

To Our Shareholders



In fiscal 2003, ended March 31, 2004, USS achieved solid operating results. As well as robust operating revenues and net income growth, our performance improved in several core indicators—including market share and contract completion rate. We also made progress in the implementation of our long-term growth strategy, which included the opening of our USS Yokohama auction site, and the construction of our New USS Tokyo auction site. We also embarked on new peripheral businesses relating to the recycling of materials recovered from end-of-life vehicles.

Improving macro economy spurs auto auction market growth

The fiscal year under review was characterized by export-led growth in the Japanese economy, which, by late in the period, began to favorably influence consumer spending and alleviate deflationary pressures. Robust economic growth in Asia and the United States, coupled with strong global demand for certain consumer electronics products, combined to outweigh

the lingering effects of Japan's weak banking sector.

Once again, new vehicle demand remained flat, at 5.8 million registrations during calendar 2003, rising 0.6% compared with the previous calendar year. Used vehicle registrations were also virtually unchanged, totaling 8.2 million units, or an increase of 0.3% compared with 2002. We believe it is unlikely this situation will change significantly in 2004.

Despite this lack of growth in related markets, the auto auction market managed to post a modest 3.3% growth figure in calendar 2003, with 6.2 million vehicles put up for auction nationwide. It is also useful to look at the six-month breakdown of this headline growth figure. The January–June period in fact saw a 0.3% decline in vehicles put up for auction, while in contrast, the July–December period recorded sound growth of 7.0%. This turnaround in the second half of the calendar year indicates rekindled growth in the used vehicle distribution industry, as dealers move to take advantage of consumer optimism by replenishing and realigning their used vehicle inventory. We believe

a slight increase in the volume of trade-ins entering the market was also a factor in the latter part of the calendar year.

Competitive trends in the auto auction market continued to reinforce the shift toward alliances and consolidation. The market's number two player combined forces with another, slightly smaller, auto auction operator, in a move designed to gain some economies-of-scale traction. This alliance, between HANATEN and JAA, resulted in combined market share of 12.1% of all vehicles put up for auction.

Strong operating performance bolstered by market dominance

Although the aforementioned consolidation among our competitors reduced the margin of our market share lead, we continued to achieve strong market share gains. In calendar 2003, our market share improved 1.5 percentage points, to 26.8% of all vehicles put up for auction. This gain, in turn, led to substantial growth in vehicles put up for auction at USS sites, which totaled 1.77 million vehicles, in fiscal 2003, up 13.9%. The first and second halves of the fiscal period exhibited a large growth rate differential, with the April–September period recording 7.9% growth in vehicles put up for auction at USS sites and the October–March period posting 19.4% growth. USS' contract completion rate (sometimes referred to as the sell-through rate, it is the number of successfully closed sales as a proportion of total units put up for auction) also climbed, to 56.1%, compared with 54.3% in the previous fiscal year. This led to a 17.8% rise in the number of vehicles sold through USS auction sites during the period, to 993,000. This growth largely reflects USS' ability to attract greater numbers of buyers and sellers in a self-reinforcing growth cycle.

As a result of the above factors, consolidated operating revenues jumped 25.4%, to ¥42,426 million, and operating income advanced 17.5%, to ¥18,017 million. Net income rose 16.5%, to ¥8,907

million, and net income per share of common stock (EPS) climbed from ¥279.47 to ¥300.72. These results marked the fifth consecutive year of growth in consolidated operating revenues and net income. USS paid annual cash dividends of ¥50.00 per share applicable to fiscal 2003, which is ¥10.00 higher than the previous term.

Strategic focus on sustainable long-term growth

USS maintained its strong commitment to sustainable long-term growth through a range of strategies designed to expand the Company's core auction business and cultivate new businesses in related fields. **New USS auction sites:** On February 10, 2004, we opened the USS Yokohama auction site in one of Japan's most important regional auto markets. In its second month of operation, the site was averaging approximately 3,200 vehicles per auction. Capacity for this two-lane, 1,104-terminal site is 5,000 vehicles per auction, which we will aim to reach over the medium term.

The New USS Tokyo auction site is scheduled to open on October 7, 2004, and will feature a six-lane auction system with 2,400 bidding terminals. The 529,000 square-meter site is two kilometers long and will have a capacity of 15,000 vehicles per auction.

In Spring 2005, we plan to open the USS Kobe site on 66,000 square meters of land, which will have a capacity of 5,000 vehicles per auction.

Recycle auto auctions (damaged vehicles): Recycle auto auctions continued to grow, recording 50,400 vehicles put up for auction during fiscal 2003, compared with 35,200 in the previous period. Subsidiary World Automobile Co., Ltd., played a key role in facilitating this expansion. Also, the contract completion rate remained high, at 63.8%.

Heavy vehicle auctions: Heavy vehicle auctions were successfully launched at our USS Tokyo, USS Nagoya and USS Kyushu Gold sites in March 2003.

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Reusable vehicle auctions: Responding to a trend toward higher numbers of dated vehicles with high mileage entering the used vehicle auction market, we created a new category of specialist auctions.

Rabbit used car purchasing agencies: The Rabbit chain of used car purchasing agencies stood at 474 outlets as of March 31, 2004, including 14 directly run outlets.

Remote auction partners: Along with USS' 13 auction sites, we have 15 partner sites in our Globe Network, a remote bidding system that uses satellite terminals. Combined market share for USS and its partner sites is 47.8% of all vehicles put up for auction in Japan.

CarBankNet: This online information system for auto dealers had 11,429 member firms as of March 31, 2004. The public can also access the CarBankNet web site, as it functions as a used car search system for consumers, which helps support the retail operations of our member dealers.

Salvaged vehicle business: As part of our long-term commitment to reducing the environmental impact of used vehicles, we established a new subsidiary, ARBIZ Co., Ltd., to salvage parts for recycling and scrap materials for reuse. Full operations are scheduled to commence in January 2005.

Continuing to lead the way

In fiscal 2004, ending March 31, 2005, we anticipate consolidated operating revenues to total ¥48,300 million and operating income to reach ¥19,550 million. Net income is forecast to total ¥10,330 million.

In calendar 2004, the number of vehicles put up for auction is forecast to total 6.7 million units, and for calendar 2005 the forecast is for 7.0 million units.

USS was instrumental in transforming Japan's auto auction industry into a highly efficient, technology-driven marketplace. We have successfully applied best-practice principles and economies of scale to a field that was previously fragmented and low-tech. We are determined to continue refining our auction operations, while extending our business into areas that will help used vehicle distribution systems become even more efficient in harnessing the resources with which they have been entrusted. It is our hope that this continued focus on innovation will benefit society as a whole as well as our member dealers. On behalf of everyone at USS, I wish to thank our shareholders, partner companies and auction members for their ongoing support.

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Futoshi Hattori
President and Representative Director