

**Question 2**  
**How would you describe the current state of the auto auction market in Japan?**

In Japan, sales of new vehicles have been on the decline since sales peaked in 1990. In calendar 1990, domestic vehicle sales stood at 7.77 million, but shrank to 5.85 million in calendar 2004. In contrast, used vehicle registrations (including compact and full-sized vehicles) have remained stable at around 8.0 million units per year throughout the period. In the used vehicle auction market, the number of consignments grew from about 4.03 million per year in calendar 1996 to 6.82 million in



New USS Tokyo Site

calendar 2004. In fact, used vehicles traded at used vehicle auction sites accounted for 85.2% of all used vehicle registrations.

The keys to running a good auto auction site lie in the ability to gather a number of high-quality used vehicles and the ability to close the requisite number of contracts.

Currently, there are about 130 auto auction sites of varying size across the nation. Although the functionality of the auction-based distribution market has been refined over the last few years, only a few sites have managed to post consistent growth. In addition to the competition among auction sites, auto manufacturers too are vying actively for a share in the used vehicle market to supplement their new vehicle sales. These factors in turn have prompted used vehicle auction dealers to accelerate the shift toward larger-scale sites and to form business alliances with each other to ensure survival of their business.

A new trend in the used vehicle auction market is the emergence of reusable vehicles (dated vehicles with high mileage) put up for auction. In the past, we seldom saw the distribution of reusable vehicles on the auction circuit. The new trend can be explained by the expanding export market for used vehicles.

**Question 3**  
**Could you tell us more about USS' new medium-term management plan, Project 343?**

USS formulated Project 343 for the fiscal years through March 2009. We felt the need to draft a new plan after



achieving, one year ahead of the schedule for fiscal 2006, the targets specified in our previous plan: vehicle consignments in excess of 2 million, a market share of 30%, and consolidated ordinary income of ¥20 billion. The new plan mapped out a fresh "growth scenario" for the USS Group, designed to **accelerate leadership growth** and increase and enhance corporate value.

Under Project 343, we aim to build a solid operating foundation for our existing businesses and explore opportunities in new business frontiers within the used vehicle distribution universe to achieve the new targets of 3 million vehicle consignments, a market share of 40%, consolidated net sales of ¥80 billion and consolidated ordinary income of ¥30 billion.

To strengthen the operating foundation for our existing businesses, we aim to (1) increase our market share by creating additional auction sites, (2) enhance profitability at the existing auction sites, and (3) boost profit opportunities by expanding the range of vehicles available for auction. In the area of new business development, we are focusing primarily on (4) carving out markets for reusable vehicles and recycling business to capture opportunities created by the Vehicle Recycling Law (which came into force in January 2005), and

(5) increasing purchases by USS through our network of vehicle purchasing agents operated under the Rabbit brand to develop a new distribution system for used vehicles. Other initiatives include the development of Internet-based auction information services.

**Question 4**  
**The Vehicle Recycling Law came into force in January 2005. What impact has it had on USS' businesses?**

We believe the new law presents us with great business opportunities. Prior to the law's implementation, preparation had been underway at USS for some time to take advantage of such opportunities. For instance, USS opened the USS-R Nagoya site, Japan's first auction site dedicated to reusable vehicles. Moreover, to boost the auction market for reusable vehicles, we encourage consignments by reducing consignment fees and transport costs. We also initiated the



recycling of scrap materials through ARBIZ Co., Ltd., a new consolidated subsidiary located adjacent to the USS-R Nagoya site that is dedicated to the salvage and recycling business for end-of-life vehicles.

Society as a whole is increasingly sensitive about the corporate social responsibility (CSR) aspects of corporate activities. Here, we face the issue of how to further incorporate environmental concerns into our business activities.

The used vehicle auction business is in itself an environmentally oriented business. If a used vehicle finds a new owner through an auction, it is saved from scrapping and the auction prolongs its useful life. Auctions thus contribute to the environment by reducing the number of vehicles that would otherwise be scrapped. The launch of the USS-R Nagoya site and the establishment of ARBIZ allow us to fully pursue our business models appropriate for the recycling-oriented



society of the 21st century, which emphasizes recycling and reutilization. In this way, I hope that USS, as the true leader in the field, will serve as a greater positive force in society and expand its social presence along the way.

**Question 5**  
**What measures have been taken to strengthen corporate governance?**

To maximize corporate value, a solid framework for corporate governance is crucial, both for the efficient and transparent business execution and control and the aggressive pursuit of business activities to meet the targets of our new medium-term management plan.

At the core of USS' governance are our Board of Directors and Statutory Auditors. The Board of Directors, comprising 12 directors, holds a monthly meeting regularly, as well as extraordinary and ad hoc meetings that may be convened as needed. For matters of substance, a management meeting with participation by executive officers in addition to the board members is held for preliminary deliberation, to address managerial issues promptly and appropriately. The three statutory auditors, consisting of one internal auditor and

