Management's Discussion and Analysis of Operations

USS Co., Ltd. and Consolidated Subsidiaries

The USS Group

The USS Group consists of the parent company, 16 subsidiaries and one affiliate. The Group is primarily engaged in the used vehicle auction business. The scope of its operations and Group companies active in each area of business are described below. Please note that these business categories are the same as those used for segment information.

Automobile Auction Segment (14 Companies Including the Parent Company)

The parent company and its subsidiaries (nine subsidiaries including consolidated subsidiary USS Okayama Co., Ltd.) manage automobile auctions for auction members, consisting mainly of used vehicle dealers. The parent company also manages satellite-based TV automobile auctions and sells special purpose TV automobile auction terminals. Consolidated subsidiary US Butsuryu Co., Ltd., specializes in transportation of submitted and sold vehicles to and from auctions. Consolidated subsidiary CAR QUEST Co., Ltd., provides used vehicle information services via the Internet. InfoCarry Co., Ltd., an affiliate, offers the service of mobile phone-based distribution of used vehicle information.

Sales of Used Cars Segment (2 Companies)

Consolidated subsidiary CAR QUEST Co., Ltd. manages a used vehicle purchasing and sales business, while consolidated subsidiary World Automobile Co., Ltd., engages in purchasing and sales of accident-damaged vehicles.

Recycling Segment (2 Companies)

Consolidated subsidiary ARBIZ Co., Ltd., manages a salvage and recycling business for the goods such as the end-of-life vehicles. Consolidated subsidiary USS Toyo Co., Ltd., engages in recycling of scrap rubber.

Operating Environment

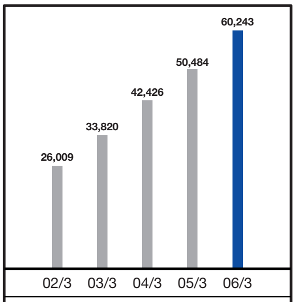
The used vehicle distribution market enjoyed steady growth, with the number of new and used vehicle registrations rising 0.7% and 4.9%, respectively, from the previous year. In the used vehicle auction industry, the number of vehicles submitted for auction grew 16.3% over the previous year, to 8.11 million. This result reflected an increasing tendency for used vehicle dealers to put up stocked vehicles for auction in an effort to avoid the risk of holding long-term inventory, and increased demand for reusable vehicles (dated vehicles with high mileage)—a type of vehicle that up until recently has not traded at auctions—spurred by the expansion of export markets. The contract completion rate, however, showed a decline to 53.3%, down 2.4 percentage points from a year earlier.

Against this backdrop, the USS Group sought to strengthen its management base through aggressive capital investment such as the launch of new auction sites. In the recycling business, in April 2005 the Group acquired Misawa Toyo Co., Ltd. (the present USS Toyo Co., Ltd.), which operates a recycling business for scrap rubber.

Revenue Overview

Consolidated operating revenues in fiscal 2005 amounted to ¥60,243 million, up ¥9,759 million, or 19.3%, compared with the previous year.

The increase was due primarily to a sharp rise in the number of vehicles put up for auction, which grew 23.9%, to 2.66 million units. This total comprised 1.44 million cars, up 6.3%, that were handled at six auction sites directly operated by the parent company, and 1.21 million cars, up 54.2%, that were handled at 10 subsidiary-managed sites.



Operating revenues

(Millions of Yen)

By auction site, the Ryutsu site became a source of additional revenue since this fiscal term and both it and the Kobe site recorded net increases, handling 167,000 vehicles and 47,000 vehicles, respectively. The Yokohama site handled 220,000 vehicles, up 39.8%, while the USS R-Nagoya site enjoyed a substantial rise of 90.3% in handling volume, to 112,000 vehicles. Thus, the total volume of the vehicles put up for auctions exceeded the previous year's level at most of the sites. While the number of contracted vehicles surged to 1.40 million units, up 20.9%, the contract completion rate stood at 52.9%, down 1.3 percentage points from the previous year. Consequently, operating revenues in the automobile auction business amounted to ¥44,271 million, up 20.2%.

In the sales of used cars segment, operating revenues from the Rabbit chain of used vehicle purchasing agencies grew 5.7%, to ¥7,817 million, thanks to the increased brand recognition achieved by the ongoing advertising campaign. Operating revenues from the business of buying and selling accident-damaged vehicles declined 0.4%, to ¥5,700 million, as the expansion of operation bases was undermined by intensified competition.

In the recycling segment, operating revenues rose 368.4%, to ¥2,455 million. The increase was due primarily to the start of operation at ARBIZ of a shredding machine for recyclable goods such as the end-of-life vehicles, as well as a net increase in revenues generated by the scrap rubber recycling business operated by USS Toyo, a subsidiary that USS acquired in April 2005.

Revenue Breakdown

(1) By Auction Site

Operating Revenues by Site

	Millions of Yen		Percentage Change
	2006	2005	**2006/2005**
For the year:			
Nagoya site	**¥6,458**	¥6,912	**93.4%**
Kyushu site	**2,460**	2,357	**104.4**
Fukuoka site	**854**	655	**130.4**
Tokyo site	**10,503**	9,861	**106.5**
R-Tokyo site	**896**	—	**—**
Shizuoka site	**1,220**	1,125	**108.5**
Okayama site	**1,172**	1,037	**113.1**
Sapporo site	**1,882**	1,579	**119.2**
West Tokyo site	**1,055**	781	**135.1**
Gunma site	**1,646**	1,420	**115.9**
Tohoku site	**1,452**	1,303	**111.5**
Osaka site	**1,848**	1,599	**115.6**
Yokohama site	**2,969**	2,067	**143.7**
Kobe site	**562**	—	**—**
Ryutsu site	**2,011**	—	**—**
R-Nagoya site	**1,355**	589	**230.2**
Used Car Logistics Services	**443**	300	**147.5**
Satellite Auction	**3,508**	3,667	**95.7**
Internet Information Services	**1,978**	1,592	**124.3**
Used Car Purchasing Agency Business	**7,817**	7,396	**105.7**
Accident-Damaged Car Purchasing Agency Business	**5,700**	5,724	**99.6**
Recycling Business of End-of-Life Vehicles and Other Goods	**1,425**	524	**271.9**
Scrap Rubber Recycling Business	**1,029**	—	**—**

The USS Group pursues a strategy of striving for the "No.1 auction site position in each local market" by providing services that match the needs of each region. Thanks to this effort, the Group as a whole achieved year-on-year growth, enjoying a gain in operating revenues.

Among large auction sites, the Nagoya site posted a 6.6% decline in operating revenues, because operating revenues from the R-Nagoya site were reported separately. Other sites experienced steady growth in operating revenues, with the Tokyo site posting ¥10,503 million, up 6.5% over the previous year, the Yokohama site ¥2,969 million, up 43.7%, and the Kyushu site ¥2,460 million, up 4.4%. Regional auction sites also enjoyed across-the-board growth compared with the previous year, with operating revenues at the Sapporo site increasing 19.2%, to ¥1,882 million, and those at the Osaka site growing 15.6%, to ¥1,848 million.

The recycling segment of the end-of-life vehicles and other goods recorded higher-than-projected year-on-year operating revenues, which increased 171.9%, to ¥1,425 million.

(2) By Segment

Automobile Auction

Under the leadership of the business development team, the USS Group sought to attract new members and encourage existing inactive members to participate in USS auctions more regularly, while implementing aggressive measures in line with the strategy of making USS auction sites No. 1 in every region, to capture a dominant market share in all regions in which USS operates.

The Ryutsu site (located in Koshigaya City, Saitama Prefecture), was made a wholly owned subsidiary in February 2005 to strengthen the Group's presence in the Kanto region. In addition, the Kobe site (located in Kobe City, Hyogo Prefecture) was launched in September 2005 as part of the measures to boost our presence in the Kansai region.

To boost the processing capacity of existing auction sites, the Group rebuilt the Kyushu site (the former Kyushu Gold site) in January 2006 and the Osaka site in March 2006. Furthermore, we introduced a six-lane auction system, which enables simultaneous auction of six vehicles, at the Nagoya site in January 2006, and a four-lane auction system in the Yokohama site in October 2005. We installed a two-lane auction system at the Okayama site in June 2005.

Responding to a trend toward a growing number of reusable vehicles (dated vehicles with high mileage) entering the used vehicle auction market, in May 2005 the USS Group reopened the former Tokyo site in Noda City, Chiba Prefecture, as the USS-R Tokyo site that exclusively handles auction of reusable vehicles, the second of its kind in Japan.

USS also improved services to its members through the launch of the USS Internet Live system in October 2005, which enables members to participate in auctions at on-site auction sites directly over the Internet.

Thanks to the sales expansion efforts described above, during the consolidated fiscal year under review the USS Group as a whole put up 2.66 million vehicles for auction, up 23.9% from the previous year, and the number of contracted vehicles rose by 20.9%, to 1.40 million units. Consequently, the automobile auction segment posted operating revenues of ¥44,271 million, up 20.2%, and operating income of ¥22,676 million, up 9.5%.

Sales of Used Cars

The Rabbit chain of used vehicle purchasing agencies concentrated its efforts on fostering staff at directly run stores, and closed underperforming stores through a scrap-and-build approach. At franchisee shops, it embarked on a structural overhaul that included a raise in royalty payments.

In the accident-damaged vehicle purchasing and sales business, USS sought to strengthen its regional marketing capabilities through expansion of operation bases, by opening branches in the Hokkaido, Chubu and Kinki regions.

Consequently, the sales of used cars segment recorded operating revenues of ¥13,517 million, up 3.0%, and operating income of ¥161 million, compared with an operating loss of ¥50 million in the previous year.

Recycling

The recycling segment consists of the recycling business of end-of-life vehicles and other recyclable goods operated by ARBIZ and the scrap rubber recycling business managed by USS Toyo, a subsidiary acquired in April 2005. The recycling business of the end-of-life vehicles and other goods posted an operating loss due primarily to depreciation and amortization cost of the equipment, despite the commencement of full-scale operation of a shredding machine in November 2005. The scrap rubber recycling business did relatively well, supported mainly by strong demand for rubber chips for use in artificial lawns.

Consequently, the recycling segment generated operating revenues of ¥2,455 million, up 368.4%, and operating income of ¥6 million, compared with an operating loss of ¥21 million in the previous year.

Cost of Revenues and Selling, General and Administrative (SG&A) Expenses

Cost of revenues amounted to ¥25,794 million, increasing by ¥5,806 million, or 29.0%, from the previous year.

As revenues from the business of purchasing and sales of used vehicles and recycling business increased, cost of goods sold rose sharply, while depreciation costs grew substantially due to the commencement of full-scale operations at the new Tokyo site, launch of the Kobe site and additional capital expenditure in the recycling business.

SG&A expenses grew 15.5%, or ¥1,522 million, to ¥11,345 million.

Amortization of consolidated adjustment account increased by ¥545 million, or 669.4%, due primarily to the addition of USS Ryutsu Auto Auction Co., Ltd., and USS Gunma Co., Ltd., as wholly owned subsidiaries. Employee salaries and bonuses grew ¥322 million, or 11.2%, compared with the previous year.

Operating Income, Other Income (Expenses) and Net Income

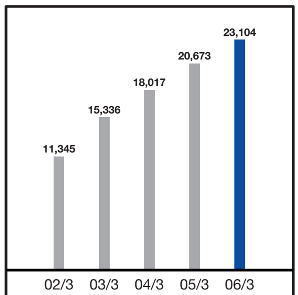
Operating income amounted to ¥23,104 million, up ¥2,431 million, or 11.8%, from the previous year.

The increase was attributable to a dramatic rise in the number of vehicles submitted for auction, which resulted in the increased operating revenues in the automobile auction segment. In the sales of used cars segment, operating revenues increased but so did costs, resulting in an operating loss, although the amount of the loss was quite small.

Other expenses "net" amounted to ¥52 million. The primary responsible factor was a loss of ¥1,113 million, which consisted primarily of a loss on sale or disposal of property and equipment of ¥622 million in connection with demolition of the building of the former Kyushu Gold site and renovation of the Nagoya site. This loss more than offset a gain of ¥1,061 million, which consisted mainly of a gain of ¥570 million on sale of investment securities.

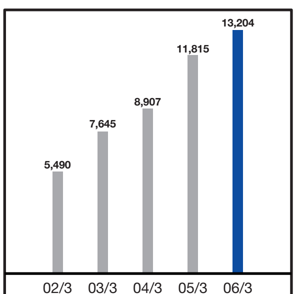
Income before income taxes and minority interests amounted to ¥23,052 million, compared with ¥20,612 million in the previous year. Income taxes totaled ¥9,643 million, and minority interests in net income of consolidated subsidiaries amounted to ¥205 million.

As a result, net income rose ¥1,389 million, or 11.8%, to ¥13,204 million, marking the seventh consecutive term of year-on-year increases in both operating revenues and net income since USS started reporting consolidated financial results. Basic net income per share was ¥407.08, while diluted net income per share amounted to ¥406.03. Cash dividends per share applicable to the year increased to ¥80.00, from ¥65.00 in the previous year.



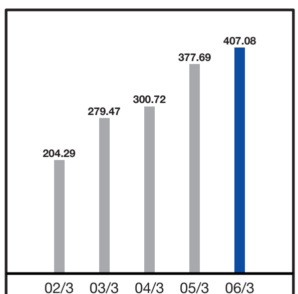
Operating income

(Millions of Yen)



Net income

(Millions of Yen)



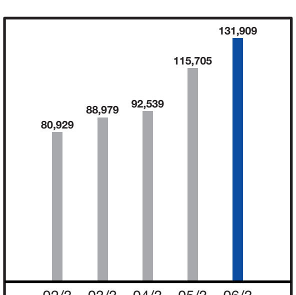
Net income per share (Basic)

(Yen)

Financial Position

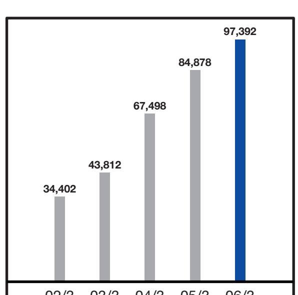
Total assets at year-end stood at ¥131,909 million on a consolidated basis. Total shareholders' equity was ¥97,392 million, while the equity ratio stood at 73.8%.

Total assets increased by ¥16,204 million, or 14.0%, from the previous year, to ¥131,909 million. Total current assets grew by ¥6,856 million, or 24.9%, due mainly to an increase of ¥4,177 million, or 26.4%, in cash and deposits, as well as an increase of ¥1,997 million, or 22.6%, in receivables due from member dealers at auction, reflecting the fact that the final day of the consolidated fiscal year fell on a Friday, the day of the week on which receivables due from member dealers at auction see a relative increase.



Total assets

(Millions of Yen)



Shareholders' equity

(Millions of Yen)

Property and equipment, less accumulated depreciation, increased by ¥9,374 million, or 12.4%, due primarily to the launch of the Kobe site and rebuilding of the Kyushu and Osaka sites.

Total shareholders' equity grew ¥12,514 million, or 14.7%, to ¥97,392 million, due mainly to an increase in retained earnings, which rose ¥10,973 million, or 23.3%.

Consequently, shareholders' equity per share of common stock stood at ¥3,008.92, up ¥356.6 from ¥2,652.32 at the end of the previous term. The equity ratio rose to 73.8%, from 73.4%.

Cash Flows

At end of the consolidated fiscal year under review, cash and cash equivalents (hereinafter referred to as cash) totaled ¥19,495 million, up 24.4%, or ¥3,822 million from the previous consolidated fiscal year.

Cash Flow Provided by Operating Activities

Net cash provided by operating activities amounted to ¥20,868 million, increasing 28.1%, or ¥4,571 million, from the previous year. This was primarily attributable to increases in cash due to greater income before income taxes and minority interests, which rose 11.8%, to ¥23,052 million, and in depreciation and amortization, which grew 41.4%, to ¥4,199 million. These increases were partly offset by a decrease in cash due to income taxes paid, which fell 1.5%, to ¥8,625 million.

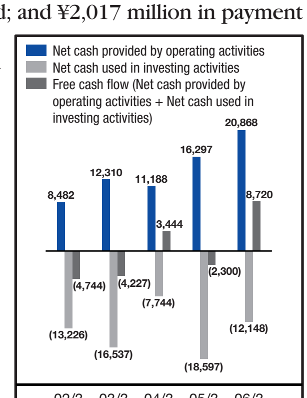
Cash Flow Used in Investing Activities

Net cash used in investing activities totaled ¥12,148 million, down 34.7% from the previous year.

The decrease was primarily attributable to expenditures of ¥12,739 million, down 32.1%, which were incurred in the purchases of property and equipment associated with the construction of the Kobe, Kyushu and Osaka auction sites.

Cash Flow Used in Financing Activities

Net cash used in financing activities totaled ¥4,898 million, compared with ¥2,383 million in net cash provided the previous year. This change was primarily attributable to increases in cash, consisting of ¥2,000 million, down 50.0%, of proceeds from long-term debt to finance the construction of the Kobe site; and proceeds from the issuance of stock of ¥708 million, down 21.5%, due to the exercise of stock options. These increases were more than offset by decreases in cash, which consisted of ¥3,209 million, up 75.6%, in scheduled repayment of long-term debt; ¥2,175 million, up 27.8%, of dividends paid; and ¥2,017 million in payment for the purchase of treasury stock, which amounted to ¥3 million a year earlier.



Cash flows

(Millions of Yen)

Risk Factors

The following is a summary of potential risk factors that may affect the future growth of the USS Group. This list is not exhaustive, and new factors may arise as the result of external events.

•Laws and regulations affecting the auto auction industry

The USS Group, as an operator of auto auctions and through its other businesses involving the purchase and sale of used vehicles, is subject to various laws and regulations covering such activities. These regulations include the requirement for the USS Group to obtain specific licenses for the operation of these activities, which are subject to cancellation, should the Group infringe regulations or fail to meet licensee minimum requirements. If regulations change, the Group may be forced to modify its operations in a way that is disadvantageous to the Group's auction members.

•Related party transactions

Certain directors of companies within the USS Group, or members of these directors' respective families, have management and/or equity interests in used vehicle dealerships. In the period immediately following the establishment of the Group, such relationships helped bolster the number of vehicles put up for auction at USS sites. Should such directors sever ties from the Group, the number of vehicles put up for auction at USS sites may fall as a result.

•Attracting and maintaining a sufficient membership of auction participants

Strategies designed to attract new auction members and maintain sufficient active members are a key part of the USS Group's business. In certain circumstances, such strategies may be rendered ineffective. These include such scenarios as: competitors offering services, facilities or membership benefits not provided by the USS Group; a fall in the number of vehicles put up for auction at USS sites and/or the contract completion rate falling to levels below that of its competitors; the actions of USS staff or directors causing damage to the Group's reputation; and large-volume vehicle sellers deciding, for whatever reason, to use alternative selling methods.

•Attracting sufficient vehicles put up for auction

The USS Group's business is highly reliant on attracting sufficient vehicles put up for auction. This includes a certain level of dependence on vehicles put up for auction by large-volume used car purchasing agencies. In the fiscal year ended March 31, 1999, the Group began offering commission discounts to such high-volume customers. Future changes in the Group's commission system may affect the number of vehicles put up for auction by these customers.

•Limitations to the expansion of existing auction facilities

When expanding existing auction facilities, significant limitations exist on the amount of vehicle parking space that can be added. Such limitations may arise from the Group's ability to acquire or lease suitable land and/or construct multi-level parking facilities. In or near large Japanese cities, the availability of suitable space with the appropriate usage zoning for auto auctions is severely limited, which may impact on the Group's expansion plans.

•Risks relating to the construction and acquisition of new facilities

The USS Group expands its business through the construction of new auction facilities and the acquisition of existing auction sites from other operators. Such expansion includes such risks as: the inability to attract sufficient vehicles put up for auction or sufficient auction members to such new or acquired auction sites; various uncertain factors as contingent liabilities, off-balance-sheet liabilities, management problems and flawed rights arising from merger or acquisition transactions; increasing management complexity owing to a larger organization; the inability to secure all necessary regulatory permission related to auction facilities expansion or transfer to a new site; and foreign exchange risk, difficulty in adapting to local business practices, political risk and local cyclical economic risk when expanding outside Japan.

•Auto auction market growth limitations

The Japanese used car industry is a mature market with relatively low growth prospects. Vehicle ownership growth rates have also declined in recent years. The USS Group's business rests on its ability to sell the merits of its system to optimize the flow of used vehicles through the market. If the Group is unable to sustain its competitive advantage to expand its market share, its profitability and growth rate may decline.

•Competitive factors

Until now, the USS Group has maintained high market share in each geographical region in which it operates auto auctions. However, competitor firms have expanded their operations and increased their scale through alliances and mergers, which may result in these firms offering services or benefits to auction participants that the USS Group is unable to match. Furthermore, automaker-affiliated used car dealers may emerge in the future as significant competitors to the services offered by the Group. Such intensified competition may affect the Group's profitability and growth, including through downward pressure on commissions and other fees.

•Rapid technological innovation

Rapid technological innovation has had a profound impact on the auto auction market, affecting traditional auction sites, satellite-based auctions and Internet-based auction information services. Such rapid change may affect the future competitiveness of the USS Group. The Group may also need to carry out large-scale capital expenditure to keep pace with such developments, and there is no guarantee that the Group would be able to sustain its current competitive advantages despite the execution of such an investment strategy.

•Managing auto auction member information

As of March 31, 2006, the USS Group had an auction membership of 37,157 firms, a satellite auction membership of 6,648 firms and an Internet-based information membership of 16,338 firms. Should confidential information relating to the members be leaked to third parties, the Group would suffer a loss of market confidence and operating results would likely decline correspondingly.