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 vehicles. USS is putting emphasis on its recycling business, which disassembles, sorts, and reclaims any resources from end-of-life 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 CSR Promotion Division. 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, 2025. 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.

TCFD TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

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.

Environmental

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
1. Stronger laws and government regulations • Rapid emissions reductions toward carbon neutrality • Full adoption of carbon taxes (carbon pricing) 2. Global shift to electric vehicles (EVs) Sharp increase in EV sales ratio (passenger cars) 18% (2023) → 95% (2035)	1. Delay in global EV adoption Global EV sales ratio (passenger cars) 18% (2023) → 55% (2035) 2. Manifestation of climate-related risks • 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 2024" (https://www.iea.org/reports/world-energy-outlook-2024)
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
			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 • Research and develop appraisal criteria and inspection systems for electric vehicles Promote operational efficiency, including expanding the use of digital auction inspection sheets
		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	
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) Identify the risks of flooding through hazard maps and enhance evacuation training Establish data management systems in preparation for 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	Large	
			Higher average temperature and increased risk of heatstroke		●	●	High	Small	

[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 or large financial impact

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 ¥350 million by 2030 and ¥390 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	
	Year	2030	2050	2030	2050
Without achieving GHG emission reduction targets	Carbon tax (billions of yen)	3.5	6.2	3.5	3.9
When achieving GHG emission reduction targets	Carbon tax (billions of yen)	2.0	3.6	2	2.3
Difference	Tax liability (billions of yen)	1.5	2.6	1.5	1.6
Carbon tax and pricing (US$ per t-CO_2)		140	250	140	158

(Prerequisites)
- The calculation presumes Japan will put in place a carbon tax with carbon pricing equivalent to nations committed to the IEA WEO 2024 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

Use of electricity derived from renewable energy sources

As a result of conducting an impact assessment of the carbon tax, we are promoting the introduction of on-site renewable energy, which will not only enable us to achieve the emission reduction targets but also generate significant tax savings in the future. Specifically, we are implementing the following three measures: introduction of on-site renewable energy, purchase of CO_2-free electricity, and utilization of non-fossil certificates.

[2] List of Solar Power Generation Facilities Installed

Auction site	Operation start
R Nagoya	Jan 2023
Nagoya	Feb 2023
Shizuoka	July 2023
JAA	Aug 2023
Okayama	Oct 2023
Saitama	Jan 2024
Kobe	Mar 2024

Upgrading to high-efficiency energy-saving air conditioning equipment

In addition to utilizing electricity derived from renewable energy, we are promoting the upgrade of air conditioning equipment to the latest energy-saving equipment in order to reduce energy consumption (Table [2]).

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.

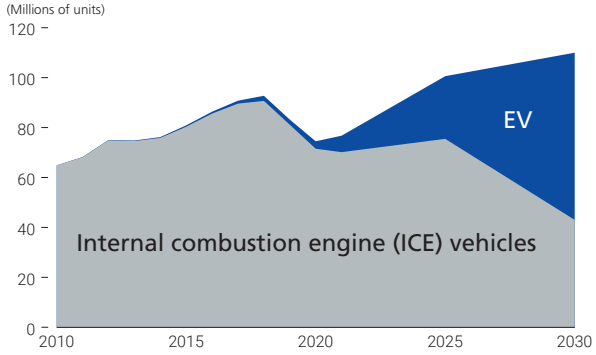
2-2 Strategic actions for combating climate change

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 2024 (https://www.iea.org/reports/world-energy-outlook-2024), 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, 2030 and 2035 are calculated using the assumption that changes will occur evenly across all years.

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, by building a system that allows members to create auction consignment data on the system, input work has been eliminated, data accuracy has improved, and operational efficiency has been achieved.

Active investment in auction facilities

We will actively invest in auction facilities to achieve our goal of a 50% market share in the auto auction business. Specifically, in addition to rebuilding the Yokohama Auction side, we are planning to rebuild Tokyo and HAA Kobe Auction sites to expand our auction processing capacity.

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 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.

Initiatives to reduce Scope 1 and 2 emissions

1. Use of electricity derived from renewable energy sources

1-1 Promotion of on-site solar power installation

From the perspective of contributing to the decarbonization of society by adding and increasing new renewable energy sources, we are promoting the introduction of on-site PPA solar power generation facilities on the roofs of auction sites. As of the end of March 2025, the introduction has been completed at 7 out of 19 sites.

1-2 Purchase of CO_2-free electricity

For electricity that cannot be supplied by on-site solar power generation, we are promoting the purchase of electricity

Transition plan (roadmap) to achieve goals

	Initiatives up to FY2023	Initiatives during FY2024	Initiatives toward FY2030
Science based targets	Obtained SBT certification (October 2023)	Annual reporting of emissions and progress of measures	Review of targets set every five years as stipulated in the SBT
Scope 1, 2 and 3 accounting with verification	Obtained third-party assurance for Scope 1, 2 and 3 (FY2022-)	Continue to obtain third-party assurance for Scope 1, 2 and 3	Consideration of third-party verification other than GHG emissions
Scope 1 and 2 emissions reduction initiatives	CO_2-free electricity (2 auction sites) On-site solar power generation equipment (7 auction sites)	Upgrading to high-efficiency energy-saving air conditioning equipment (3 auction sites) Start of purchase of non-fossil certificates	Promote introduction of solar power generation equipment Install high-efficiency energy-saving equipment Utilization of non-fossil certificates
Scope 3 emissions reduction initiatives	Start of calculation of Scope 3 emissions for all categories (FY2020-)	Refinement of calculation methods in Category 11	Implementing specific reduction measures for Scope 3
Disclosure	Adding Transition Plan in TCFD disclosures (2023)	Disclosure of specific reduction measures for Scope 3	Annual update and expansion of climate disclosures
External evaluation	"B" in CDP Climate Change 2023	"A-" in CDP Climate Change 2024CDP 2024 Climate Change "A-"	Continued response to CDP

menus derived from renewable energy. As of the end of March 2025, such electricity has been purchased at two out of 19 sites.

1-3 Utilization of non-fossil certificates

In addition to on-site solar power generation and CO_2-free electricity, we are implementing indirect reductions in emissions through the use of FIT non-fossil certificates from the fiscal year ended March 31, 2025.

2. Introduction of high-efficiency energy-saving equipment

We have reduced energy consumption by upgrading air conditioning equipment to the latest energy-efficient models.

Initiatives to reduce Scope 3 emissions

1. Category 11: Use of Sold Products

Among Scope 3 emissions, Category 11 accounts for the largest share, exceeding 50%, with fuel consumption from the operation of sold vehicles being the primary source of emissions.The Japanese government has set the target of achieving 100% electric vehicles (EVs) in new passenger vehicle sales by 2035. Over the next 5 to 10 years, the sales ratio of electric vehicles (EVs, FCVs, PHEVs, and HEVs) is expected to significantly increase. To accurately calculate the emissions from these electric vehicles, we are refining the calculation methods starting from the emissions for the fiscal year ended March 31, 2025.

2. Category 2: Capital Goods

We will also reduce emissions in Category 2, which covers capital goods such as purchased equipment, by combining the following measures (1) and (2).

(1) Consider switching from on-premises software and in-house servers to cloud-based solutions (reduction of emissions associated with the procurement, depreciation, and maintenance of in-house hardware)

(2) Consider renovating auction sites to enable continued use (Reduction of life cycle emissions)

3. Other Categories

For other categories, we will continue to implement measures such as electronic invoicing (Category 1: Reduction of communication costs), promotion of online meetings (Category 6: Reduction of business travel emissions), and promotion of Digital auction consignment forms (Category 5: Reduction of waste), while also actively implementing business improvements that have a reduction effect.

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 CO_2 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 CO_2-free electricity, and installing high-efficiency energy-saving equipment.

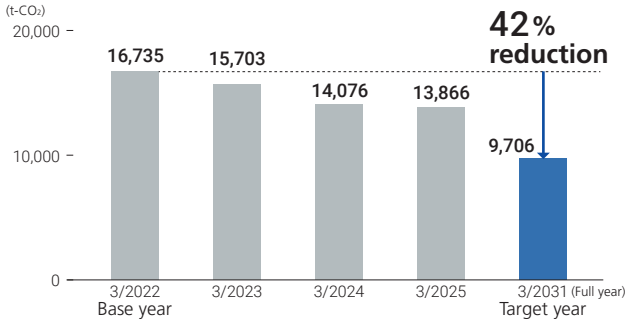
CO_2 emission reduction target

Total emissions of Scope 1 and 2	42% reduction by FY2030
Scope 3 emissions	25% reduction by FY2030
The ratio of electricity derived from renewable energy sources	50% by FY2030

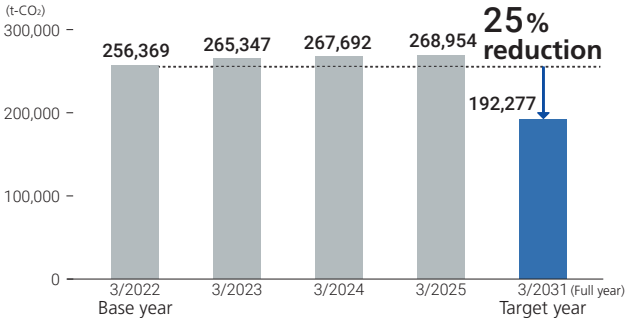
* The base year for Scope 1, 2, and 3 emissions is the fiscal year ended March 31, 2022.

GHG emissions

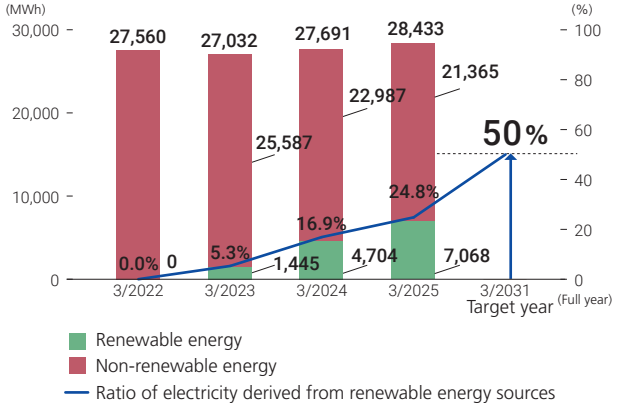
Total emissions of Scope 1 and 2



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, 2025, ARBIZ had a waste rate (produced/receivables) of 3.4%, a metal recycling rate (metal shipment/receivables) of 60.2%, and an automotive recycling rate of 100.0% (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 4,626 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.