste materials produced at USS Group business sites as

required by local regulations and other guidelines.

USS selects contracts to dispose of waste using a rigorous examination process and checks manifests to ensure all waste materials are properly handled.

Water conservation

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

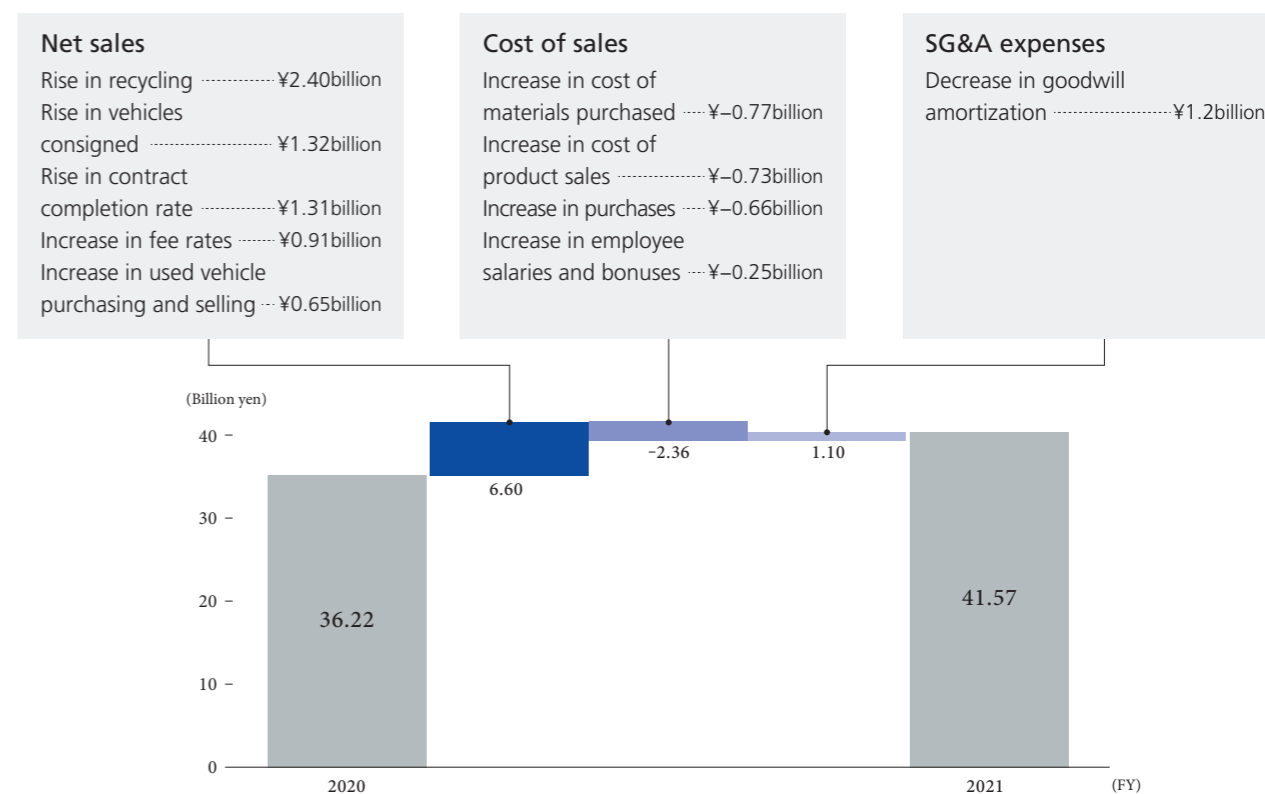
Summary of consolidated results of operations

Consolidated balance sheets	(Million yen)	
	2020	2021
Current assets	81,528	103,872
Cash and deposits	67,770	79,380
Receivables due from member dealers at auction, etc.	13,757	24,491
Non-current assets	129,171	125,481
Property, plant and equipment	103,302	100,379
Other	25,869	25,102
Total assets	210,699	229,354
Current liabilities	26,922	37,884
Payables due to member dealers at auction	11,788	21,213
Other	15,133	16,670
Non-current liabilities	10,253	8,996
Total liabilities	37,175	46,880
Total net assets	173,524	182,473
Total liabilities and net assets	210,699	229,354

Consolidated statements of cash flows	(Million yen)		
	2020	2021	Changes
Net cash provided by (used in) operating activities	38,407	36,630	-1,777
Net cash provided by (used in) investing activities	-9,330	-1,339	7,990
Free cash flow	29,076	35,290	6,213
Net cash provided by (used in) financing activities	-15,035	-24,680	-9,644
Capital expenditures (terms of cash flows)	8,985	2,036	-6,949
Depreciation	5,334	4,959	-374

Consolidated statements of income	(Million yen)	
	2020	2021
Net sales	74,874	81,482
Cost of sales	28,341	30,710
Gross profit	46,533	50,772
Selling, general and administrative expenses	10,306	9,197
Operating profit	36,227	41,574
Non-operating income	950	984
Non-operating expenses	181	185
Ordinary profit	36,996	42,374
Extraordinary income	57	1,650
Extraordinary losses	21,832	149
Profit before income taxes	15,220	43,874
Income taxes	10,962	13,246
Profit	4,258	30,627
Profit attributable to non-controlling interests	235	882
Profit attributable to owners of parent	4,022	29,745

Analysis of change in operating profit



	(Million yen)										
(Item)	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
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	81,482
Operating profit	27,952	29,304	32,680	33,411	34,491	32,396	36,071	37,123	36,009	36,227	41,574
Ordinary profit	28,588	29,884	33,275	34,027	35,218	32,999	36,676	38,039	36,710	36,996	42,374
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	29,745
Comprehensive income	16,752	18,453	20,204	21,454	22,473	22,895	25,132	25,848	20,764	4,628	31,187
Consolidated financial position											
Assets	154,639	154,543	164,182	174,106	186,831	197,374	222,292	232,703	219,133	210,699	229,354
Cash and deposits	36,840	37,033	46,318	49,862	62,290	74,778	39,622	51,352	50,729	67,770	79,380
Liabilities	33,541	34,866	32,080	30,067	31,647	38,176	50,102	49,168	35,153	37,175	46,880
Interest-bearing debt	1,746	1,148	670	360	255	4,092	3,569	3,112	3,060	3,174	2,828
Net assets	121,097	119,676	132,102	144,039	155,183	159,197	172,190	183,535	183,980	173,524	182,473
Equity capital	120,582	119,112	131,348	143,098	154,155	158,029	170,767	181,698	181,939	171,394	179,880
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	119.80
Dividends (yen)	24.40	30.75	34.70	37.70	40.80	46.40	47.80	50.40	55.40	55.50	66.20
Other											
Operating margin (%)	43.7	46.3	48.1	49.5	50.3	48.2	48.0	46.5	46.1	48.4	51.0
ROE (%)	14.1	15.3	15.9	15.8	15.1	14.7	14.8	14.5	11.3	2.3	16.9
ROA (%)	18.7	19.3	20.9	20.1	19.5	17.2	17.5	16.7	16.2	17.2	19.3
Dividend payout ratio (%)	40.0	44.3	45.1	45.1	47.0	51.5	50.1	50.1	67.0	344.5	55.0
Equity ratio (%)	78.0	77.1	80.0	82.2	82.5	80.1	76.8	78.1	83.0	81.3	78.4
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	245,198
Treasury shares (thousand shares)	41,280	55,067	54,828	54,691	55,102	59,272	59,144	60,174	63,717	63,943	68,051
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	48,362
CIS (Internet) auction members	25,957	27,072	28,007	28,815	29,512	29,966	30,337	31,639	31,998	32,538	33,359
Satellite TV auction members	3,921	3,651	3,486	3,291	3,101	2,894	2,623	2,468	2,342	2,197	2,081
Number of auction sites (excl. JBA)	17	17	17	17	17	17	19	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	1,263

Note:

- * All CIS (Internet) and TV (satellite) members are also on-site members because on-site membership is prerequisite for CIS (Internet) or TV (satellite) membership.
- * Number of treasury shares includes the shares owned by the USS employee stock ownership plan trust.
- * The data per share, the number of shares outstanding (excl. treasury shares) and the number of treasury shares are retroactively adjusted for the stock split effective October 1, 2013.
- * Up to fiscal 2014, net income is presented as profit attributable to owners of parent.
- * The Company started using Partial Amendments to Accounting Standard for Tax Effect Accounting (ASBJ Statement No. 28, February 16, 2018), etc. at the beginning of the fiscal year ended March 2019. Assets and liabilities for the fiscal year ended March 2018 are retroactively revised.



USS Co., Ltd.

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

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