



We Are Planning Our “Next Move” with the Aim of Further Improving Our Competitive Advantage as the Leading Company in the Industry.

■ Figures for Both the Number of Vehicles Up for Auction, and the Number of Contracts Completed Both Exceeded Figures from a Year Earlier

The vehicle distribution market became more challenging during the fiscal year under review, with the number of new vehicles registered decreasing 4.1% in comparison with a year earlier, to 5.61 million, and the number of used vehicles registered declining 4.3%, to 7.88 million. In contrast, the number of vehicles handled in the used vehicle auction market, which broke through the 8.0 million mark one earlier, recording a figure of 8.27

million, pushed even higher in the fiscal year under review, to 8.42 million. An increase in the number of reusable vehicles across all auction sites is considered to be a major factor in this trend. In this climate, the number of vehicles handled by the USS Group rose 6.7%, to 2.84 million, and the Group’s market share was 33.7%. The number of contract completions also expanded, growing 9.4%, to 1.54 million.

Years ended March 31	2007	Millions of Yen 2006	2005	Percentage Change 2007/2006	Thousands of U.S. Dollars (Note 1) 2007
For the year:					
Operating revenue.....	¥64,569	¥60,243	¥50,484	7.2%	\$547,195
Operating income.....	24,817	23,104	20,673	7.4	210,314
Income before income taxes and minority interests.....	25,419	23,052	20,612	10.3	215,415
Net income.....	14,391	13,204	11,815	9.0	121,958
At year-end:					
Total equity (Note 2)	105,988	98,068	85,804	8.1	898,204
Total assets.....	146,172	131,909	115,705	10.8	1,238,746
Yen					
Per share (Note 3) :					
Net income:					
Basic.....	¥447.12	¥407.08	¥377.69		\$3.79
Diluted	446.62	406.03	366.03		3.78
Cash dividends	100.00	80.00	65.00		0.85

Notes: 1. The U.S. dollar amounts have been translated, for convenience only, at the rate of ¥118=US\$1, the approximate rate of exchange at March 31, 2007.

2. Total equity = total shareholders' equity + other components of equity + minority interests.

3. Net income per share has been computed based on the weighted-average number of shares outstanding during each period.

■ The Used Vehicle Auction Market Has Become a Struggle for Survival

The used vehicle auction market is quickly becoming a battle of survival. Although consolidated business results for the fiscal year under review showed market-leader USS has increased revenue and profit for the eighth consecutive fiscal year, the business results of companies in the market ranked second or lower appear to be sluggish. We believe that in the future there will be even more mergers and acquisitions by other companies with the aim of expanding their business scale to try and push USS out of the top position.

In recent years, USS has continued with high-level infrastructure investment, such as construction of new auction sites and expansion of parking spaces, spending ¥13,207 million in the fiscal year ended March 31, 2006 and ¥13,400 million in the fiscal year ended March 31, 2007. In doing so, the Company has not only increased in scale but also improved brand recognition, and in a case of “the best attracting the best,” has also continued to gather the best used vehicles for auction. In the fiscal year ending March 31, 2008, USS plans to invest ¥12,000 million in infrastructure.

■ Improving Existing Auction Sites in the Kansai Region

To consolidate our position in the Kansai region, USS completed construction of a 4,700-space multilevel parking garage-type stockyard at the Osaka auction site in November 2006. In addition, we established a new company, USS Kansai Co., Ltd., through the merger of the Osaka and Kobe auction sites. By running Osaka and Kobe as a unified company, we have established a structure that will enable us to obtain a 30% market share in the region.

To resolve the lack of management efficiency caused by segmentation of the auction site area at the West Tokyo auction site, USS acquired one part of the auction site land required to relocate. By deepening alliances with regional dealers, we aim to operate our auction sites in a distinctive way.

At the Sapporo auction site, we have constructed the new second Auction Hall, increasing seating by 200, to give an overall capacity of 750 seats. We have also introduced a four-lane system. Accordingly, our market share in Hokkaido has now exceeded 50%.

■ Expanding on the Sea of Japan Coast with New Auction Sites

In April 2007, USS opened its Niigata auction site. The site was established in the central industrial zone of Mitsuke City, adjacent to Nagaoka City, and with the Nagaoka Interchange nearby on the Kan-Etsu and Hokuriku Expressways, we anticipate patronage from people from both the Hokuriku and Koshinetsu regions. From the initial opening, we plan to have from 600 to 700 vehicles up for auction each time an auction is held, and in the future we aim to auction 1,000 to 1,500

vehicles per auction. Via an exchange of stock, USS now also owns KUA HOKURIKU Co., Ltd., which operated an auction company in Kaga City in Ichikawa Prefecture, also on the Sea of Japan coast. On a calendar year basis, the company had the top share in the industry in Hokuriku last year, putting up 28,912 vehicles for auction, and completing 17,552 contracts with a completion rate of 60.7%. In the future, the company aims to put up 1,000 vehicles for auction at each auction.

Both of these locations are on the Sea of Japan coast, which receives heavy snow in winter, but the market on the Pacific coast is already overcrowded, so we feel that a future growth strategy for this region is indispensable.

In other areas, we have made Fujioka Interchange Auto Auction Co.,Ltd., a company operating used vehicle auction sites in Fujioka City, Gunma Prefecture, a subsidiary via a capital increase through third-party allocation. Together with USS Gunma Co., Ltd., we aim to reach 30,000 consigned vehicles annually.



■ Expanding the Auto Auction Network

In the last year, the number of member companies in our Globe Network, utilizing satellite television, changed from 6,648 companies to 6,132, while the number of member companies in Internet Live, utilizing the Internet, has increased from 16,338 companies to 17,465. However, satellite and Internet-based services are also burdened by risk, as satellite links can break down and the Internet is prone to viral attacks. Taking risk management into consideration, it is vital for USS to

maintain a balance between on-site auctions and network-based auctions.

Fundamentally, the business stance of USS is that ultimately, if the vehicle auction sites to which members bring their vehicles to auction on-site are not busy and active, there is no sense of activity in any of our auction services. We believe that it is best for network-based auctions to support on-site auctions.

■ Merger with USS Recycle Auto Auction

Many employees at USS Recycle Auto Auction Co., Ltd. were originally employees of USS Co., Ltd. These employees transferred from the latter company to launch the recycling sites established specifically to handle reusable (older-model, high-mileage) vehicles. However, subsequently it was decided that these activities might be possible at a location closer to USS Co., Ltd. and that a

more active exchange of personnel might be achievable. Furthermore, absorbing USS Recycle Auto Auction into the main corporate body of USS would enable sharing of facilities and systems and greater flexibility in labor arrangements. Accordingly, the employees will once again have the opportunity to hone their skills together with us in the same company.

■ A Recycling Business for End-of-Life Vehicles Gets into Gear

ARBIZ Co., Ltd. employs a business model whereby it buys unsold vehicles at reusable auto auctions (vehicles put up for auction but that remain unpurchased) and removes reusable parts, as well as separates and recycles materials such as steel, plastic and rubber as resources by using large-scale shredders on vehicle body frames. The value of discarded resources is soaring due to increasing demand from China, and this model is displaying a stable foundation for business and driving up profits.

In recent times, the company has also handled electrical white goods such as washing machines and

outdoor units for air conditioners, making effective and efficient use of their large-scale shredders. With the introduction of large-scale infrastructure, the company has a monthly dismantling capacity of 3,000 vehicles; however, with increased activity seen in the reusable vehicle market, the number of unsold vehicles sold to ARBIZ is showing a trend toward slight decline.

Both World Automobile, Co., Ltd, which specifically handles vehicles that have been involved in accidents, and USS Toyo Co., Ltd., which recycles discarded tires from large vehicles, continue to advance steadily.

■ Nagoya Auction Site: Celebrating the 25th Anniversary of Its Opening

This year marks the 25th year since the opening of the Nagoya auction site. From the beginning, I was deeply involved in the construction of the buildings and computer system for the site. When the computer system was initialized, the current Chairman, Mr. Hattori, received many requests from others asking that he allow them to

copy the system. Mr. Hattori's attitude was that it was alright to let them copy the system, as we should just continue building better versions. Although the sum invested in developing the system was very large for the time, this investment has made us the company that we are today, one that is respected by others in the industry.

■ Forecasts for the Next Fiscal Year and Progress with Project 343

USS Co., Ltd. aims to achieve the targets stated in its medium-term management plan, Project 343 (putting 3 million vehicles up for auction annually, having a market share of 40%, and earning consolidated ordinary income of ¥30 billion) by the fiscal year ending March 31, 2009. Although only two years remain before we reach the deadline, we estimate that already we have nearly reached the goals stated, excluding those for market share. Calculated on the annual basis of 7.5 million vehicles up for auction at the time the project was

formulated, it could be said that we have already nearly reached the target for market share as well, considering that 40% of 7.5 million vehicles is 3 million vehicles.

The auction sites at Niigata, Ichikawa and Gunma mentioned earlier were not included within the initial designs for Project 343, and these additions represent value added on top of the achievements required by the project. Thus, we feel that the goals of Project 343 will soon be in our grasp.

July 2007

ryukihiko Ando