

Fundamental Policy for Corporate Governance

USS Co., Ltd.

Chapter 1 General Rules

1. Purpose

USS Co., Ltd. has established this Fundamental Policy for Corporate Governance for the purpose of defining the fundamental thinking and framework regarding corporate governance for USS and the USS Group, which consists of USS and its subsidiaries.

2. Fundamental Stance for Corporate Governance

The USS Group operates a used car distribution business that is centered in auctions of used cars. The group's goal is increasing corporate value through the constant growth of business operations.

Since the other companies belonging to the USS Group are incorporated companies, their highest priority is naturally increasing corporate value. In addition, the USS Group is guided by a corporate philosophy with six components: creating a fair market, unifying with members, providing services for consumers, passing profit to shareholders, respecting employees and contributing to local communities. Management at USS is based on the belief that corporate value is the result of fulfilling the responsibilities of this philosophy and that shareholder value is created through corporate value.

As members of society, companies have an obviously obligation to conduct business in a manner that is consistent with accepted standards of behavior. Compliance with this fundamental policy and the Corporate Governance Code is evaluated at the regular meeting of the Board of Directors at the end of each fiscal year. In addition, a plan for improvements in the next fiscal year is established. By taking these actions, the USS Group aims to upgrade its corporate governance while fulfilling its responsibilities concerning accountability and maintaining highly transparent management.

Chapter 2 Relationship with Shareholders

1. Shareholders meeting

At USS, the shareholders meeting is the highest-ranking decision-making body as well as a valuable opportunity for direct communications with shareholders. The following measures are used to properly reflect the wishes of shareholders in the USS Group's management.

- (1) The shareholders meeting is scheduled for a day when as many shareholders as possible can attend, primarily by avoiding days when there are large numbers of shareholders meetings.
- (2) Notices of shareholders meetings are sent to shareholders three weeks prior to the meeting. Furthermore, prior to sending these notices, this information is posted on the USS website and the Tokyo Stock Exchange website. The purpose is to give shareholders sufficient time to consider proposals to be submitted at the meeting. In addition, USS distributes information other than shareholders meeting notices to supply information as needed to enable shareholders to reach decisions properly.
- (3) To allow all shareholders to submit their votes, as prescribed in the Companies Act, USS has an electronic voting system and electronic platform for submitting votes. In addition to providing an infrastructure for electronic voting, USS produces English-language shareholder meeting notices.

- (4) If a proposal is approved by shareholders with an approval ratio of less than 80%, following the shareholders meeting, the Board of Directors reasons for opposition to the proposal and the large number of opposing votes to consider actions that may be needed.
2. Assurance of shareholder rights and equality
 - (1) USS is dedicated to preserving equality for all shareholders as well as protecting the rights of shareholders and enabling shareholders to properly exercise these rights. For this purpose, USS discloses information promptly and maintains an environment conducive to the exercise of shareholder rights.
 - (2) For minority shareholder rights in the Companies Act, USS takes actions aimed at ensuring that rights can be exercised with no difficulty, such as by prescribing methods for exercising rights in the Stock Handling Rules.
 3. Fundamental policy concerning equity
 - (1) For the medium to long-term growth in the USS Group's corporate value, the fundamental policy concerning equity is to maintain a level of equity needed for making investments for sustained growth and accommodating risks associated with business activities.
 - (2) USS places priority on the efficient use of equity. Consequently, the return on equity is a key performance indicator and the medium-term goal is a return on equity of above 15%.
 - (3) The fundamental policy for shareholder distributions is to distribute earnings in a manner that reflects consolidated results of operations as well as the need for actions to further improve profitability and financial soundness. Based on this policy, USS aims to maintain a consolidated dividend payout ratio of at least 55%.
 - (4) When the Board of Directors and corporate auditors approve an equity-related action (increase in equity, management buyout or other action) that would alter control of the company and significantly dilute existing shares, the opinions of independent directors and corporate auditors will be considered and discussions, timetables and other information about the proposed action will be promptly disclosed. In addition, explanations are provided at a shareholders meeting, information meeting or in other ways in order to supply shareholders with sufficient information.
 4. Policy concerning cross-shareholdings
 - (1) USS reaches decisions about the retention of cross-shareholdings or establishment of new cross-shareholdings after determining if these investments contribute to growth of the USS Group's corporate value from a medium to long-term perspective. These decisions also incorporate the effects of cross-shareholdings on business strategies, the maintenance and strengthening of business relationships and all other applicable factors.
 - (2) When voting stock held as cross-shareholdings, while respecting the management policies of the other companies, USS submits votes with the goals of contributing to corporate value growth at the USS Group and the cross-shareholding counterparty companies from a medium to long-term perspective as well as of preserving the benefits of the ownership of these cross-shareholdings.
 - (3) Once each year, the Board of Directors examines individual cross-shareholdings to determine if the benefits, including contributions to the maintenance and strengthening

of business relationships and to consolidated results of operations, and associated risk are suitable in relation to the cost of capital. The Board of Directors also determines if the purpose of the cross-shareholding is suitable after taking into consideration business strategies, business relationships and other factors. As a rule, a cross-shareholding is sold if this process results in the conclusion that the investment cannot be justified.

5. Constructive dialogue with shareholders

- (1) USS is dedicated to sustained growth and the medium to long-term growth of corporate value. To accomplish these goals, USS believes it is important to hold frequent discussions with shareholders and other investors and to reflect their opinions and wishes in the group's management. Consequently, USS has the following policies for conducting constructive dialogues with shareholders.
 - a. A director in charge of investor relations oversees all activities involving dialogues with shareholders.
 - b. The USS General Affairs Department, which is part of the Corporate Administration Division, is responsible for overseeing the collection, management and disclosure of information. This department works with associated departments to ensure that information is disclosed in a timely, fair and proper manner to shareholders.
 - c. USS holds direct discussions about corporate governance and significant management policies with major shareholders with an investment policy that is consistent with the medium to long-term interests of all shareholders. These discussions are conducted primarily by senior executives, directors, including outside directors, and corporate auditors based on the wishes of each shareholder and the primary topics of discussion.
 - d. In addition to these individual meetings with shareholders, USS holds an information meeting twice each year, gives presentations at securities company conferences and uses other events for investor dialogues. Furthermore, USS gives tours of its auction sites when requested by investors.
 - e. USS uses dialogues with shareholders to gain their understanding of the USS Group's goals. In addition, to reflect shareholders' opinions in how the group is managed, particularly significant feedback is reported to the Board of Directors by the director or other manager who attended the dialogue where this information was received.
 - f. The USS Supervisory Division General Affairs Department and Finance Department are primarily responsible for examining information and other matters involving investor dialogues while ensuring that there are no leaks of insider information, as prescribed by USS internal rules.
- (2) USS discloses targets for sales, operating income, net income per share and other performance indicators in its earnings announcements and other documents. In addition, a return on equity target and fundamental policy for dividends are disclosed in the business report, securities report and other documents. USS uses information meetings and other channels to explain specific initiatives for reaching these targets.
- (3) USS determines the composition of its shareholders by using the list of shareholders of record as of the end of March and September of each year. As needed, USS also performs investigations to identify so-called beneficiary shareholders that hold USS stock in the name of a trust bank or other third party.

6. Prevention of transactions harmful to shareholder interests
USS rules prohibit transactions (excluding transactions between USS and its subsidiaries) other than automobile auction transactions with USS by its directors and corporate auditors, first or second degree relatives of these individuals, and companies in which any of these individuals have made an investment or hold stock (for listed companies, a holding of more than 1% of all shares issued) or where any of these individuals have effective control or are involved with management. When one of these individuals or companies performs an automobile auction transaction, the transaction must be approved in advance by the Board of Directors. For approval, the terms of the transaction must be the same as for ordinary transactions in order to prevent any negative impact on the interests of shareholders. These transactions are reported at the first meeting of the Board of Directors after each annual shareholders meeting and the directors determine if transactions should be allowed to continue.

Chapter 3 Proper Collaboration with Stakeholders Other Than Shareholders

1. Relationship with stakeholders other than shareholders
 - (1) USS understands that collaboration with all stakeholders is vital to achieving sustained growth and increasing corporate value over the medium and long term. The stance concerning relationships with each stakeholder group is defined in the corporate philosophy and can be viewed on the USS website and through other channels.
 - (2) At the USS Group, the management team plays a leading role concerning collaboration with stakeholders. The aim is to foster a corporate culture that respects the rights and standpoints of stakeholders as well as standards for corporate ethics.
2. Relationship with employees
 - (1) The USS Board of Directors has approved the USS Code of Conduct and Ethics as the fundamental guidelines for the activities of all executives and employees at the USS Group. This code is revised as needed. There are activities to ensure that all executives and employees at the group understand this code and there are training programs to reinforce this understanding and awareness.
 - (2) The USS Group is dedicated to maintaining a working environment for women to remain in their jobs and realize their full potential as well as for allowing all employees to achieve the correct balance between their work and other activities. Programs for this purpose include reduced working hours, days off to care for a pre-school child, extended time off to care for an aging family member, extended time off for childcare, and others. These programs make it easier for employees to do their jobs. When recruiting employees, selections are made regardless of race, ethnicity, nationality, beliefs, disability, sexual orientation, gender identity, whether they were hired as a new graduate or after working at another company, and other characteristics and employees are compensated properly based on their capabilities.
 - (3) The policy of the USS Group is to conduct training programs, and upgrade programs, to give people the skills to become the next generation of the group's self-reliant leaders. In addition, there are activities for making business processes more efficient and utilizing advanced technologies in order to provide pleasant and productive workplaces.

3. Sustainability issues

The USS Group understands that a strong commitment to dealing with social and environmental issues is vital to achieving sustained growth. The USS Group has determined materiality for group companies based on how business activities affect the economy, society and the environment and on stakeholders' views and demands regarding the group. Discussions with stakeholders and within the group are used for the continuous reexamination of key issues involving materiality.

4. Internal reporting system

- (1) The USS Group Internal Reporting System enables employees to report illegal activities and other information that poses a risk. The system is managed by an external organization. Information about consultations and reports that could be a significant risk are reported to the Board of Directors. The USS representative director checks the status of this system's operations on a regular basis.
- (2) Attorneys and other external professionals may be asked for assistance, as directed by the USS representative director, as needed depending on the type of information received through the reporting system. Reports may be verified by an objective examination by an individual appointed by the USS representative director or by using other appropriate methods. Suitable activities are then taken for improvements and preventive measures regarding the illegal or improper behavior. There is a separate contact for reports concerning matters that may involve a USS director or executive officer. When a report is received using this separate channel, an Examination Committee consisting of USS external directors and USS corporate auditors designates an individual to handle the matter that was reported.
- (3) When the external organization that manages the USS Group Internal Reporting System notifies USS that a report has been received, the individual at USS who is responsible for handling these reports passes on to others only information in a format that does not reveal the identity of the person who submitted the report, unless the individual asked for the report to be submitted with his or her name. Furthermore, the USS Group's Rules for the Internal Reporting System clearly state that the submission of a report will be not be used as a reason for any negative consequences for individuals who submit reports using this system.

Chapter 4 Policy for the Disclosure of Information

1. Information disclosure policy

The disclosure of information is one of the highest priorities of USS. The proper disclosure of information is vital to receiving the understanding of shareholders and other stakeholders. As a result, in addition to announcing information required by laws and regulations, USS uses its website, investors guide, integrated report and many other methods to make available other information (including non-financial information) that USS believes is important from the standpoint of shareholders and other stakeholders. This includes information about sustainability policies and activities, investments in human resources and intellectual property, and other subjects.

2. Disclosure methods

- (1) To provide shareholders and other stakeholders with accurate information, USS uses simple and straightforward expressions in all information that is disclosed.

- (2) As USS has overseas shareholders, there is an English-language version of the USS website. English translations of shareholder meeting notices, consolidated financial results, information meeting materials and timely disclosure information are posted on the USS website and made available in other ways in order to supply information to overseas investors.

Chapter 5 Corporate Governance

1. Structure of corporate governance

The Board of Directors reaches decisions about important matters involving management and supervises the performance of the directors. In addition, the corporate auditors and Board of Corporate Auditors, which are independent of the Board of Directors, audits the performance of the directors. USS has independent outside directors for a highly effective system of overseeing the performance of the directors. There are also independent outside corporate auditors in order to maintain a highly independent system for overseeing the performance of directors. As advisory units for the Board of Directors, there is a Nominations and Remuneration Committee. These committees help ensure the suitability of selections of director and corporate auditor nominees and of remuneration for directors and corporate auditors and contribute to the transparency of evaluations of results of operations.

Section 1 Board of Directors

2. Roles of the Board of Directors

- (1) The Board of Directors is responsible for medium-term strategies and business plans. The directors have established the management theme of “Challenge to Next Stage,” the targets in earnings announcements and other goals. All this information is available on the USS website. Directors periodically examine the causes of differences between forecasts and actual performance in each fiscal year. The results of these examinations are provided to shareholders and other stakeholders in earnings announcements and in other ways and the results are used when goals are established for the next fiscal year. Another role of the Board of Directors is the allocation of capital expenditures, investments in people and other resources of the USS Group for the purposes of increasing profitability, using capital efficiently, and increasing consolidated sales and earnings.
- (2) When establishing strategies and business plans, the Board of Directors holds discussions that include the unrestricted exchange of thoughts with the external directors and corporate auditors. The directors then use these strategies and business plan as the basis for important decisions concerning the operation of business operations. To oversee management of the USS Group, at every meeting, the directors receive reports from directors who are also business executives concerning the performance of their respective business units and progress regarding any issues. Directors then hold a constructive discussion including opinions and other statements as needed concerning these business reports from directors.
- (3) In accordance with standards for the submission of agenda items and reports, the Board of Directors reaches decisions about important matters involving management as well as items that must be determined by the directors as prescribed in laws, regulations or the Articles of Incorporation. The directors also reach decisions through a consensus or other method about other items due to their importance, the nature of the matter or other reasons. The directors also define the authority and assignment of

responsibilities of division managers, auction site managers and business unit manager in accordance with USS rules.

- (4) USS believes that new ideas from executives who are responsible for conducting business operations are a vital element of the vitality of the USS Group and the ability to sustain growth. This is why USS provides opportunities to submit these ideas at any time to the Board of Directors, individual directors and other executives. The directors thoroughly examine each proposal from an independent and objective perspective. When a proposal is approved by the Board of Directors, the directors and other managers in charge of the corresponding business activities are responsible for taking the necessary actions.

3. Structure and operation of the Board of Directors

- (1) The Board of Directors, which has a maximum of 12 members as stated in the Articles of Incorporation, has the proper composition needed to ensure the effectiveness of discussions. The board has balance and diversity with respect to knowledge, experience, skills and other attributes involving business operations of the USS Group.
- (2) Documents concerning proposals to be submitted at a meeting of the Board of Directors are, as a rule, distributed to directors about one week before each meeting. The General Affairs Department of the Supervisory Division answers questions from directors about proposals and other assistance is provided so that the directors can thoroughly examine each proposal. Outside directors use their professional skills and experience to state their opinions at board meetings and offer suggestions for improvements as needed.
- (3) Meetings of the Board of Directors are held at least once every two months, as a rule. Prior to the start of each fiscal year, the annual schedule for meetings and major items to be submitted for decisions are determined. The number of items to be submitted for decisions at each meeting is limited so that the directors have sufficient time to discuss each proposal.
- (4) For directors who concurrently serve as a director, corporate auditor or other executive at one or more other publicly owned company, the number of these concurrent positions is held to a reasonable degree to ensure that these directors have sufficient time to perform their duties at USS properly. Information about the other positions of directors and director candidates as a director or corporate auditor or other important role at other publicly owned companies is included in shareholder meeting reference materials and the business report in every fiscal year.
- (5) To evaluate the effectiveness of the Board of Directors, all directors and corporate auditors complete questionnaires and the results are reported to Board of Directors.

4. Selection of directors and executive officers

- (1) The Board of Directors makes final decisions regarding director candidates and executive officers after taking into consideration the recommendations of the Nominations and Remuneration Committee, where independent outside directors are more than half of all committee members. The standard for these recommendations is whether or not individuals have suitable experience, knowledge and professional skills to serve as a USS director or executive officer.
- (2) If a director or executive officer violates a law or regulation or there is a problem involving the management of business operations, the Board of Directors makes decisions regarding the termination of the individual or individuals involved, the senior

directors, and others. These decisions take into consideration recommendations of the Nominations and Remuneration Committee, where independent outside directors are more than half of all committee members.

- (3) USS uses the Tokyo Stock Exchange standards for independence because these standards are believed to be reasonable. These standards are used for the selection of outside director candidates and the designation of independent directors. In addition, USS selects as outside director candidates individuals who are expected to contribute to frank, vigorous and constructive discussions by the directors.
- (4) USS provides explanations of the selections of candidates for election as director in the shareholder meeting reference materials concerning the proposal for the election of directors.

5. Remuneration of directors, corporate auditors and executive officers

(1) Basic policy for remuneration of officers

USS will maintain a competitive level of remuneration for the purpose of attracting and retaining talented managers with the skills needed for the sustained growth of the USS Group and medium to long-term growth of corporate value.

In addition to receiving fixed remuneration, officers receive as performance-linked remuneration bonuses as a short-term incentive, performance-linked stock remuneration (performance share units) as a medium-term incentive, and restricted stock remuneration as a long-term incentive. The policy is to properly determine percentages of total remuneration for each of these remuneration categories with the aim of having these remuneration plans function as sound incentives for achieving sustained growth.

(2) Explanation of remuneration for officers

Based on the basic policy in the preceding section, USS plans to use the following remuneration plans for directors. A black circle indicates eligibility for each category of remuneration.

Remuneration category			Eligibility		
			Executive Officer Directors (Note 1)	Outside Directors (Note 2)	Corporate Auditors (Note 3)
Fixed	Cash	Basic	●	●	●
		Bonus	●	—	—
Variable	Stock	Performance-linked stock	●	—	—
		Restricted stock	●	—	—

Notes: 1. Executive officer directors are all directors other than outside directors and receive all four categories of remuneration as their remuneration as executive officer directors.

2. Outside directors receive only basic remuneration for the purpose of ensuring that these directors supervise management with objectivity and independence.

3. Remuneration for corporate auditors is decided by the mutual agreement of the corporate auditors. This composition is solely basic remuneration to ensure that corporate auditors perform audits of management with objectivity and independence.

Composition of remuneration for executive officer directors

Remuneration category	Percentage
Basic	60%
Bonus	20%
Performance-linked stock	10%
Restricted stock	10%

Note: Composition when the performance-based evaluation coefficient is all 100% for all KPIs.

(3) Basic remuneration

Basic remuneration is paid in fixed amounts every month and is based on the roles, responsibilities and other characteristics of each director's executive position at USS.

(4) Bonus

Bonuses are performance-linked remuneration that is paid in cash as a short-term incentive. The bonus for each fiscal year is linked to results of operations and calculated as follows.

The basic amount used to calculate bonuses (i) and bonus payment ratio (ii) are multiplied to obtain the bonus paid to each individual.

$\text{Bonus} = \text{Basic bonus calculation amount (i)} \times \text{Bonus payment ratio (ii)}$

(i) Basic bonus calculation amount

This figure is determined by the Nominations and Remuneration Committee, where the majority of members are independent outside directors, which has been authorized by the board of directors to perform this task.

(ii) Bonus payment ratio

This ratio is calculated by using the sales evaluation coefficient, operating profit evaluation coefficient, net income evaluation coefficient (using profit attributable to owners of parent, same hereafter) and ROE evaluation coefficient, which are financial indicator evaluation coefficients (all using consolidated financial data, same hereafter), and applying the applicable weighting (20% for the sales coefficient, 40% for the operating profit coefficient, 20% for the net income coefficient and 20% for the ROE coefficient).

These financial indicator evaluation coefficients are between 0% and 200% depending on the degree to which performance targets for the applicable fiscal year were achieved. The initial forecast for the fiscal year is used as the targets for determining the sales, operating profit and net income coefficients. For the ROE coefficient, 15% is used because this is one of the medium-term targets of USS.

$\begin{aligned} \text{Bonus payment ratio} = & \\ & \text{Sales evaluation coefficient} \times 20\% + \text{Operating profit evaluation coefficient} \times 40\% \\ & + \text{Net income evaluation coefficient} \times 20\% + \text{ROE evaluation coefficient} \times 20\% \end{aligned}$
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(Financial indicators and evaluation coefficients in the bonus payment ratio)

	KPI	Basis for evaluation	Weight	Achievement ratio		Evaluation coefficient
Financial indicators	Sales	Degree of achievement of target	20%	Minimum	50%	0%
				Target	100%	100%
				Maximum	150%	200%
	Operating profit	Same	40%	Minimum	50%	0%
				Target	100%	100%
				Maximum	150%	200%
	Net income	Same	20%	Minimum	50%	0%
				Target	100%	100%
				Maximum	150%	200%
	ROE	Same	20%	Minimum	Below 11%	0%
				Target	15%	100%
				Maximum	20%+	200%

(5) Performance-linked stock remuneration

The purpose of this stock remuneration is to increase the medium-term incentive for executive officer directors to achieve the consistent growth of USS's corporate value. This remuneration accomplishes this by further clarifying the link between each director's remuneration and results of operation and the value of USS stock. For the period beginning after an annual shareholders meeting and ending with the annual shareholders meeting in the following year, this remuneration distributes to eligible directors a number of shares of USS common stock based on the degree to which performance targets have been achieved for the applicable period of three consecutive fiscal year. Shares are distributed at the end of this three-year period.

The number of shares of USS common stock an eligible director receives is calculated by multiplying the number of stock units (i) and the stock distribution ratio (ii).

Shares distributed = Number of stock units (i) x Stock distribution ratio (ii)
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(i) Number of stock units

This number is calculated by dividing the standard amount of performance-linked stock remuneration (a) for each executive officer director by the stock price for the stock unit formula (b).

Number of stock units	=	Standard amount of performance-linked stock remuneration for individual directors (a)
		Stock price for stock unit formula (b)

(a) Standard amount of performance-linked stock remuneration for individual directors

The standard amount for each director is determined by the Nominations and Remuneration Committee, where the majority of members are independent outside directors, as authorized by the board of directors.

(b) Stock price for stock unit formula

The stock price in this formula is the higher of the closing price of USS stock on the final day of the fiscal year prior to the first fiscal year of the applicable three-year performance

evaluation period (or the most recent prior closing price if USS stock was not traded on that day) or the average stock price for the entire fiscal year prior to the first fiscal year of the applicable evaluation period.

(ii) Stock distribution ratio

This ratio is calculated by using the TSR* evaluation coefficient and ROE evaluation coefficient, which are financial coefficients, with the applicable weighting (50% for TSR evaluation coefficient and 50% for ROE evaluation coefficient) and then making an adjustment to reflect the ESG evaluation coefficient, which is a non-financial coefficient. If this calculation results in a negative figure, the result is revised to 0%.

The TSR evaluation coefficient and ROE evaluation coefficient are figures between 0% and 200% depending on the degree to which performance targets established for each performance evaluation period were achieved.

The ESG evaluation coefficient, which is a non-financial performance indicator, is a figure between -10% and +10% and is linked to MSCI and CDP ratings of USS during the performance evaluation period.

$$\text{Stock distribution ratio} = \text{TSR evaluation coefficient} \times 50\% + \text{ROE evaluation coefficient} \times 50\% \pm \text{ESG evaluation coefficient}$$

The TSR is a figure calculated as follows for each performance evaluation period.

$$\text{TSR} = \frac{\text{Average closing price of USS stock during last 3 months prior to end of performance evaluation period} + \text{Total dividends paid during performance evaluation period}}{\text{Average closing price of USS stock during last 3 months prior to start of performance evaluation period}} - 1$$

(Financial indicators and evaluation coefficients in the stock distribution ratio)

	KPI	Basis for evaluation	Weight	Achievement ratio		Evaluation coefficient
Financial indicators	TSR (vs. index)	USS TSR vs. TOPIX 500 stock growth ratio (relative stock growth ratio)	50%	Relative stock growth ratio is below 70%		0%
				Relative stock growth ratio is 70% to 130%		Same as relative stock growth ratio
				Relative stock growth ratio is over 130%		200%
	ROE	Degree of achieving target	50%	Minimum	Under 11%	0%
				Target	15%	100%
				Maximum	20%+	200%

(6) Restricted stock remuneration

This remuneration is a long-term incentive for executive officer directors. Enabling these directors to constantly hold USS common stock means that these directors have the same

potential benefits and risks involving stock price movements as all other shareholders do. The purpose of this long-term incentive is to increase the motivation of these directors to contribute to raising the price of USS stock and increasing the corporate value of USS. As a rule, USS will distribute restricted stock to eligible executive officer directors every year. Each director will be restricted from transferring ownership of this USS common stock from the day the stock is received until the day the individual is no longer a director of USS.

The total monetary amount of restricted stock remuneration in every year is determined by the Nominations and Remuneration Committee, where the majority of members are independent outside directors, as authorized by the board of directors. The maximum number of shares of restricted stock that can be distributed every year is 300,000.

(7) Level and composition of remuneration for executive officer directors

USS believes that the level of remuneration and composition of this composition are appropriate. This judgment is based on comparisons of the level of remuneration, remuneration composition, labor's share of income and salaries of USS employees with the same figures for TOPIX 500 companies and companies with a market capitalization and sales similar to those of USS.

The level, format, composition and other aspects of remuneration for executive officer directors is determined with the purpose of further increasing motivation to contribute to medium to long-term growth of sales and earnings and corporate value by more clearly linking remuneration with results of operations. All aspects of this remuneration are reexamined periodically. The percentages of each category of remuneration for executive officer directors are in the preceding item (2).

(8) Return of remuneration (malus and clawback provisions)

USS has a system (malus and clawback) for the return of performance-linked stock remuneration and restricted stock remuneration distributed to executive officer directors. These actions may be taken when the board of directors determines that an executive officer director has committed an illegal act or a serious violation of internal rules or been involved with some other improper activity, including serious fraudulent accounting or an act causing a significant loss. In this event, USS can refuse to distribute USS common stock to a director, require a director to pay the market value of all or part of the USS common stock that was distributed as remuneration, demand the return of this stock, or take some other action. Terms for a demand for the return of stock or other action will be determined by a resolution of the board of directors.

(9) Process for determination of remuneration for directors

The policy for determining the composition of remuneration for directors and the specific remuneration for individual directors are determined by the Nominations and Remuneration Committee, where the majority of members are independent outside directors, as authorized by the board of directors, by using objective discussions.

As needed, members of the Nominations and Remuneration Committee ask external companies and other organizations for advice while holding discussions about remuneration for the purpose of obtaining an objective perspective and incorporating professional knowledge and information in discussions about remuneration.

(10) Policy for determining remuneration of executive officers

The policy for the determination of remuneration for executive officers of USS is based on the policy for the determination of remuneration for directors of USS and this remuneration consists of basic remuneration, bonuses, performance-linked stock remuneration and restricted stock remuneration.

Section 2 Board of Corporate Auditors

6. Roles and structure of the Board of Corporate Auditors
 - (1) The majority of the Board of Corporate Auditors at USS is independent outside auditors. This structure preserves the independence of the board and allows the full-time corporate auditor to exchange opinions and information at all times with the directors who operate business activities. The full-time corporate auditor provides information obtained from performing his duties to the outside corporate auditors at board meetings and at other times. Furthermore, the outside corporate auditors can communicate with the outside directors at the Independent Committee, which consists of the independent directors and corporate auditors.
 - (2) The Board of Directors selects corporate auditor candidates with the prior consent of the Board of Corporate Auditors. Candidates must have the outstanding experience, knowledge and professional skills required to serve as a USS corporate auditor. USS uses the Tokyo Stock Exchange standards for independence because these standards are believed to be reasonable. These standards are used for the selection of outside corporate auditor candidates and the designation of independent corporate auditors.
 - (3) When selecting corporate auditor candidates, at least one individual must have a suitable level of knowledge about finance and accounting.
 - (4) USS provides explanations of the selections of candidates for election as corporate auditor in the shareholder meeting reference materials concerning the proposal for the election of corporate auditors.
 - (5) For corporate auditors who concurrently serve as a director, corporate auditor or other executive at one or more other publicly owned company, the number of these concurrent positions is held to a reasonable degree to ensure that these corporate auditors have sufficient time to perform their duties at USS properly. Information about the other positions of corporate auditors and corporate auditor candidates as a director or corporate auditor or other important role at other publicly owned companies is included in shareholder meeting reference materials and the business report in every fiscal year.
7. Strengthening roles of the corporate auditors
 - (1) The corporate auditors collect the information needed to perform audits in conjunction with the directors and the Internal Audit Office. If this information is insufficient, the full-time corporate auditor will take the lead in activities to receive the required information and documents from the directors in charge of the relevant business units and from other associated departments. These individuals and departments will then supply the information and documents as requested.
 - (2) The staff of the Internal Audit Office assists the corporate auditors. If a member of this department receives an order from a corporate auditor concerning a necessary auditing task, the Board of Directors or any other employee may not submit different instructions concerning this order.

Section 3 Other items

8. Assistance for collection of information by directors and corporate auditors
 - (1) Directors and corporate auditors can ask directors in charge of business units and managers of departments for information and documents that are required to perform

their duties as directors and corporate auditors. The directors and managers must provide the proper information and documents as requested. For requests for information from outside directors and corporate auditors, there is a secretariat in the General Affairs Department of the Administration Division that is responsible for internal communications and coordination in order to enable all departments to receive these requests at any time.

- (2) The USS Supervisory Division General Affairs Department is responsible for assisting independent outside directors. This department handles communications and other matters involving senior management, the corporate auditors and the Board of Corporate Auditors.

9. Training for directors and corporate auditors

- (1) USS uses seminars by external parties and other activities to upgrade the knowledge and skills of directors and corporate auditors so they can contribute to the sustained growth of the USS Group and medium to long-term growth in corporate value. In addition, USS encourages directors and corporate auditors to participate in external seminars, join associations and establish personal business networks, and pays expenses for these activities, for the purpose of supporting self-improvement activities.
- (2) USS gives copies of the Articles of Incorporation, company rules and other key corporate documents to newly elected directors and corporate auditors. These individuals also attend external seminars and participate in other activities. The objective is to give new directors and corporate auditors a better understanding of their roles and responsibilities.
- (3) Newly elected outside directors and outside corporate auditors receive information about the USS Group, including business activities, finances and the organization, from directors and representatives of group companies. As needed, these individuals tour USS Group facilities and participate in other activities to gain a better understanding of the group.

10. Cooperation among directors, corporate auditors and internal audits

USS has a framework for submitting reports as needed to the Board of Directors and Board of Corporate Auditors about problems and other issues about the how business operations are performed that were discovered during an audit by an internal auditing unit. Information is subsequently exchanged between internal auditors and the Board of Directors and Board of Corporate Auditors concerning measures to make improvements regarding the problem or issue and the status of these improvements.

11. Independent accounting auditor

- (1) USS uses an independent accounting auditor to ensure that financial reports are reliable and fulfill other obligations to shareholders and other investors and to ensure that financial reports have been properly audited.
- (2) The Board of Corporate Auditors monitors and evaluates the performance of the independent accounting auditor by exchanging opinions with this auditor, confirming the status of audits, checking audit reports and performing other activities. Corporate auditors also confirm the independence and professional skills of the independent accounting auditor.
- (3) USS uses the following activities to ensure the effectiveness of audits performed by the independent accounting auditor.

- a. Based on prior discussions with the independent accounting auditor, a schedule is created that provides sufficient time for the audit.
- b. If requested by the independent accounting auditor, the company president, directors in charge of business operations and other senior executives will hold meetings with this auditor.
- c. Accounting audits, quarterly review reports and other activities are used for communications between the external accounting auditor and the corporate auditors. Furthermore, the corporate auditors exchange information with the external accounting auditor and outside directors at any time as needed in order to facilitate interaction between the independent accounting auditor and the outside directors. At any time, the independent accounting auditor can exchange required information with internal auditors and confirm how business operations are being performed. This provides a method for the independent accounting auditor to receive information that is needed.
- d. If the independent accounting auditor discovers something that is improper and asks for the necessary response, or if there is a flaw or other problem, the company president orders an examination and corrective actions that are conducted primarily by directors in charge of business operations. The results of these activities are reported to the independent accounting auditor.

12. Independent Directors and Corporate Auditors Conference and Nominations and Remuneration Committee

- (1) The Independent Directors and Corporate Auditors Conference, which consists of the independent directors and corporate auditors, is held on a regular basis. This conference reflects the recognition by USS of the importance of the exchange of information and perspectives by these individuals from an independent and objective standpoint. As needed, the members of this conference ask other directors and corporate directors as well as other USS Group executives to attend a meeting to provide a required explanation or for some other purpose. Activities of the conference may also include requests for meetings with the company president or other executives and for other actions.
- (2) The Nominations and Remuneration Committee is an advisory body for the Board of Directors that examines the suitability of the following proposals to be submitted to the directors and gives the directors a report on this examination.
 - a. Selection of director candidates and selection of executive officers
 - b. Policy for remuneration of directors and corporate auditors
 - c. Selection and termination of representative directors and the senior directors
 - d. Termination of directors and executive officers
 - e. Succession plan for directors

In addition, the Nomination and Remuneration Committee makes decisions about remuneration and other benefits for each director and executive officer based on the policy for the determination of remuneration and other benefits for these individuals.