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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, 2024. There were also no serious environmental incidents, complaints, or reports.

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.

*The TCFD is an international initiative established by the Financial Stability Board (FSB) in 2015 to encourage companies to disclose information on the financial implications of the risks and opportunities that climate change presents to their businesses.



Information disclosure based on TCFD recommendations

1. Governance

■ Oversight of the Board of Directors

Key decisions regarding USS Group climate change issues, including transition plans (related to governance, strategy, risk management, and indicators and targets), are subject to resolution by the Board of Directors.

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At least once a quarter, the Board of Directors receives a report from the President on efforts to address climate change-related issues and progress toward established goals, and monitors and supervises climate change issues. The Board of Directors makes decisions on matters deemed important by the President, such as management strategies, management plans, annual budgets, and profit targets, after considering the risks and opportunities of climate change as necessary.

■ Manager in charge of climate-related oversight

Matters related to climate change shall be overseen by the President. The President shall monitor and receive periodic reports on trends in emissions from each business and Group company and on the progress of emissions reduction measures to achieve SBT targets, and shall be responsible for implementing the climate change issues set forth in the following items and shall provide direction for the environmental management activities of the USS Group.

- (1) Conduct an assessment of the impact of climate change issues on the business (at least once a year)
- (2) Develop policies and strategies to minimize identified risks and capture opportunities, and reflect them in plans, budgets, targets, etc.
- (3) Development of transition plans with emission reduction

- targets as a pillar
- (4) Establishment of KPIs on climate change issues and evaluation of progress, including review of KPI performance
- (5) Reporting important matters related to climate change issues to the Board of Directors

2. 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

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.

Note: Scope: Auto Auction business and its entire supply chain
 Note: Target period: Now until 2050

Overview of scenario

1.5°C scenario	Business-as-usual scenario
<p>1. Stronger laws and government regulations</p> <ul style="list-style-type: none"> ● Rapid emissions reductions toward carbon neutrality ● Full adoption of carbon taxes (carbon pricing) <p>2. Global shift to electric vehicles (EVs) Sharp increase in EV sales ratio (passenger cars) 25% (2025) → 61% (2030)</p>	<p>1. Delay in global EV adoption Global EV sales ratio (passenger cars) 23% (2025) → 36% (2030)</p> <p>2. Manifestation of climate-related risks</p> <ul style="list-style-type: none"> ● Approx. 4.5°C average temperature rise ● More than a roughly 230% increase in the torrential and heavy short-term rains ● Approx. 0.71m average rise in sea levels along Japan coasts

Reference scenarios

IEA NZE, IEA STEPS	IEA "World Energy Outlook 2023" (https://www.iea.org/reports/world-energy-outlook-2023)
RCP1.9, SSP1-1.9, RCP8.5, SSP5-8.5	IPCC "AR5" "AR6" (https://www.env.go.jp/earth/ipcc/5th/)(https://www.env.go.jp/earth/ipcc/6th)

Risks and opportunities

	Types of risks and opportunities		Risk of manifestation			Potential	Financial impact	Response strategies	
	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	Medium	Promote on-site adoption of renewable energy (solar power generation) Shift to CO ₂ -free electricity, Utilization of non-fossil certificates
		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	Large	Expansion of business portfolio to continue creating schemes for fair and equitable 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)
			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	Large	
		Reputation	Investment behavior by investors based on climate change risk and the movement to require SBT certification for investment destinations will take root and expand.	●	●		High	Medium	Obtain SBT certification (Obtained SBT in October 2023)
	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	Large	Promote measures to increase the number of EVs in our auctions ●Increase the number of charging stations for electric vehicles
		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	Medium	●Research and develop appraisal criteria and inspection systems for electric vehicles Promote operational efficiency, including expanding the use of digital auction inspection sheets
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		●	●	Low	Medium	Regularly revise business continuity plans (BCPs)
		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	Large	Identify the risks of flooding through hazard maps and enhance evacuation training
			Higher average temperature and risk of heatstroke		●	●	High	Small	Establish data management systems in preparation for disasters

<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

<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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■ 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 financial impact of ¥350 million by 2030 and ¥620 million by 2050. The business-as-usual scenario has a potential financial impact of ¥300 million by 2030 and ¥330 million by 2050 (Table[1]). This scenario would drive up operational costs.

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

	Scenarios	1.5°C scenario		Business-as-usual scenario	
		2030	2050	2030	2050
Without achieving GHG emission reduction targets	Carbon tax (billions of yen)	0.35	0.62	0.30	0.33
When achieving GHG emission reduction targets	Carbon tax (billions of yen)	0.20	0.36	0.17	0.19
Difference	Tax liability (billions of yen)	0.15	0.26	0.13	0.14
Carbon tax and pricing (US\$ per t-CO ₂)		140	250	90	135

(Prerequisites)

- The calculation presumes Japan will put in place a carbon tax with carbon pricing equivalent to nations committed to the IEA WEO 2023 NZE net-zero pledge as well as EU STEPS.
- Conversion: Scope 1 & 2 Emissions for the Fiscal Year Ending March 31, 2022 × Carbon Tax Price
Note: Currency converted at US\$1 to ¥150

■ 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 CO₂ emission reduction targets but also promote on-site renewable

energies. These efforts will mitigate our future tax burden (Table [2]). 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	July 2023
	JAA	Aug 2023
	Okayama	Oct 2023
Phase III	Saitama	Jan 2024
	Kobe	Mar 2024
Phase IV	Yokohama	FY2025
Phase V	HAA Kobe	FY2025-
	Tokyo	FY2026-

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

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

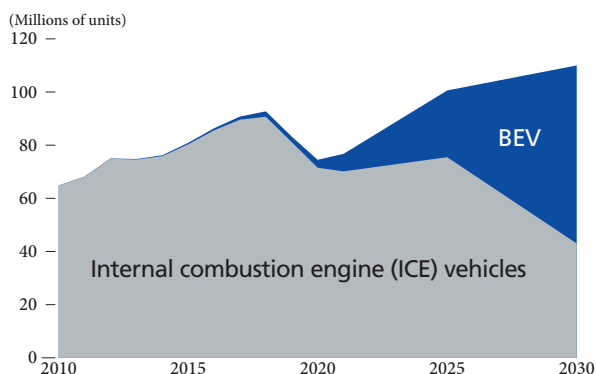
If the use of car sharing services increases as part of measures to achieve a circular economy, there may be a decline in the number of people who own electric vehicles (EVs). Another possibility is the decision of EV manufacturers to buy and sell these vehicles within their own supply chains. Either one of these events could reduce the number of vehicles consigned at USS auctions. However, if various measures are implemented based on the goal set by the Japanese government in its “Green Growth Strategy Through Achieving Carbon Neutrality in 2050” to achieve 100% electric vehicles in new passenger car sales by 2035, a large increase in new car sales (car replacement sales) will lead to a large increase in the number of cars auctioned at the USS auction which will likely have a significant positive impact on our earnings.

■ 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.

To be specific, we became a member of Battery Association for Supply Chain, which is engaged in activities such as international standardization of the battery supply chain and construction of a battery ecosystem to realize a decarbonized society, and we are actively working with member companies to address issues such as battery diagnosis in the distribution of EVs through auctions.

Number of passenger vehicles in 1.5°C scenario



(Assumptions for these activities)

- The following reference data were used.
IEA Global EV Outlook 2023 (<https://www.iea.org/reports/global-ev-outlook-2023>), Global EV Data Explorer (<https://www.iea.org/articles/global-ev-data-explorer>)
- For the 1.5°C temperature increase scenario, calculations use the IEA NZE (net zero emission) scenario for determining the share of EV sales based on the premise that the total number of vehicles sold is the same as in IEA STEPS (Stated Policies Scenario).
- Figures for future years other than 2025 and 2030 are calculated using the assumption that changes will occur evenly across all years.

More use of digital auction consignment forms

In anticipation of a large increase in the number of vehicles to be auctioned, USS is promoting the streamlining and digitization of its operations. Specifically, in the past, data entry was performed in-house at USS based on the seller's handwritten entry form, which required a large number of staff for the data entry process. The new system allows the seller's to create the entry form on the system, eliminating the need for data entry, improving the accuracy of data, and increasing operational efficiency. This digital auction consignment forms was introduced on a trial basis at the Nagoya in January 2021, and as of the end of March 2024, the system had been extended to all corners of the Nagoya, Tokyo, and HAA Kobe.

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. To increase the accuracy

Transition plan (roadmap) to achieve goals

	Initiatives up to FY2022	Initiatives during FY2023	Initiatives toward FY2030
Science Based Targets	Setting Science Based Targets and applying for SBT certification	Obtained SBT certification (October 2023)	Annual reporting of emissions and progress of measures Validation of targets
Scope 1, 2, and 3 accounting with verification	Planning for obtaining third-party assurance	Obtained third-party assurance for Scope 1, 2 and 3	Continue to obtain third-party assurance for Scope 1, 2 and 3
Emission reduction initiatives	On-site solar power generation equipment (Nagoya, R-Nagoya) CO ₂ -free electricity	On-site solar power generation equipment (Shizuoka, JAA, Okayama, Saitama, Kobe) CO ₂ -free electricity	Promote introduction of solar power generation equipment Promote the introduction of high-efficiency energy-saving equipment Non-fossil certificates
Disclosure	Started TCFD disclosure (2022) 2022 CDP Score "C"	Adding Transition plan in TCFD disclosures 2023 CDP Score "B"	Annual update and expansion of climate change disclosures Annual disclosure to investors by CDP
Governance	One of the evaluation indexes for executive compensation is ratings from ESG external evaluation organizations (CDP-MSCI) 2022 MSCI ESG Rating "A"	2023 MSCI ESG Rating "AA"	Expand disclosure on the executive compensation system (calculation method and evaluation results of executive compensation)
Climate-related opportunities associated with decarbonization	Promote measures to increase the number of EVs in our auctions ● Expansion of EV corners ● Increase the number of charging stations for electric vehicles	R&D activities for determining EV evaluation standards, establishing an EV inspection system	Expansion of business portfolio ● Expansion of recycling business ● Effective use of auction data ● Creation of auction peripheral business

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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.

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 energy conservation, USS is promoting the introduction of high-efficiency energy-saving equipment for air conditioning, etc. 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. As of March 2024, solar power generation has installed 7 auction sites out of all 19 auction sites. We will actively promote the installation of solar power generation equipment at the remaining auction sites.

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 over half of all Scope 3 emissions. Furthermore, the share of emissions from products and services that are purchased, which is category 1, is about 30%. 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.

3. 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.

4. Indicators and targets

The USS Group has set a CO₂ emission reduction target equivalent to the SBT standard as a goal to be used in managing climate-related risks and opportunities, and has obtained SBT certification in October 2023. To achieve this goal, we have set a target for the ratio of electricity derived from renewable energy sources and are working to reduce GHG emissions by introducing on-site solar power generation equipment, switching to CO₂-free electricity, and installing high-efficiency energy-saving equipment.

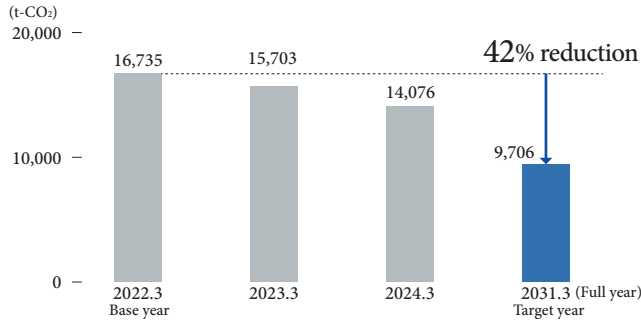
CO₂ emission reduction target

Total emissions of Scope 1 and 2	42% reduction by FY3/31
Scope 3 emissions	25% reduction by FY3/31
The ratio of electricity derived from renewable energy sources	50% by FY3/31

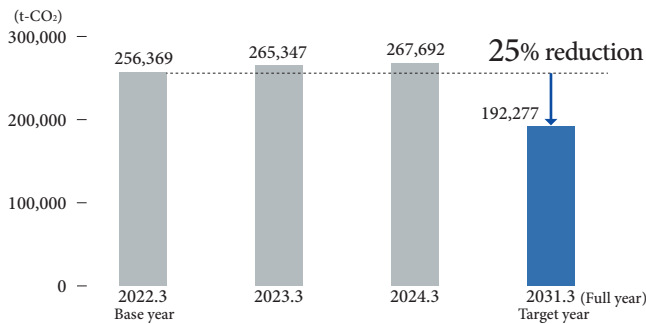
*The base year for Scope 1, 2, and 3 emissions is the fiscal year ended March 31, 2022.

GHG emissions

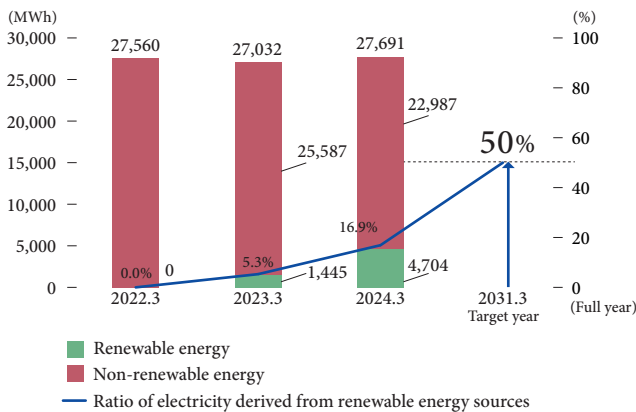
Total emissions of Scope 1 and 2



Scope 3 emissions



Electricity consumption & Ratio of electricity derived from renewable energy sources



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, 2024, ARBIZ had a waste rate (produced/

receivables) of 3.6%, a metal recycling rate (metal shipment/receivables) of 54.2%, and an automotive recycling rate of 100% (see p. 66 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 5,000 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.

ARBIZ Co., Ltd. only uses city water and circulates rather than disposes of recycled water. We also collect and separate oil from rain water on our auction sites before releasing it back into the environment. USS tests the quality of its water discharge four times per year. SMART Inc. also only uses city water to sprinkle water on its construction sites. It never uses groundwater.