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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.

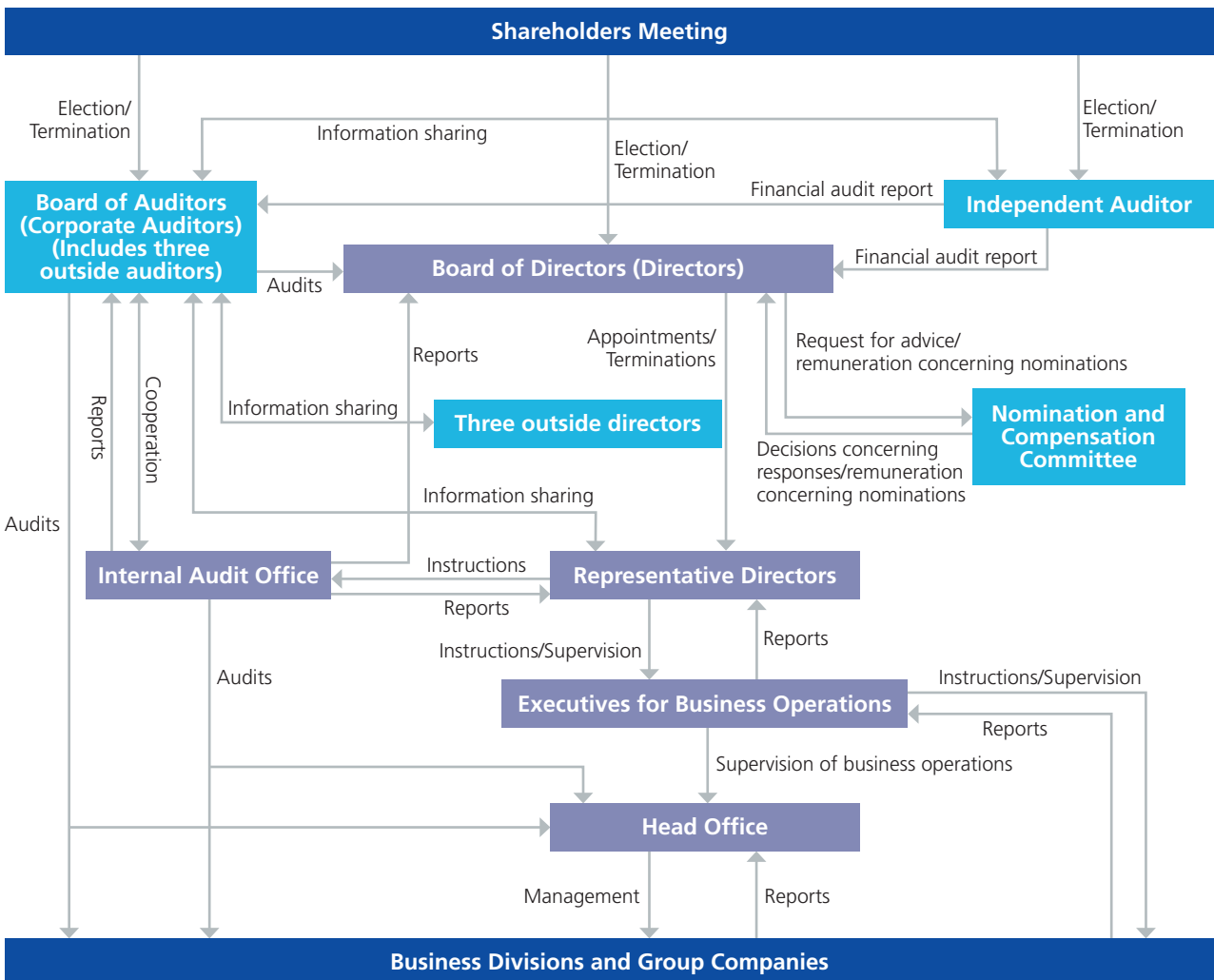
The growth of shareholder value is clearly our most important objective as a publicly owned company. But corporate value is the result of fulfilling our responsibilities to all our stakeholders. This stance is embodied in the six core elements of our management philosophy: creating a fair market, serving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

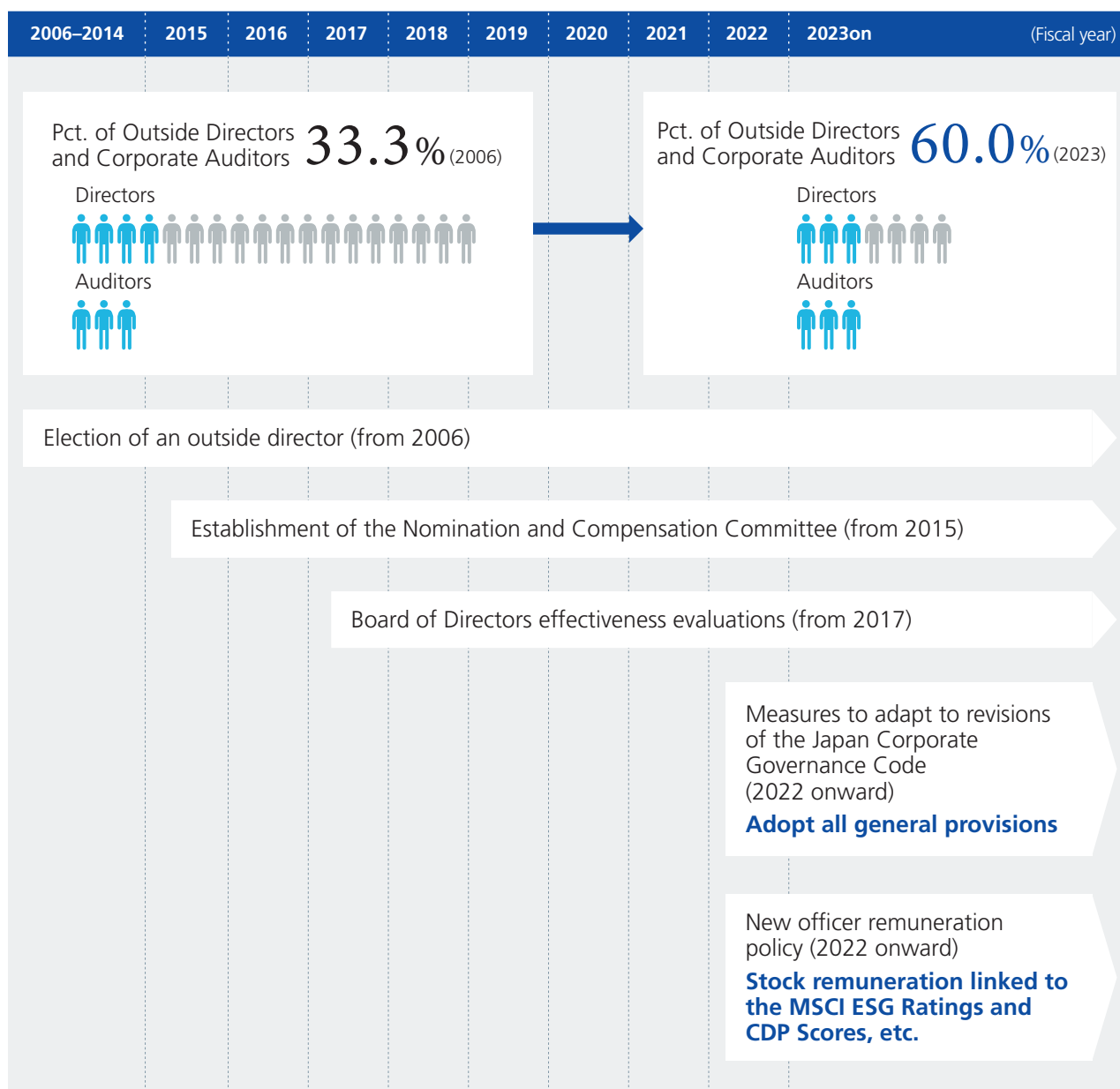
In addition, as members of society, companies have an obligation to comply with social norms. Therefore, it is essential to comply with and to fully satisfy the requirements of both the Basic Policy on Corporate Governance and the Corporate Governance Code. By performing thorough evaluations of our operations 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 2024)



Organizational reforms



Composition ratio (June 2024)

| | |
|---|--------|
| 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 2023)

| | |
|---------------------------------------|---|
| Board of Directors | 9 |
| Board of Corporate Auditors | 9 |
| Nomination and Compensation Committee | 2 |

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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.

Specific discussion by the Board of Directors (FY2023)

| Matter | Description |
|---------------------------------|--|
| Climate change | <ul style="list-style-type: none"> ● Progress monitoring of greenhouse gas emission reduction initiatives to achieve the SBT targets, such as the introduction of solar power generation systems ● Deliberations on transition plans (roadmap) to mitigate climate change |
| Human capital | <ul style="list-style-type: none"> ● Deliberations on revisions to personnel policies that incorporate the selection and promotion of up-and-coming employees ● Progress monitoring of initiatives taken to cultivate and empower female employees |
| Medium- to long-term strategies | <ul style="list-style-type: none"> ● Designation of deeper discussions on medium- to long-term management strategies as a future challenge based on the results of an effectiveness evaluations of the Board of Directors ● Deliberations on launching internal projects to acquire 50% of the auto auction market share |
| Stock/stock prices | <ul style="list-style-type: none"> ● Deliberations on facility-type stock buybacks for the purpose of improving capital efficiency and enhancing shareholder returns ● Deliberations on the execution of a stock split for the purpose of expanding the investor class |

Officer remuneration

Approval process for director remuneration

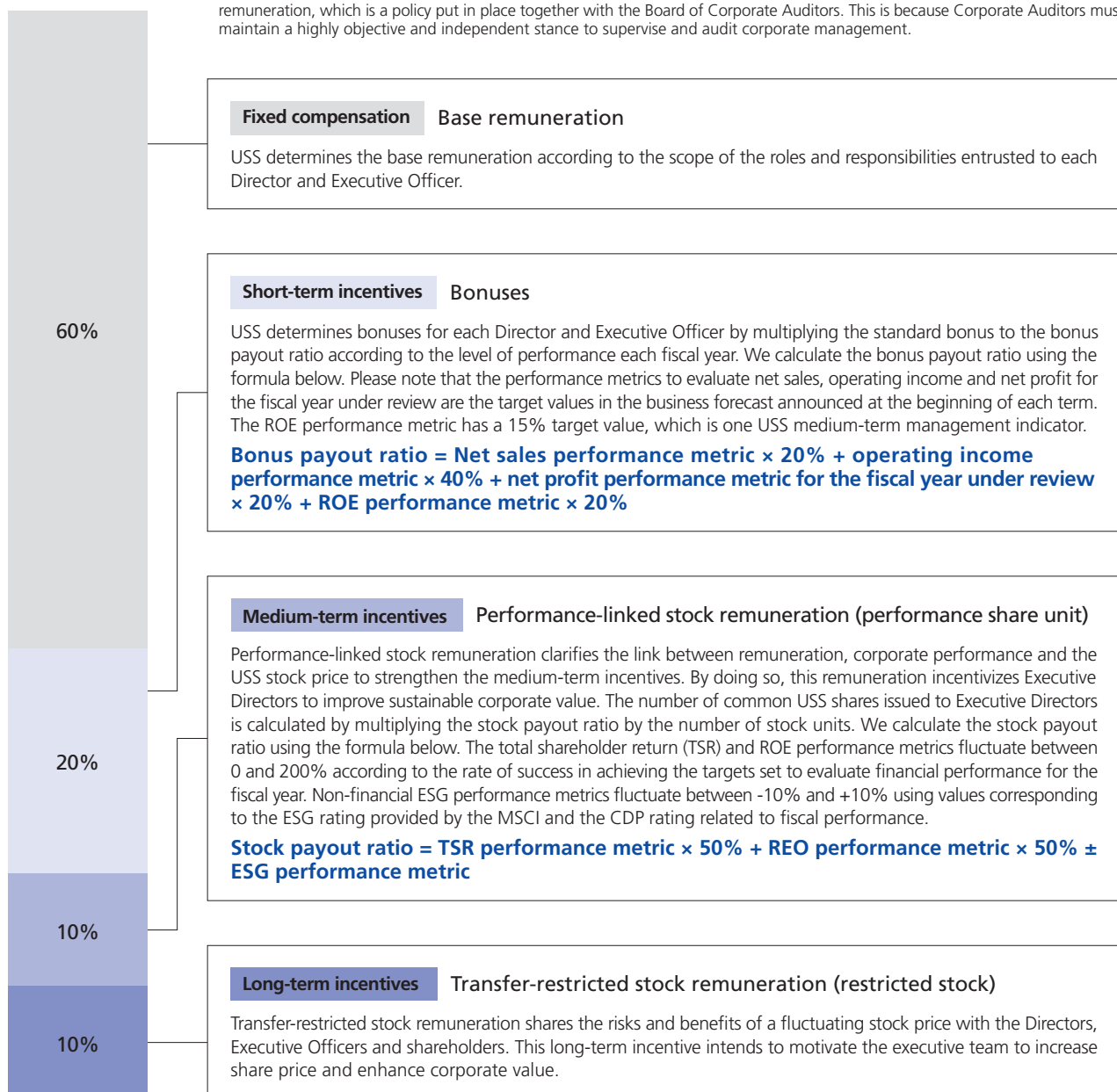
The Nomination and Compensation Committee made up of a majority of Outside Directors has been entrusted by the Board of Directors to determine policies on the approval of director remuneration and the details of compensation for each individual after an objective discussion.

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-

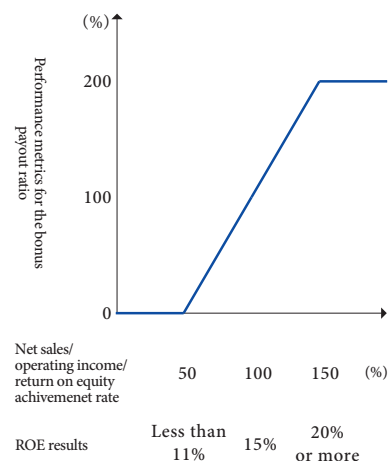
financial losses and other specific conditions designated by the Board of Directors. In this case, the malus and clawback clause will enable USS to either not issue common shares to such Directors and Executive Directors, or to deduct or recover a monetary equivalent to the stock price at the time as 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% | ¥92,400 million | ¥97,606 million | 105.6% | 119.4% |
| Operating income | | 40% | ¥45,300 million | ¥48,937 million | 108.0% | |
| Net profit for the fiscal year under review | | 20% | ¥30,800 million | ¥32,906 million | 106.8% | |
| ROE | | 20% | 15% | 17.0% | 113.5% | |

Performance-linked stock remuneration formula



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.

Total remuneration (FY2023)

| 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) | 429 (14) | 252 (14) | 85 (–) | 54 (–) | 36 (–) | 7 (3) |
| Auditors (Outside Auditors) | 15 (15) | 15 (15) | – (–) | – (–) | – (–) | 3 (3) |
| Total (Outside Officers) | 445 (30) | 268 (30) | 85 (–) | 54 (–) | 36 (–) | 10 (6) |

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, 2024.

Issues reported to the USS Group Internal Reporting System

| FY2021 | FY2022 | FY2023 |
|--------|--------|--------|
| 17 | 21 | 24 |

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 (FY2023)

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: February 2024</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) Role, functions and composition of the Board of Directors</p> <p>(2) Operation and deliberations of the Board of Directors</p> <p>(3) Evaluation of the Nomination and Compensation Committee</p> <p>(4) Evaluation of FY2023 targets</p> <p>(5) Relationships with shareholders and other investors</p> <p>(6) Self evaluations</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 set numerical targets for its strategies by business in its integrated report, but there was still room to improve the thoroughness of discussions on creating stories about growth strategies. This is an issue that still requires more action.

(2) The Board of Directors will deepen discussions about sustainability initiatives (especially those to realize carbon neutrality and enhance human capital)

The acquisition of the SBT certification for our climate change initiatives as well as third-party certifications for sustainability initiatives related to GHG emissions (Scope 1, 2 and 3) have helped improve our standing with the CDP and other external assessment bodies. On the other hand, we must continue to work on our human resource initiatives because USS must ramp up discussions on matters that include the formulation of a medium- to long-term vision and strategies to strengthen human capital.

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 human resource development policies to solidify human resource strategies and ensure diversity.

We have determined the challenges to address in the fiscal year ending March 31, 2025 in light of the results of the effectiveness evaluation for fiscal year ended March 31, 2024. USS also launched project teams to investigate internal medium- to long-term management strategies to ramp up specific initiatives. In the fiscal year ending March 31, 2025, we will strive to deepen discussions even more and improve the effectiveness of the Board of Directors led by these project team activities.

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.



Directors

- ① **Yukihiro 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
- 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 Corporate Auditor (Outside)
- ⑨ **Keiji Miyake**
Outside Corporate Auditor
- ⑩ **Jun Ogawa**
Outside Corporate Auditor

Executive Officers

- Yukiyasu Sugata**
Executive Officer and Manager of Sapporo Auction Site
- Yukio Niimi**
Executive Officer and Manager of Kyushu and Fukuoka Auction Sites
- Masahiro Mikami**
Executive Officer and Officer of the Auction Operation Office and Manager of Tokyo Auction Site

| | |
|---------------------|--|
| ① Yukihiro Ando | |
| ② Dai Seta | |
| ③ Masafumi Yamanaka | |
| ④ Hiromitsu Ikeda | |
| ⑤ Nobuko Takagi | |
| ⑥ Shinji Honda | |
| ⑦ Yoshiko Sasao | |
| ⑧ Kenichi Goto | |
| ⑨ Keiji Miyake | |
| ⑩ Jun Ogawa | |

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.



| Age | Years of service | Attendance at Board of Director meetings | Nomination and Compensation Committee member | Attendance at committee meetings | Skill matrix | | | | | | | |
|-----|------------------|--|--|----------------------------------|----------------------|--------------------|-----------------------------|------------------------|-------------------------------|---|-----|---|
| | | | | | Corporate management | Accounting/finance | Business strategy/marketing | Digital transformation | Legal affairs/risk management | Administration/human resource development | ESG | |
| 77 | 42 | 100% | ○ Chair | 100% | ○ | | ○ | | | | | ○ |
| 57 | 20 | 100% | ○ | 100% | ○ | | ○ | | | | | ○ |
| 69 | 20 | 100% | | | | ○ | | | ○ | ○ | | |
| 63 | 20 | 100% | | | | | ○ | ○ | ○ | | | |
| 46 | 6 | 100% | ○ | 100% | | ○ | ○ | | | | | ○ |
| 66 | 2 | 100% | ○ | 100% | ○ | | ○ | | | | | ○ |
| 64 | 2 | 100% | ○ | 100% | ○ | | | | | ○ | | ○ |
| 64 | 3 | 100% | | | | ○ | | | | | | ○ |
| 69 | 3 | 100% | | | | ○ | | | | | | ○ |
| 63 | 3 | 100% | | | | | | | ○ | | | ○ |

- 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.