

# E

## Transition plan concerning climate change

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

### Targets

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

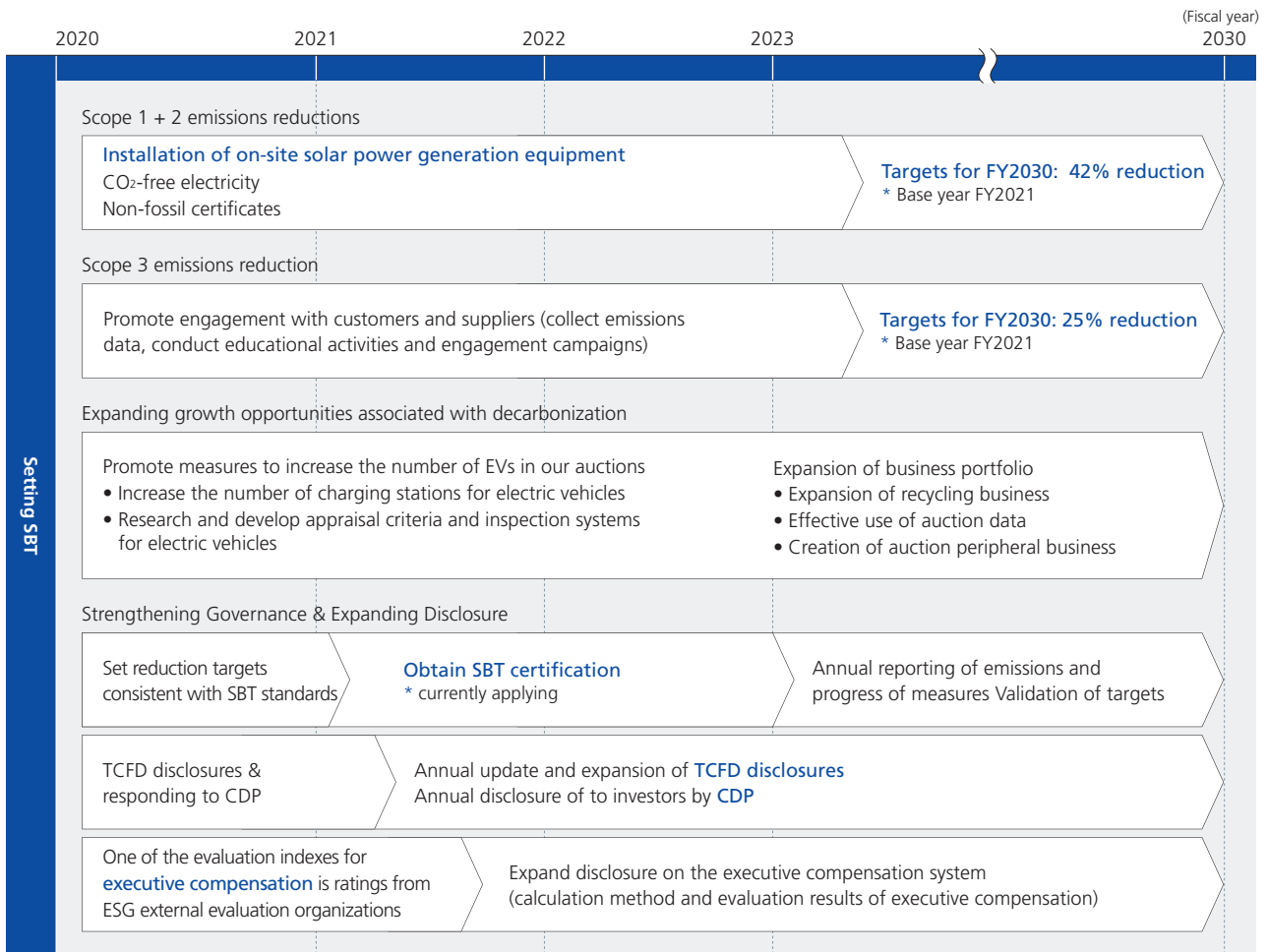
emissions from the level of these emissions in the fiscal year ended in March 31, 2022. USS has applied for approval of these targets by the Science Based Targets initiative.

### Scope 1 + 2 emissions reductions

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

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

### Transition plan (roadmap) to achieve goals



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## Scope 3 emissions reduction

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

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

## Upcoming activities

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

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

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

## Basic stance

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

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

## Main climate change initiatives

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

## Detailed overview of financial disclosures under TCFD

### Governance

#### ■ Oversight of the Board of Directors

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

#### ■ New external ESG rating for assessing officer remuneration

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

#### ■ Manager in charge of climate-related oversight

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

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

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

## Strategy

### ■ Identification and assessment of climate-related risks and opportunities

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

### ■ Scenario analysis

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

## Risk management

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

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

### ■ Climate-related risk management framework

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

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

## Indicators and targets

The USS Group has set a CO<sub>2</sub> emissions reduction target equivalent to the SBT standard as a goal to be used in managing climate-related risks and opportunities (Currently applying to the SBT Initiative).

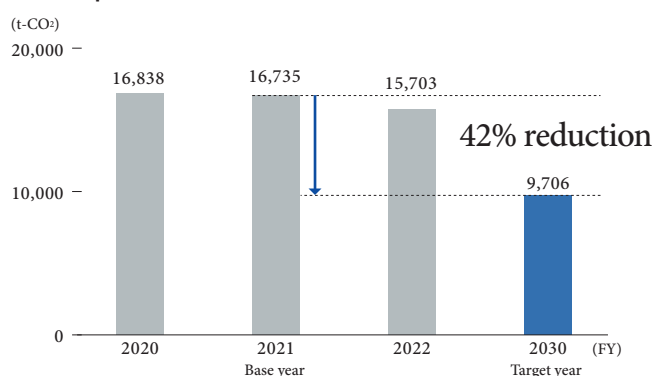
To reach our greenhouse gas (GHG) reduction targets, we will promote solar power generation and shift to CO<sub>2</sub>-free electricity.

### CO<sub>2</sub> emission reduction target\* (Base year: FY2021)

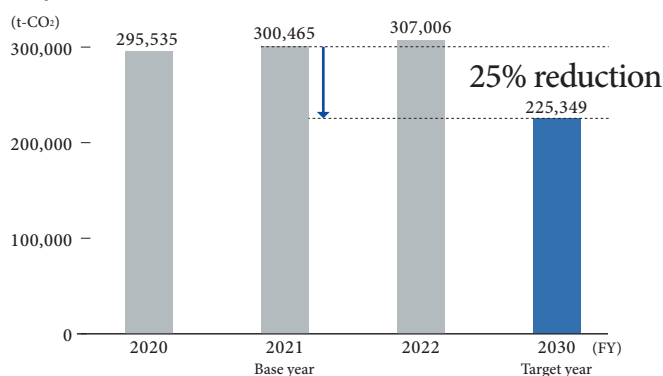
Total emissions of Scope 1 and 2	42% reduction by FY2030
Scope 3 emissions	25% reduction by FY2030

## Targets\* and progress

### Total Scope 1 and 2 emissions



### Scope 3 emissions



\* Target equivalent to the SBT standard

The base year for the reduction target has been changed to the year ended March 31, 2022.

Due to a change in the scope of group companies, prior year results have been revised.

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## Overview of scenario analyses

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

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

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

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

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

	Types of risks and opportunities			Risk of manifestation			Potential
	Type	Scenario analysis results	Short	Medium	Long		
1.5°C scenario	Transition risks	Regulatory/legal changes	An increase in energy costs brought by the adoption of European-style carbon taxes and pricing even in Japan to achieve net-zero GHG emissions	●	●		High
		Regulatory/legal changes	A decline in auction sales due to lower demand for used gasoline car exports as more nations prohibit the sale of gasoline vehicles from Japan	●	●		Medium
		Reputation	As the circular economy develops, sharing services will become more prevalent and fewer people will buy and own EVs. EV manufacturers will enclose EV distribution within their own supply chains.	●	●		Medium
	Opportunities	Energy sources/ Markets	Accelerating replacement demand from gasoline-powered vehicles to EVs for decarbonization, leading to an increase in the number of vehicles sold at our auctions	●	●		High
		Products and services	An increase in the number of vehicles put on auction by developing the new inspection technologies and rules driven by industries working toward zero emissions	●	●		Medium
	Business-as-usual scenario	Physical risks	Physical Risks (Acute)	Suspension of business, additional costs to repair equipment, and higher insurance premiums due to damage of the auction house inflicted by typhoons or other natural disasters		●	●
Physical Risks (Chronic)			Costs to rebuild or move the auction house on the coast due to damage caused by flooding and high tides resulting from rising sea levels		●	●	Low
Physical Risks (Chronic)			Higher average temperature and risk of heatstroke		●	●	High

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

## Impact Assessments and Response Strategies

### 1. Impact assessment of carbon tax introduction (Risk)

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

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

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

#### 1-2 Financial Impact

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

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

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

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

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

	Financial impact	Financial impact	Response strategies
	Medium	Tax burden when unable to reduce GHG emissions <Table 1> 2030: ¥300 million 2050: ¥540 million	Promote on-site adoption of renewable energy (solar power generation) Shift to CO <sub>2</sub> -free electricity, Utilization of non-fossil certificates
	Large	A decline in combustion engine vehicles sold worldwide from its peak of 75 million vehicles in 2025 to 43 million vehicles in 2030 <Table 3>	Promote measures to increase the number of EVs in our auctions
	Large	If the ratio of EV sales increases and the number of people purchasing and owning EVs decreases, or if EV manufacturers enclose EV distribution within their own supply chains, the number of units in our auctions will decrease	Expansion of business portfolio to continue creating schemes for fair and honest trade and resource recycling • Expansion of recycling business (contribution to a recycling-oriented society) • Effective use of auction data (big data) • Creation of auction peripheral business (auto loans)
	Medium	Delays in climate change action will reduce stakeholder confidence and affect trade and other activities	Obtain SBT certification *currently applying (Set reduction targets consistent with SBT standards)
	Large	Global all passenger car sales will increase toward 2030, and EV sales as a percentage of all passenger car sales will rise sharply. <Table 3>	Promote measures to increase the number of EVs in our auctions • Increase the number of charging stations for electric vehicles • Research and develop appraisal criteria and inspection systems for electric vehicles
	Medium	<All passenger car sales and EV sales ratio> 2020 (Actual): 74.5 million units (4.00%) 2025 (Forecast): 100.5 million units (24.97%) 2030 (Forecast): 110.0 million units (60.90%)	Promote operational efficiency, including expanding the use of digital auction inspection sheets
	Medium	Approximately ¥200 million loss in revenue if USS Nagoya has to cancel an auction due to power outages or other such damage caused by a typhoon	Regularly revise business continuity plans (BCPs)
	Large	Extra capital investment from ¥5 to over ¥10 billion to move its auction house on the coast due to rising sea levels	Identify the risks of flooding through hazard maps and enhance evacuation training
	Small	An increase in costs for facility ventilation and heatstroke prevention measures	Establish data management systems in preparation for disasters

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

<Definition of Significant Impact> High potential and Medium (¥100 to ¥5,000 million) or Large (More than ¥5,000 million) Financial Impact

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### 1-3 Response Strategy

#### Promoting Solar Power and Other Renewable Energy On-site

USS will employ several response strategies to address the potential impact of carbon taxes. These initiatives have been put in place to not only achieve our CO<sub>2</sub> emission reduction targets but also promote on-site renewable energies. These efforts will mitigate our future tax burden. We will continue to devise plans with the highest benefit to the entire Group to achieve swift results.

#### <2> List of Solar Power Generation Facilities Installed

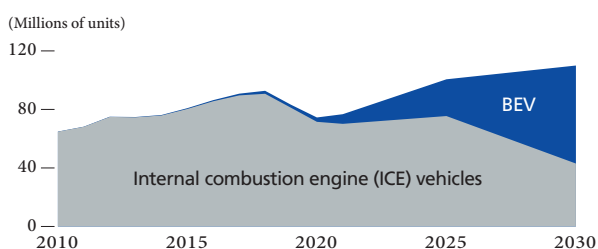
	Auction Site	Operation start
Phase I	R Nagoya	Jan 2023
	Nagoya	Feb 2023
Phase II	Shizuoka	Scheduled to start operations sequentially from July 2023 onward
	JAA	
	Okayama	
Phase III	Tokyo	Decided to introduce
	Yokohama	
	Saitama	
	Kobe	

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

### 2-1 USS forecast for the growth of EV utilization

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

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



### 2-2 Strategic actions for combating climate change A stronger framework for sales of EVs at auctions

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

#### More use of digital auction consignment forms at auctions

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

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

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

## Resource recycling

### Metal and plastic recycling in the recycling business

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



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

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

### Effective use of dust from automobile shredders

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

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

## Waste processing at business sites

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

## Water conservation

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

# Environmental management

## Basic approach and environmental system

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

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

## Five-point environmental policy

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

## Compliance with environmental laws and other regulations

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