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## 25 Years of U.S. Projects

### –Achievements and Future Prospect –

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This year, 2008, Kinki Sharyo celebrates the 25<sup>th</sup> anniversary of the start of its U.S. projects. In this article, I will review the history of our company's U.S. projects, and discuss the direction which we should take in the future.

#### Launching Business in the U.S.

In the 1980s, the managerial situation of Japan's National Railways Corporation, which represented one of our major customers, was deteriorating, and the future of the Japanese market was uncertain. In those days, Kinki Sharyo was receiving many orders for streetcars from Egypt, but it decided to launch business in the U.S. market with a high potential, to ensure the stability of our business.

At that time, conventional U.S. train car manufacturers were withdrawing one after another, providing opportunities to us and other foreign competitors. Also, reconsiderations were being made of the use of railways as a solution to such problems of the automotive society as pollution, energy problems and traffic jams. As a result, railways enjoyed an increasing amount of financial support from the federal government.

Under these circumstances, Kinki Sharyo targeted its business efforts at LRVs (Light Rail Vehicles) with a high potential, and started its exploration of the market with the cooperation of Itochu Corp.

#### The First Step in Boston

After a trial-and-error phase involving activities of a special in-house team, we first received an order for 50 LRV articulated cars, each consisting of two bodies (in case of cars of this construction, an articulated car is regarded as unit), from Massachusetts Bay Transportation Authority (MBTA). When we received this order, however, we were not too joyous, but rather worried because of our insufficient internal preparations.

We immediately opened an office in Boston, and sent many staff members to there to expedite design works based on the American standard. Also, we engaged in such works as the procurement of U.S. made parts, which had to represent 50% (currently 60%) of all parts according to the "By-American" Law; as well as the assembly of vehicles on the local site. All of these were the first to us, and caused us a succession of troubles, including a delay in the project timetable, an excessive weight of the design car, too many man-hours required, too much costs, and many other problems.

The rapid appreciation of yen due to the Plaza Accord in

1985 aggravated the situation further by causing us, as well as many other companies, enormous losses from a changed exchange rate.

Though the Boston project was a highly agonizing experience for Kinki Sharyo, it eventually helped us by earning a high recognition of our services from our customers and developing our confidence and can-do spirit. Also, the project developed the abilities of many staff members to cope with legal, economic and technical risks in the U.S. market.

MBTA put high marks to Kinki Sharyo as "a manufacturer which does not evade its responsibilities in the face of any difficult problem, and copes with it in an earnest manner." It therefore stressed the reliability of Japanese manufacturers in observing a delivery schedule and assuring a high quality upon inquiries from all railway operators in American cities. This reassured the operators, and gave us a good start in initiating business talks with them. In addition to 50 cars delivered to MBTA at the first time, we delivered 50 at a second order, and 20 at a third, at which point we at last made money from this project. This was an occasion for us to appreciate the change of the times.

#### High-speed LRVs and 70% Low-floor LRVs for Dallas

Following the Boston project, from 1993 to 2005, Kinki Sharyo delivered to Dallas Area Rapid Transit (DART) 115 high-performance electric cars with a maximum speed of about 100 km/h (these also were articulated cars, each consisting of two bodies). These cars became very popular in Dallas. Later, to meet a growing demand for transportation, it has been decided to introduce additional articulated cars, each consisting of three bodies (with low-floor bodies inserted between two bodies). To that end, we are manufacturing and delivering 115 inserted bodies. Further, DART gave us an additional order this year for completed three-body articulated cars (25 cars, plus an optional 23).

In our New Jersey project, we developed three-body articulated cars with 70% low floors; we have been delivering cars of this type in succession, as shown in Fig. 1. As of the March term of 2008, the number of LRVs delivered by us to the U.S. has totaled about 500.

#### Future Prospect

At first, our activities in the U.S. were based in our Boston office. Since then, our organization in the country has expanded with the subsequent robust sales growth.

Kinkisharyo (USA) Inc., our U.S. affiliate, was established as a result of this reorganization. Currently, it has grown to employ about 90 local staff members, and contribute greatly to the consolidated balance sheet of our headquarters.

In our New Jersey and Phoenix projects, we contracted not only the manufacture of vehicles, but related maintenance operations. This has also contributed greatly to increasing our sales.

Especially, in the New Jersey project, we concluded a DBOM contract at its start, which involved "Design," "Build" (civil engineering and construction works, and vehicle manufacture), "Operate" (operation over 20 years), and "Maintain" (maintenance).

It is likely that DBOM and full turn key contracts will be used in many new LRT projects in the U.S. Therefore, we strive to develop our capabilities to meet any requirements from customer specifications and bid procedures, and develop the abilities of our local staff.

Today, the ratio of overseas products to our total sales has increased markedly. Especially, the importance of U.S. projects will grow even further in future. Accordingly, we will reinforce our U.S. organization by developing our local affiliate as the most important base of Kinki Sharyo in its international strategy.

As mentioned earlier, it is critically important for our company to maintain and enhance its reliability and quality as an excellent Japanese company, by adhering to our customer-first principle, and securing customer satisfaction and user loyalty.

In the U.S. market, the strenuous efforts of pioneers from Kinki Sharyo have resulted in its present status as the leading company in LEV. Keeping this in mind we will devote all our available resources and abilities to developing LRVs in America.

Currently, there is a movement in the U.S. toward a departure from automobile use, triggered by reflections on the automotive society which, in turn, have resulted from environmental destruction, rising oil prices, and a financial crisis. Not content with the mere exploitation of this favorable trend, our company will play an important role in spreading LRVs in the U.S. as urban public transport; maintain close contacts with our past customers; and cooperate with various institutions concerned to continue to participate in the development of new LRT systems.

Based on the high appreciation of our loyal customers, we will further monitor customer needs from various aspects to establish the presence of Kinki Sharyo in the U.S. market even more firmly.