

## Interview with the President

Yukihiro Ando  
President



### Efforts to Be the Best Auction Site in Every Area across Japan Further Increase Customer Satisfaction.

**Q:** You have succeeded to the position of President from Futoshi Hattori. Could you tell me your candid feelings about being charged with the entire operations of USS?

**A:** Mr. Hattori, who now serves as Chairman, has built up the Company from “square one” to its present state. His business acumen was underscored by his ability to consistently capture the prevailing trends of the time. USS, since the listing of its shares on the Tokyo and Nagoya stock exchanges seven years ago, has become a vital and indispensable part of the used vehicle distribution industry. USS’ current success owes a lot to its introduction of the point of sales (POS) system to the used vehicle auction field, combined with its efforts to build an auction market imbued with fairness and transparency.

I have worked with Mr. Hattori for 25 years, and what has struck me most was one piece of advice he gave me: “Each and every customer, whether he or she wants to make a deal for just one car or 10, is important to us. When you bow, you should not gauge the depth of the bow depending on the customer. Deal with customers with equal respect.” I want all employees to learn and honor this attitude.

**Q:** Could you tell us about the state of progress made in connection with the Company’s medium-term management plan, Project 343?

**A:** Our newly formulated management principles\* place utmost importance on achieving the targets mapped out in

Project 343, the medium-term management plan, in the fiscal years through March 2009. The numerals 3-4-3 represent the first numbers of the three targets, namely, 3 million vehicle consignments, a 40% market share, and ¥30 billion in consolidated ordinary income. When we accomplish these goals, USS’ position in the used vehicle auction market will have been firmly set.

Market share fluctuates by the number of used vehicles available for distribution. Our current share stands at 32%. Regardless of minor fluctuations, I believe we are likely to capture at least 40% of the market if car consignments increase to 3 million. We are well on our way to achieving the consolidated ordinary income target of ¥30 billion, as we expect to post as much as ¥25 billion in the fiscal year ending March 31, 2007.

\* For more details, please see page 7 of this Annual Report.

**Q:** How do you plan to defend your leading position in the used vehicle auction market?

**A:** We seek continually to be an aggressive player rather than be put on the defensive. An improving economic climate has given rise to higher replacement demand among vehicle owners. This in turn is expected to boost the used vehicle market with a fresh supply of quality used vehicles. With more vehicles up for auction, an increasing number of customers will come to this market, which, I believe, will result in a greater number of deal closings. In addition, a new trend in the market is to utilize dated

vehicles with high mileage. The number of overseas customers willing to purchase vehicles that have already logged 100,000 kilometers is rising steadily, because they feel they can trust Japanese-made vehicles. The ability to precisely meet these needs will be the key to the used-car distribution market of tomorrow.

It is important for us to increase the number of vehicle consignments at all our 16 on-site auction sites across the nation. We are also stepping up efforts to penetrate the market with the Internet Live system, which now allows access to virtually all on-site auction sites, and to come up with ways to make more use of it.

**Q:** USS' forte lies in the on-site auctions of the used vehicles. Is your strategy of becoming the best auction venue in every area making inroads?

**A:** The basic tenet of used vehicle auctions is that people are drawn to where vehicles abound, and this attracts still greater numbers of people and vehicles. The members of USS, both bidders and consignors, rate highly a lively auction market where they can "sell whenever they want and buy whenever they want." We cannot deliver on this unless we establish ourselves as the best auction site in the area. In recent years, we have spared no small effort in upgrading our sites and increasing the membership base especially in the Tokyo metropolitan area and the Kansai area.

In the Tokyo metropolitan area, upgrading work at the USS Yokohama site and the new Tokyo USS site is now virtually complete, which allows us to consistently capture a larger share of the market. In the Kansai area, with its presence of strong competitors, USS launched a new site in Kobe last fall and rebuilt its Osaka site, which opened anew in March 2006. The compounded effects of the two sites should enable us to boost not only our profile but also our market share in Kansai. We are now ready to put our acts in gear and produce results.

**Q:** Moves toward industry-wide restructuring are heating up. How do you view this trend?

**A:** Vehicle dealers run by manufacturers have also stepped up efforts in the used vehicle segment. Dealers are teaming up to form business alliances at an accelerated pace. There are reportedly about 130 used vehicle auction sites operating around the nation, but I hear some medium-sized and smaller sites are faltering. On the other hand, some major operators are seeking to add more sites. As for USS, we have already secured sites in all major geographical markets across Japan. Looking ahead, one area we need to work on is medium-sized sites, the area we plan to strengthen. We are ready to seek an M&A opportunity if a good deal comes around.

Years ended March 31	2006	Millions of Yen 2005	2004	Percentage Change 2006/2005	Thousands of U.S. Dollars 2006
<b>For the year:</b>					
Operating revenues.....	<b>¥60,243</b>	¥50,484	¥42,426	19.3%	<b>\$514,897</b>
Operating income .....	<b>23,104</b>	20,673	18,017	11.8	<b>197,470</b>
Income before income taxes and minority interests.....	<b>23,052</b>	20,612	16,175	11.8	<b>197,026</b>
Net income .....	<b>13,204</b>	11,815	8,907	11.8	<b>112,855</b>
<b>At year-end:</b>					
Shareholders' equity.....	<b>97,392</b>	84,878	67,498	14.7	<b>832,410</b>
Total assets .....	<b>131,909</b>	115,705	92,539	14.0	<b>1,127,427</b>
<b>Yen</b>					
<b>Per share:</b>					
<b>Net income:</b>					
Basic.....	<b>¥407.08</b>	¥377.69	¥300.72		<b>\$3.48</b>
Diluted .....	<b>406.03</b>	366.03	277.76		<b>3.47</b>
Cash dividends .....	<b>80.00</b>	65.00	50.00		<b>0.68</b>

Notes: 1. The U.S. dollar amounts have been translated, for convenience only, at the rate of ¥117=US\$1, the approximate rate of exchange at March 31, 2006.  
2. Net income per share has been computed based on the weighted-average number of shares outstanding during each period.

**Q:** Recycling-based business models are attracting a great deal of attention. In your opinion what is the prospect of such models as viable business propositions?

**A:** Business models founded on the disposal-after-utilization scheme will reach a major deadlock sooner or later. Just imagine 5.85 million vehicles are sold and 8.11 million used vehicles are traded in Japan alone each year. We should approach vehicles as valuable resources presented to us.

USS' auctions for reusable vehicles, which began a few years back, consistently attract a greater number of consignments year after year. Some of these vehicles may be put in service abroad, thus prolonging their useful lives, while others will be utilized by companies like ARBIZ Co., Ltd., our consolidated subsidiary, to salvage usable parts and recycle them to yield industrial materials. At USS Toyo Co., Ltd., another USS consolidated subsidiary, the rubber content in tires is recycled. At the core of every business we carry out is our strong desire to fully utilize the potential of all resources. The notion of *mottainai*, which has revived recently, is and will continue to be at the foundation of our business. This business area has great potential.

**Q:** What steps have been taken to strengthen internal control and prepare for a new management structure?

**A:** The organizational restructuring, the election of the President, and the reelection of directors were approved by the Board of Directors, which met following the general meeting of shareholders held on June 28, 2006. The decisions were made with the aim of creating a stronger management structure and strict internal governance to comply with the amended Company Law.

USS also introduced measures to defend itself against a massive share purchase in an effort to prevent any abusive takeover bid or the like. To leave no room for arbitrary decisions by the Board of Directors with respect to the triggering of such measures, a Corporate Value Committee comprising three of the outside directors was also set up.

In the past, we ran our business along business segments. But in response to growing attention by society to legal compliance and internal control, we have established the Auction Management Office and Systems Head Office, in addition to undertakings aimed at enhancing the control function of the Head Office, which includes the

Supervisory Office. These moves are designed to enhance managerial support and strengthen internal control over USS and its consolidated subsidiaries

The Auction Management Office aims to raise the level of satisfaction of auto auction members and strengthen internal control by primarily addressing operational and execution aspects. The Systems Head Office is responsible for keeping abreast of technological advances in the entire information system arena and strengthening internal control in the information systems field.

The new management team represents our first step toward managerial rejuvenation and transfers of authorities, which should facilitate our Groupwide, concerted effort to reach the targets specified in our medium-term management plan, Project 343.

**Q:** What are your plans to improve shareholder value?

**A:** We declared dividends of ¥80.00 for the fiscal year ended March 31, 2006, as promised. For the fiscal year ending March 31, 2007, we plan to declare higher dividends of ¥100.00, which will consist of interim dividends of ¥50.00 and year-end dividends of ¥50.00. The increase reflects one of the most important management philosophies of USS: to secure a reasonable level of profit and distribute it to shareholders. The increase has been decided following comprehensive reviews of our payout ratio, current financial status, and operating results in light of our policy of maintaining stable dividends. We also believe that enhanced liquidity of our shares is important to boost the benefits to our shareholders. For this reason, we have carried out stock-splits and reduced the minimum unit of trading for our shares. We are stepping up efforts to disseminate information, which helps our shareholders gain an accurate understanding of the state of business at USS by reinforcing investor relations activities both in Japan and abroad. We are working especially hard to produce a greater number of English-language publications and communications such as annual reports and notices of shareholder meetings in an attempt to narrow the information gap between Japanese investors and overseas counterparts.

June 2006

*Ryukihiko Ando*