

Message from the President

Looking back on the past year, the Japanese economy continued to make a moderate recovery thanks to increased residential investment and spending on public works resulting from various economic measures introduced by the government, together with stronger exports due to the recovery of the Asian economy. However, consumer spending remained weak due to deterioration in employment conditions and the income environment, and private sector capital investment continued to decline. Thus, as in recent years, the economy still has not achieved a full-scale recovery supported by private sector demand.

Under these conditions, domestic steel demand fell below that in the previous fiscal year, with declines not only in construction and automotive products, which are among our main consumer industries, but also in shipbuilding and other sectors. Moreover, even though market conditions appear to be bottoming out, the overall results for the year fell below those in fiscal 1998.

In export markets, although shipments to the United States decreased due to trade problems, shipments to both Korea and Southeast Asia showed large increases, and on balance, tonnage exceeded that in the previous year. On the other hand, in spite of an upward trend in the second half, prices declined during the year as a whole.

In this environment, the company aimed at improving its asset profitability, expanding its cash flow, and reducing its interest-incurring indebtedness, which are among the management goals of the 2nd Mid-Term Management Plan, and further strengthening its marketing capabilities. At the same time, we also expanded activities to realize the maximum improvement in our revenue and financial fundamentals, including efforts to cut costs and reduce assets.

As a result, the company recorded sales of ¥765.9 billion and an ordinary profit of ¥16.9 billion in fiscal year 1999. After adding in profit on the sale of fixed assets and profit on the sale of negotiable securities as special profit items, and subtracting losses from property revaluation, losses associated with the reorganization of the businesses of affiliated companies, the special retirement allowance, and other items as special losses, profit for the year, after applying tax benefit accounting, was ¥6.5 billion. We also improved our financial fundamentals during the year by reducing the balance of interest-incurring liabilities at the end of fiscal 1999 to ¥774.3 billion, or a reduction of ¥145.3 billion from the previous year, as a result of asset reduction and improvement in cash flow.

Regarding the distribution of profits, although the future business environment remains uncertain, as in recent years, the company will pay out a dividend of ¥1.5 per share in order to meet the expectations of its shareholders. We request your kind understanding of this decision.

Looking at the consolidated results for the year, as a result of efforts to realize more efficient management in each company and at the individual business level, with the aim of strengthening the corporate soundness of the Kawasaki Steel Group as a whole, consolidated sales totaled ¥1,257.4 billion, consolidated ordinary profit was ¥26.0 billion, and consolidated net profit for the year was ¥12.4 billion.

Where the future of the Japanese economy is concerned, signs of recovery can be seen in individual consumption and capital investment, based on an underpinning of governmental policy,

centered on economic renewal measures, and improvement in corporate profits. Nevertheless, it seems that some time will still be necessary before the economy achieves a real recovery.

In the steel industry, domestically, a decline in shipments for civil works and construction is foreseen, and in export markets, there is concern about the trend in demand in the second half of this year and thereafter, which may affect shipments to Korea and Southeast Asia, where levels have tended to be high.

Based on these circumstances, Kawasaki Steel is promoting a variety of activities aimed at early achievement of the management targets set in the 2nd Mid-Term Management Plan in order to emerge as one of the winners in the increasingly fierce competition between companies. Specifically, in its steel business, Kawasaki Steel is continuing to improve its marketing capabilities and cut costs. At the same time, the company also aims to expand sales by responding to rapid changes in the purchasing policies of user industries, correctly understanding the needs of the customer, and improving customer satisfaction by unifying its sales and technical divisions. Kawasaki Steel Corporation also agreed with NKK to study cooperation in the various fields related to physical distribution, maintenance, and purchasing in order to promote greater efficiency in steel works management, taking advantage of the siting conditions of four works of the two companies. This program is expected to result in a further reduction in costs and greater efficiency in operations, among other benefits.

In businesses other than steel, in the field of environmental technology, Kawasaki expects to receive orders for its waste gasification melting system during the current fiscal year as a result of strengthening its sales activities, and is also expanding its industrial waste treatment business. In LSIs, we have begun production and sales of products of the state-of-the-art 0.18 micron process, mainly for products for network equipment, and are putting great effort into increasing revenues in this area.

Kawasaki Steel itself and the Kawasaki Group companies are promoting a reorganization of their businesses from the viewpoint of improving management efficiency in the group as a whole, and are striving to improve asset profitability and achieve rock-solid consolidated business results by actively promoting more effective utilization of the management resources available within the group. As a good corporate citizen, Kawasaki Steel hopes to contribute to building a richer society and culture. As one example, we are devoting even greater efforts to environmental protection, based on the advanced technologies.

Finally, I would like to close this annual message by requesting the continuing understanding and support of all our shareholders in the coming year.

June 29, 2000

Kanji Emoto

President