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 3 affiliates. 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 Business Segment (17 Companies Including the Parent Company)

The parent company, its subsidiaries (consolidated subsidiary USS Okayama Co., Ltd. and 9 other consolidated subsidiaries) and Fujioka Interchange Auto Auction Co., Ltd. (an affiliated company) are engaged in automobile auctions for members consisting of used car 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. USS Support Service Co., Ltd. provides a financing service to auction members.

UG Powers Co., Ltd., an affiliate, provides planning and development services for automobile-related business operators. InfoCarry Co., Ltd. offers the service of mobile phone-based distribution of used vehicle information.

Used Car Purchasing and Selling Business Segment (2 Companies)

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

Other Business Segment (2 Companies)

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

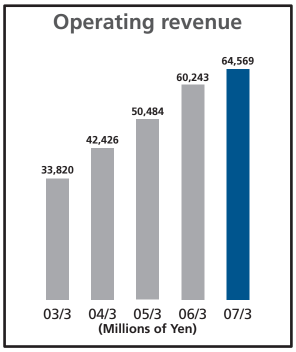
Operating Environment

The used vehicle distribution market found itself in a challenging situation, as the number of new and used vehicle registrations dropped 4.1% and 4.3%, respectively, from the preceding year. In the used vehicle auction industry, the number of vehicles submitted for auction increased 3.8% over the previous year, to 8.42 million. This result reflected a growing tendency for used vehicle dealers to put up stocked vehicles for auction in an effort to avoid the risk of holding long-term inventory, as well as expanding demand for reusable vehicles (dated vehicles with high mileage)—a type of vehicle that until recent years has not traded at auctions—stimulated by the expansion of export markets. The contract completion rate rose to 54.4%, from 53.3% a year earlier.

In this operating environment, the USS Group strove to strengthen its management base in the automobile auction business segment through aggressive capital investment aimed at boosting the capacity of existing auction sites. In the USS Internet Live business, an Internet-based remote bidding system launched in October 2005, the Group formed a business partnership with eight non-USS Group sites, to increase the number of vehicles handled and the membership base.

In addition, the Group worked to improve convenience for members, through the launch in June 2006 of "JUST & TIMELY," a funding assistance service for members that extends a loan to the successful bidder.

In the recycling business, the Group started to push toward comprehensive recycling that extends beyond end-of-life vehicle recycling, by embarking on the recycling of white goods and air conditioners.



Revenue Overview

Consolidated operating revenue in fiscal 2006 amounted to ¥64,569 million, up ¥4,326 million, or 7.2%, compared with the previous year.

The expansion mainly reflected a rise in the number of vehicles put up for auction, which grew 6.7%, to 2.84 million units. By auction site, both the Yokohama and Sapporo sites recorded increases, handling 253,000 units (up 15.2%) and 146,000 units (up 11.9%), respectively. The R-Tokyo site, which opened in May 2005, and the Kobe site, which opened in September 2005, became sources of revenue, respectively handling 87,000 units (up 30.2%) and 88,000 units (up 85.7%). The number of contracted vehicles increased 9.4%, to 1.541 million units, and the contract completion rate also expanded to 54.3%, from 52.9% a year earlier. Consequently, operating revenue in the automobile auction business segment advanced 7.8%, to ¥47,708 million.

In the used car purchasing and selling business segment, operating revenue from the Rabbit chain of used vehicle purchasing agencies fell 4.2%, to ¥7,489 million, mainly because of a decrease in the number of stores. At World Automobile Co., Ltd., operating revenue from purchase and sales of accident-damaged vehicles declined 5.3%, to ¥5,399 million, reflecting the company's pursuit of per-unit earnings, which resulted in a drop in the number of vehicles sold. As a result, operating revenue from the sales of used cars business declined 4.7%, to ¥12,888 million.

Operating revenue of the other business segment, which consists of the recycling businesses operated by ARBIZ Co., Ltd. and USS Toyo Co., Ltd., surged 61.8%, to ¥3,973 million, supported mainly by the efforts of ARBIZ to secure industrial waste other than end-of-life automobiles for recycling.

Revenue Breakdown

(1) By Auction Site

The USS Group pursues a strategy of striving for the "No. 1 auction site in each local market" by providing services that match the needs of each region. Because of this effort, the Group as a whole succeeded in achieving year-on-year growth, posting an increase in operating revenue.

Among large auction sites, the Nagoya site recorded a 2.6% decline in operating revenue, because operating revenue from the R-Nagoya site were reported separately. The R-Nagoya site posted growth of 19.6% from the prior year. Other sites within the Tokyo metropolitan area enjoyed steady growth in operating revenue, with the Tokyo site recording a rise of 10.6% over the

Operating Revenue by Site

	Millions of Yen		Percentage Change
	2007	2006	2007/2006
For the year:			
Nagoya site	¥6,287	¥6,458	97.4%
R-Nagoya site	1,621	1,355	119.6
Kyushu site	2,595	2,460	105.5
Fukuoka site	882	854	103.3
Tokyo site	11,619	10,503	110.6
R-Tokyo site	1,088	896	121.4
Shizuoka site	1,536	1,220	125.9
Okayama site	1,201	1,172	102.5
Sapporo site	2,154	1,882	114.4
West Tokyo site	1,049	1,055	99.4
Gunma site	1,728	1,646	105.0
Tohoku site	1,722	1,452	118.6
Osaka site	1,859	1,849	100.6
Kobe site	917	562	162.9
Yokohama site	3,557	2,969	119.8
Ryutsu site	1,970	2,011	97.9
Used Car Logistics Services	389	443	87.7
Satellite Auction	3,067	3,508	87.4
Internet Information Services	2,455	1,978	124.2
Support Services	14	—	—

previous year, to ¥11,619 million, the Yokohama site an expansion of 19.8%, to ¥3,557 million, and the R-Tokyo site, which opened in May 2005, an increase of 21.4%, to ¥1,088 million. Regional auction sites enjoyed across-the-board growth compared with a year earlier, with operating revenue at the Sapporo site jumping 14.4%, to ¥2,154 million, and those at the Kobe site, which opened in September 2005, surging 62.9 %, to ¥917 million.

The business of Internet Information Services, an Internet-based remote bidding system, posted a higher-than-projected gain in operating revenue, which expanded 24.2 %, to ¥2,455 million.

(2) By Segment

Automobile Auction Business

Under the leadership of the business development team, the USS Group worked hard to attract new members and encourage currently 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 where the Group operates.

To boost the processing capacity of existing auction sites, the Group introduced a four-lane auction system, which enables simultaneous auction of four vehicles, at the Sapporo site in August 2006, and installed additional buyers' seats. The completion of a multilevel parking garage-type stockyard capable of accommodating up to 4,700 cars at the Osaka site in November 2006 doubled the site's auction capacity.

Aiming to capture the top market share in the Kansai region, the Group sought to strengthen the management base covering the entire Kansai region, by effecting a merger between USS Osaka Co., Ltd., the operator of the Osaka site, and USS Kobe Co., Ltd., the operator of the Kobe site, on March 1, 2007. The company created from the merger was named USS Kansai Co., Ltd.

To strengthen its management base in the Hokuriku region, the Group turned KUA HOKURIKU Co., Ltd., an operator of used vehicle auctions located in Kaga City, Ishikawa Prefecture, into a wholly owned subsidiary on March 1, 2007. This was accomplished through a stock-for-stock exchange transaction, and the company's name was changed to USS Hokuriku Co., Ltd.

In the business of the USS Internet Live, a service that was launched in October 2005 at 15 USS Group sites and which provides broadcasting of automobile auctions in real time to allow its members to make bids via their PC terminals, USS formed a business partnership with eight non-USS Group sites. This was done to enhance the convenience for members as well as to increase the number and vehicles handled and the membership base.

Thanks to the sales expansion efforts described above, during the consolidated fiscal year under review the USS Group as a whole put up 2.84 million vehicles for auction, a rise of 6.7% from the previous year, and the number of contracted vehicles increased 9.4%, to 1.541 million units. As a result, the automobile auction business segment posted operating revenue of ¥47,708 million, up 7.8%, and operating income of ¥24,175 million, up 6.6%.

Used Car Purchasing and Selling Business

The Rabbit chain of used vehicle purchasing agencies carried out store remodeling, to engineer a refurbishment of the brand image.

In the business of purchasing and selling of accident-damaged vehicles operated by World Automobile Co., Ltd., the company focused business efforts in the major cities in Tokai and Kansai regions as well as Kanto region, by opening nonlife insurance business offices in those regions to increase the purchase of accident-damaged vehicles from insurance companies.

However, the intensified competition negatively impacted the purchasing and sales business, and the sales of used cars segment posted operating revenue of ¥12,888 million, down 4.7%, and an operating loss of ¥17 million, compared with operating income of ¥161 million in the previous year.

Other Business

This segment comprises 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. In the recycling business of end-of-life vehicles and other recyclable goods, ARBIZ initiated recycling of white goods and air conditioners together with end-of-life vehicles, with an eye to comprehensive recycling. The scrap rubber recycling business performed relatively well, supported mainly by strong demand for rubber chips for use in artificial lawns.

Consequently, the other business segment generated operating revenue of ¥3,973 million, up 61.8%, and operating income of ¥413 million, compared with operating income of ¥6 million in the previous year.

Costs of Revenue and Selling, General and Administrative (SG&A) Expenses

Costs of revenue amounted to ¥27,581 million, increasing by ¥1,787 million, or 6.9%, from a year earlier. This reflected a rise in depreciation costs associated with the opening of new sites.

SG&A expenses grew 7.3%, or ¥826 million, to ¥12,171 million. The increase was due to higher sales promotion expenses in connection with the upgrading of services for members.

Operating Income, Other Income (Expenses) and Net Income

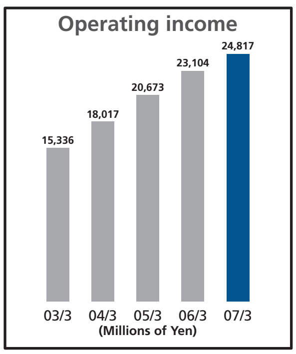
Operating income amounted to ¥24,817 million, up ¥1,713 million, or 7.4%, from the previous year. The increase reflected a rise in the number of vehicles submitted for auction, which resulted in the higher operating revenue in the automobile auction business segment.

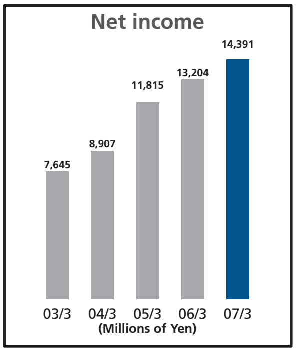
Other income (expenses) amounted to ¥602 million, compared with a net other expense of ¥52 million a year earlier.

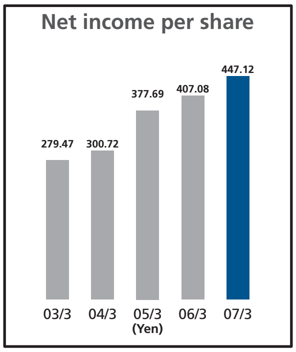
The primary factor responsible was a gain on sale or disposal of property and equipment.

Income before income taxes and minority interests amounted to ¥25,419 million, compared with ¥23,052 million in the previous year. Income taxes totaled ¥10,700 million, and minority interests in net income of subsidiaries amounted to ¥328 million.

As a result, net income for the term rose ¥1,187 million, or 9.0%, to ¥14,391 million, marking the eighth consecutive term of year-on-year increases in both operating revenue and net income since USS began reporting consolidated financial results. Basic net income per share was ¥447.12, while diluted net income per share amounted to ¥446.62. Cash dividends per share applicable to the year increased to ¥100.00, from ¥80.00 in the previous year.



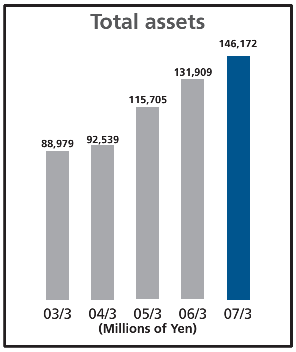


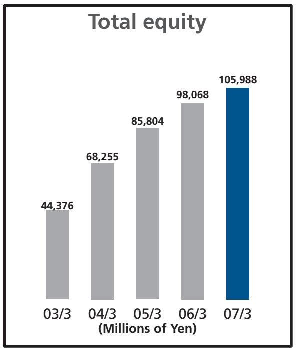


Financial Position

Total assets at the fiscal year-end stood at ¥146,172 million on a consolidated basis. Total equity amounted to ¥105,988 million, while the equity ratio stood at 71.8%.

Total assets increased by ¥14,263 million, or 10.8%, from the previous year, to ¥146,172 million. Total current assets amounted to ¥41,067 million, growing by ¥6,728 million, or 19.6%, from the previous fiscal year-end, mainly because of an increase of ¥4,138 million, or 38.2%, in receivables due from member dealers at auction because of the day of the week on which the final day of the consolidated fiscal year fell. Property and equipment at cost, less accumulated depreciation, increased by ¥7,614 million, or 9.0%, to ¥92,476 million, primarily because of capital expenditures associated with the construction of a multilevel parking garage at the Osaka site that was completed in November 2006.





Total liabilities amounted to ¥40,184 million, up ¥6,343 million, or 18.7%, over the previous year-end. Total current liabilities rose by ¥6,019 million, or 22.7%, from the previous year-end, to ¥32,510 million, mainly because of an increase of ¥4,389 million, or 35.3%, in payables due to member dealers at auction because of the day of the week on which the last day of the fiscal term fell. Non-current liabilities also increased, by ¥324 million or 4.4%, to ¥7,674 million, mainly because of a rise of ¥215 million, or 6.3%, in guarantee deposits received from member dealers, a result of an increased number of members.

Total equity* expanded ¥7,920 million, or 8.1%, from the previous year-end, to ¥105,988 million. The increase was primarily attributable to ¥14,391 million in net income for the year and fractional shares, net .

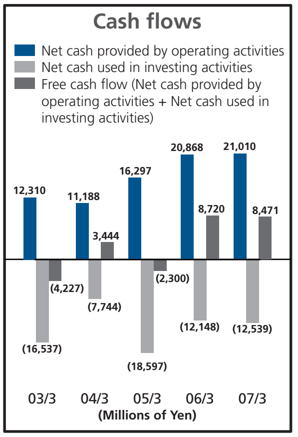
Consequently, the equity per share stood at ¥3,287.75, up ¥278.83 from ¥3,008.92 at the end of the previous year. The equity ratio, however, declined to 71.8%, from 73.8%.

* Because the net assets section of the consolidated balance sheet for the fiscal term under review was prepared according to the revised rules for consolidated financial statements, the classifications used differ from those previously used. Total equity based on the new classification is as follows:

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

Cash Flows

At end of the consolidated fiscal year under review, cash and cash equivalents (hereinafter referred to as cash) totaled ¥21,150 million, up 8.5% or ¥1,655 million, from the previous consolidated fiscal year.



Net Cash Provided by Operating Activities

Net cash provided by operating activities totaled ¥21,010 million, up 0.7%, or ¥142 million, from the previous year. This result mainly reflected increases in cash due to greater income before income taxes and minority interests, which rose 10.3% to ¥25,419 million, and in depreciation and amortization, which grew 25.1%, to ¥5,254 million. The increases were partly offset by a decrease in cash due to income taxes paid, which rose 19.7%, to ¥10,320 million.

Net Cash Used in Investing Activities

Net cash used in investing activities totaled ¥12,539 million, up ¥391 million from the previous year. The increase primarily reflected expenditures of ¥13,186 million, up 3.5%, which were incurred in the payments for the purchases of property and equipment associated with the construction of a multilevel parking garage at the Osaka site that was completed in November 2006.

Net Cash Used in Financing Activities

Net cash used in financing activities totaled ¥6,816 million, increasing ¥1,918 million from the previous year. This result was primarily attributable to decrease in cash consisting of ¥4,526 million in payments for purchase of treasury stock, up 124.4 %, and ¥3,144 million in dividends paid, up 44.7%. These factors more than offset a decrease of ¥1,365 million in repayment of long-term debt compared with the previous year.

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, 2007, the USS Group had an auction membership of 40,959 firms, a satellite auction membership of 6,132 firms and an Internet-based information membership of 17,465 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.