



Corporate governance

Basic approach

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

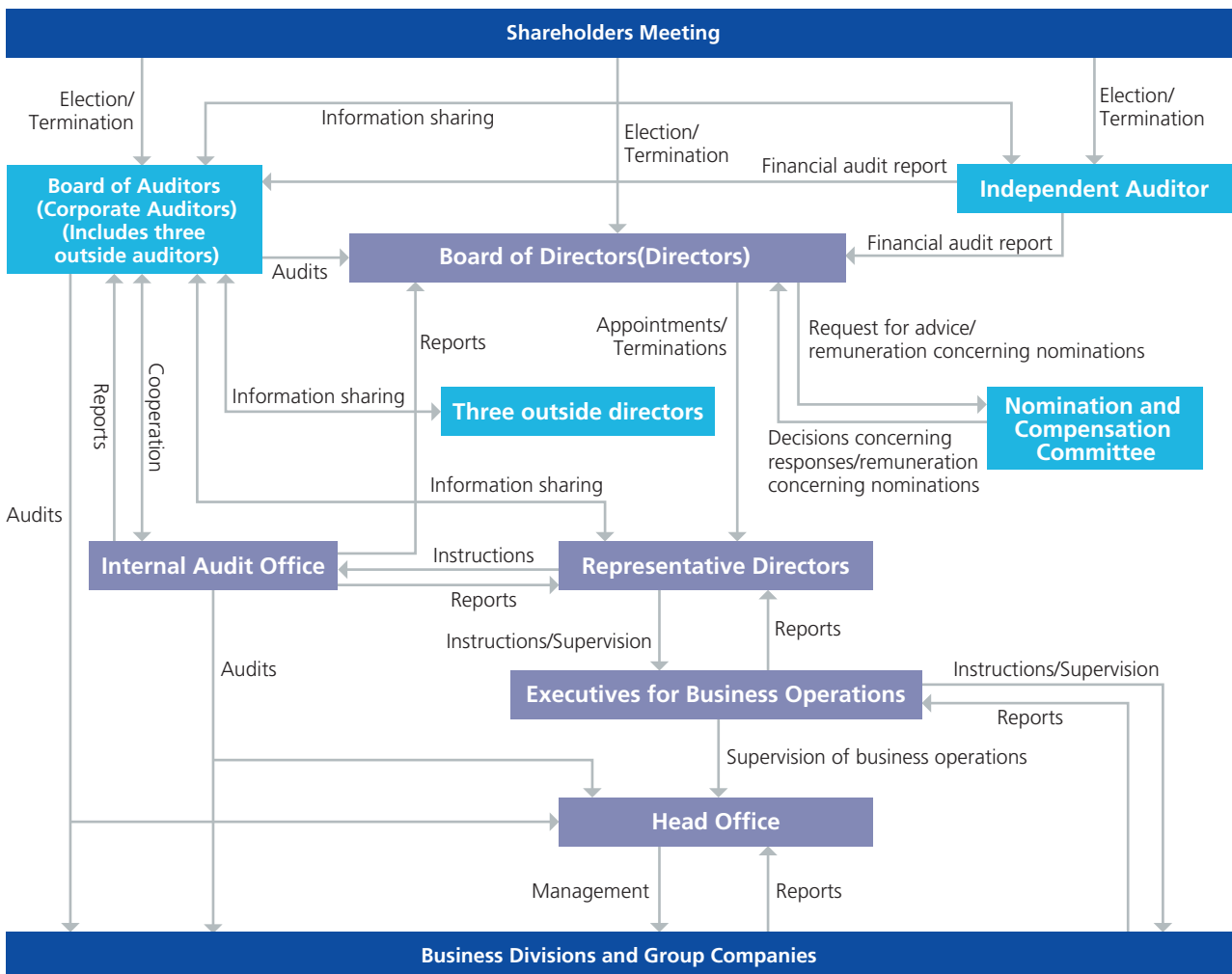
The growth of shareholder value is clearly our most important objective as a publicly owned company. But corporate value is the result of fulfilling our responsibilities to all our stakeholders. This stance is embodied in the six core elements of our corporate philosophy: creating a fair market, serving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

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

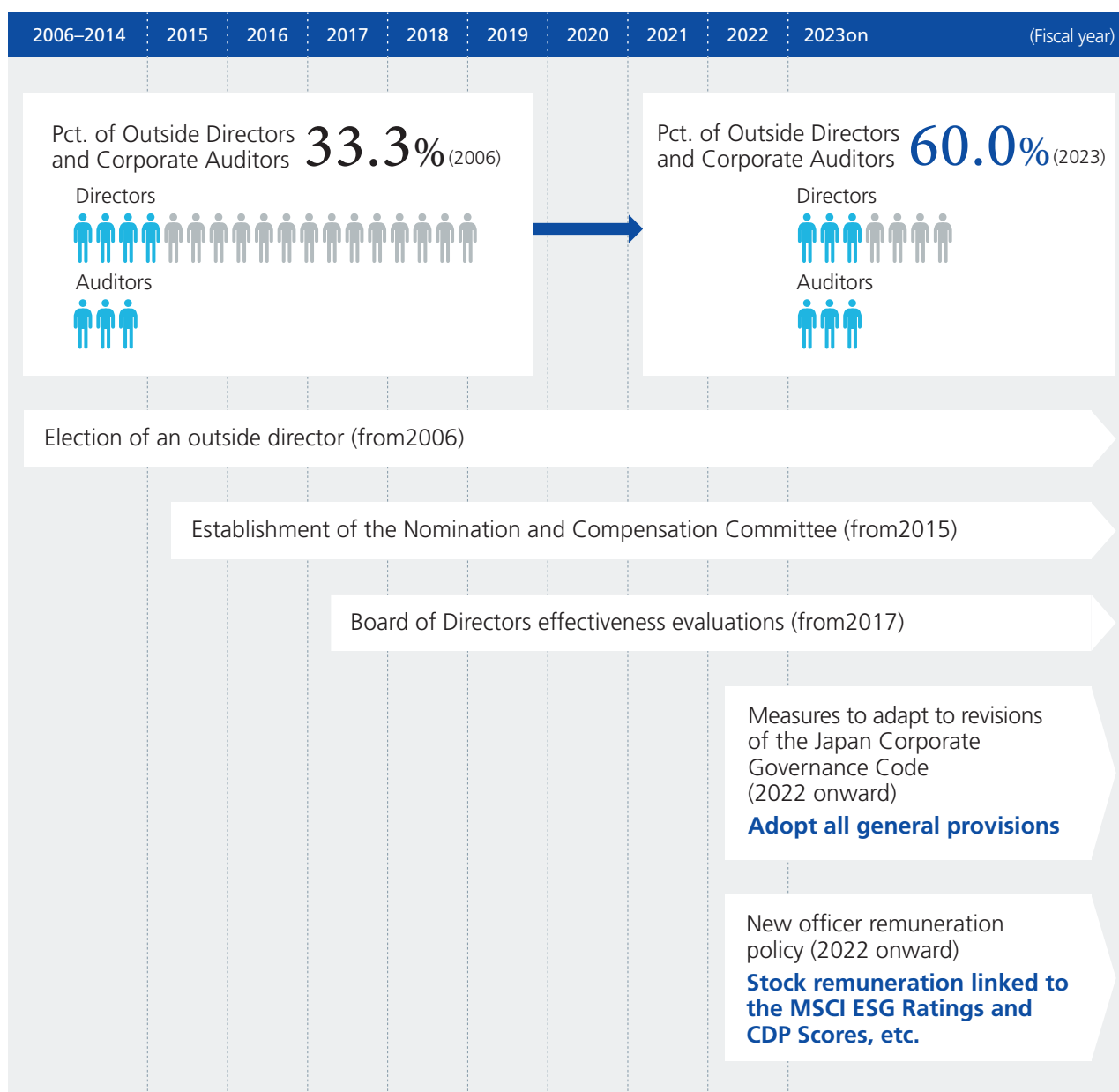
In addition, as members of society, companies have an obligation to comply with social norms. Therefore, it is essential to comply with and to fully satisfy the requirements of both the Basic Policy on Corporate Governance and the Corporate Governance Code. By performing thorough evaluations of our operations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

Structure

Framework (June 2023)



Organizational reforms



Composition ratio (June 2023)

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

No. of meetings (FY 2022)

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



Board of Directors

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

Board of Corporate Auditors

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

Nomination and Compensation Committee

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

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

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

Matters for discussion at the Board of Directors (FY2022)

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

Officer remuneration

Approval process for director remuneration

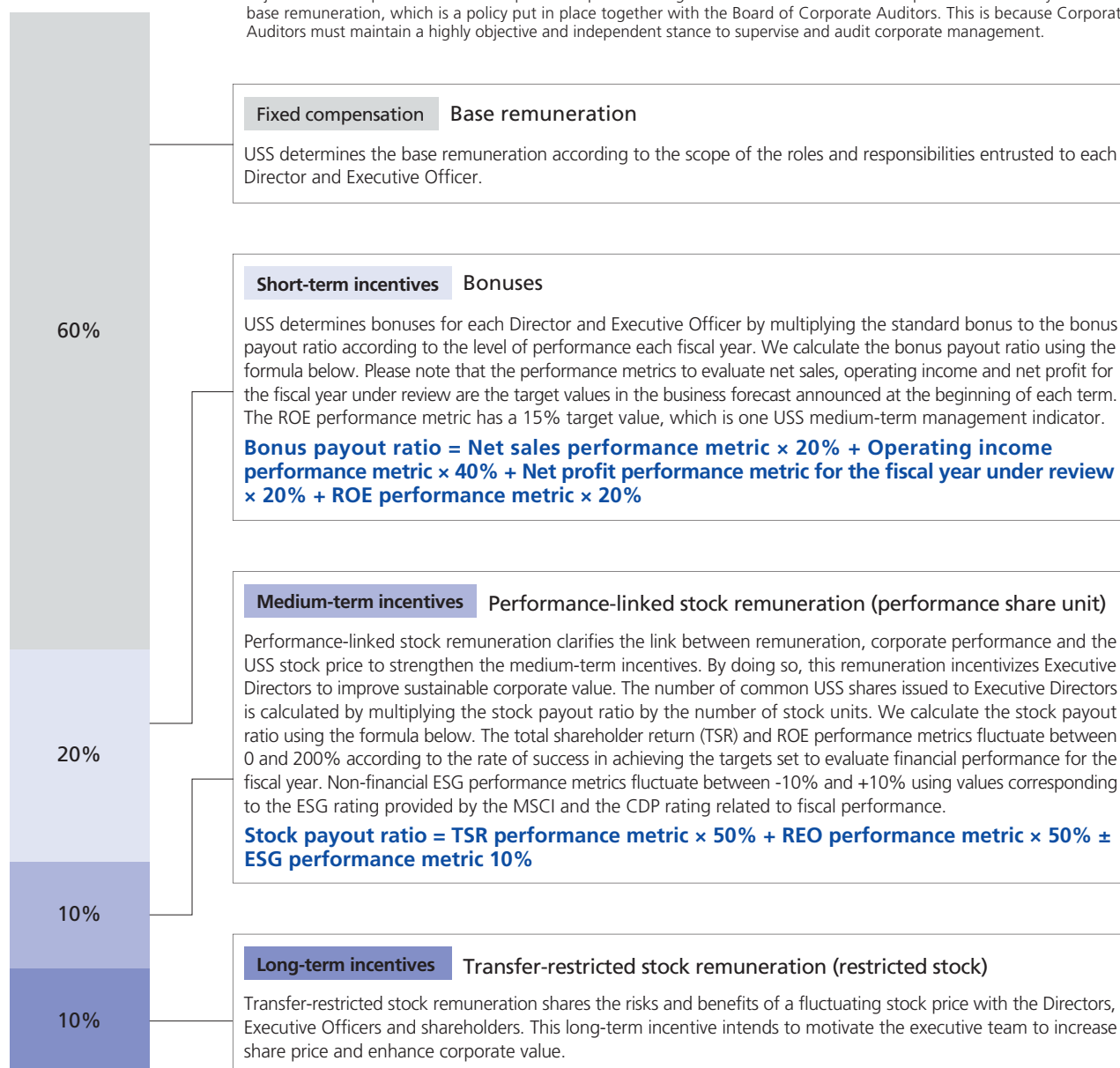
The Nomination and Compensation Committee made up of a majority of Outside Directors has been entrusted by the Board of Directors to determine policies on the approval of director remuneration and the details of compensation for each individual after an objective discussion.

The Nomination and Compensation Committee meetings also seek the advice of external external organizations as necessary during these deliberations to ensure an objective perspective about remuneration policies and gain expert knowledge and information.

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.

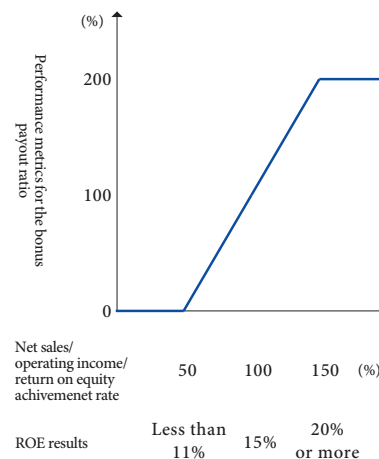


Bonuses (performance-linked monetary remuneration)

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

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

Performance-linked stock remuneration formula



Total remuneration (FY2022)

Type of corporate officer	Total remuneration (millions of yen)	Total by type of remuneration (millions of yen)				Eligible corporate officers (people)
		Fixed		Variable		
		Monetary		Stock		
		Base remuneration	Performance-linked bonuses	Performance-linked stock remuneration	Transfer-restricted stock remuneration	
Directors (Outside Directors)	418 (14)	286 (14)	58 (-)	36 (-)	36 (-)	9 (5)
Auditors (Outside Auditors)	15 (15)	15 (15)	- (-)	- (-)	- (-)	3 (3)
Total (Outside Officers)	434 (30)	302 (30)	58 (-)	36 (-)	36 (-)	12 (8)

The above includes two directors who stepped down during the 42nd Annual General Meeting of Shareholders convened June 21, 2022. There are no directors serving concurrently as employees.

Compliance

Basic approach and compliance systems

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

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

Issues Reported to the USS Group Internal Reporting System

FY2020	FY2021	FY2022
14	17	21

Anti-corruption

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

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

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

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

Summary of evaluation results

The use of this evaluation process confirmed that all questionnaire items are generally appropriate and that the Board of Directors is effective. The evaluation also showed that there were measures to deal with the two issues identified the previous fiscal year and that improvements had been made.

(1) The Board of Directors will deepen discussions on medium to long-term management strategies.

The evaluation did show the Board of Directors had determine materiality and clarify its value creation process in its integrated report, but there is still room to improve the thoroughness of discussions about medium to long-term management strategies. This is an issue that still requires more action.

(2) More comprehensive training opportunities will be provided on ESG, the SDGs, and sustainability

We take advantage of several external training services to create training opportunities on ESG, the SDGs, and sustainability, which primarily let employees take part in online seminars and lectures. The Board of Directors deliberated on climate change and other ESG issues a total of seven times to continually confirm ongoing improvements.

Upcoming activities

(1) The Board of Directors will deepen discussions on medium to long-term management strategies.

(2) The Board of Directors will deepen discussions on sustainability initiatives with focus on realizing carbon neutrality and developing human capital

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

Risk management

Basic approach and compliance systems

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

Business continuity plan (BCP)

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



			Age	Years of service	Attendance at Board of Director meetings	Nomination and Compensation Committee member	Attendance at committee meetings
Directors	① Yukihiro Ando	Chairman and Representative Director, Chief Executive Officer (CEO)	76	41	100%	○ Chair	100%
	② Dai Seta	President and Representative Director, Chief Operating Officer (COO)	56	19	100%	○	100%
	③ Masafumi Yamanaka	Executive Vice President and Officer of the Supervisory Office	68	19	100%		
	④ Hiromitsu Ikeda	Junior Managing Director and Officer of the Auction Operation Office	62	19	100%		
	⑤ Nobuko Takagi	Outside Director Outside Independent	45	5	100%	○	100%
	⑥ Shinji Honda	Outside Director Outside Independent	65	1	100%	○	100%
	⑦ Yoshiko Sasao	Outside Director Outside Independent	63	1	100%	○	100%
Corporate Auditors	⑧ Kenichi Goto	Full-time Outside Corporate Auditor Outside Independent	63	2	100%		
	⑨ Keiji Miyake	Outside Corporate Auditor Outside Independent	68	2	100%		
	⑩ Jun Ogawa	Outside Corporate Auditor Outside Independent	62	2	100%		
Executive Officers	Yukiyasu Sugata	Executive Officer and Manager of Sapporo Auction Site					
			Hiroshi Kojima	Executive Officer in charge of the System Office			

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.



Skill matrix							
Corporate management	Accounting/finance	Business strategy/marketing	Digital transformation	Legal affairs/risk management	Administration/human resource development	ESG	
○		○				○	
○		○				○	
	○			○	○		
	○	○	○	○		○	
○		○				○	
○					○	○	
	○					○	
	○					○	
				○		○	

Yukio Niimi Executive Officer and Manager of Kyushu and Fukuoka Auction Sites

Masahiro Mikami Executive Officer and Manager of Tokyo Auction Site

- 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.

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Message from the Outside Directors



Nobuko Takagi

Offensive and defensive actions contribute to stronger governance.

Nobuko Takagi Outside Director

DIRECTOR PROFILE :

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



Shinji Honda

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

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

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

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

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

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

USS promotes environmental initiatives and Group-wide strategies.

Shinji Honda Outside Director

DIRECTOR PROFILE :

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

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

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



USS strives to enhance corporate value by strengthening human capital.

Yoshiko Sasao Outside Director

DIRECTOR PROFILE :

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

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

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

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

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