

Management Policy

In a business environment characterized by increasingly intense competition between companies, the Kawasaki Steel Corporation Group will endeavor to further strengthen the competitiveness of its steel business as the Group's core business. At the same time, from the viewpoint of improving the management efficiency of the Group as a whole, a reorganization of the Group's businesses is being carried out, and efforts are being made to further strengthen corporate fundamentals in order to provide a firm underpinning for the Group's consolidated business results.

The basic philosophy of the 2nd Mid-Term Management Plan (FY1999-2001), which Kawasaki Steel is currently implementing, emphasizes management with priority to cash flow and economic added value, and all business divisions and Group companies are working to improve their asset profitability and establish consolidated management on this basis. The management targets of the current Mid-Term Plan are summarized below. Among these, the target for consolidated interest-incurring liabilities was achieved in fiscal year 2000, one year ahead of schedule.

[Targets of 2nd Mid-Term Management Plan]

(1) Ratio of profit on sales to total capital

Consolidated: 4.5% or more (KSC: 5.0% or more)

(2) Ordinary profit

Consolidated: ¥65.0 billion or more (KSC: ¥50.0 billion or more)

(3) Free cash flow (3 year period)

Consolidated: ¥250.0 billion (KSC: ¥210.0 billion)

(4) Balance of interest-incurring liabilities

Consolidated: ¥1,300.0 billion (KSC: ¥650.0 billion)

[Consolidated: Reduction of ¥430.0 billion] [KSC: Reduction of ¥270.0 billion]

Among concrete measures for the future, in the steel business, in addition to strengthening service as part of marketing activities, efforts are also being made to develop products and technologies with competitive superiority, and to further expand sales.

As part of these efforts, in April 2001, Kawasaki Steel concluded a tie-up agreement with AK Steel Corporation in the United States, under which the partners will construct a strategic cooperative relationship mainly in the field of steel materials for automotive applications. By building a close cooperative relationship between the two companies, particularly through mutual technical cooperation, mutual licensing, and joint research and development in the field of

automotive steel products, the partners plan to develop activities that provide a higher level of satisfaction to the customers of both companies.

Kawatetsu Mining Co., Ltd. now holds a world share of more than 60% for nickel ultra-fine powder, which is used in the internal electrodes of multi-layer ceramic capacitors in telecommunications devices, AV equipment, and other products. In order to meet increasing demand in this field in Japan and overseas, Kawatetsu Mining expanded its production facilities twice during the past year, in April and October 2000, and started operation at No. 4 Works in June of this year.

In construction and related materials, in order to realize more efficient operation, Kawasaki Steel Engineering & Construction Kawaki Corp. and Kawasaki Steel Engineering & Construction Kawaken Corp., which were established by splitting off the construction operations of Kawatetsu Kizai Kogyo Co., Ltd. and Kawasaki Steel Metal Products & Engineering Inc. together with Kawatetsu Techno-Construction Co., Ltd., and Kawasaki Steel Engineering & Construction Corp. (formerly Kawatetsu Construction Corp.), which is the construction management company of the Kawasaki Steel Group, are scheduled to be consolidated in October 2001.

In the Group's lightweight temporary building material business, Kawatetsu Kizai Kogyo and the lightweight temporary building lease business of Yabumoto Steel Corporation were consolidated and began operation in April 2001 as Kawasaki Steel Lease Systems Corp.

Among businesses other than steel, in the engineering business, continuing efforts will be made to strengthen sales of the company's waste gasification melting plant, aiming at full-scale expansion of the industrial waste treatment business.

In chemicals, a further expansion of business is expected. Related efforts in this field include an increase in the production capacity of Kawatetsu Ferrite Thailand Co., Ltd. to meet growing demand from the information and telecommunications industries, and the construction of a new plant in Mexico by the engineering plastics subsidiary, Kawasaki LNP Inc.

In the LSI and information/telecommunications business, in order to create an appropriate management system for realizing further growth in the LSI business, Kawasaki Steel's LSI operations were split off as a 100% owned subsidiary in July 2001. In information and telecommunications, Kawatetsu Systems, Inc, which is also a subsidiary of Kawasaki Steel, listed its shares in the Second Section of the Tokyo Stock Exchange in March 2001, and thus became the first steel industry-related information and systems company to become a listed stock company.

As described above, the Kawasaki Steel Group as a whole intends to improve its profitability by expanding key businesses in a variety of fields not limited to the core steel business.

[Other Significant Developments Related to the Condition of the Company]

1. Consolidation of Entire Business between Kawasaki Steel and NKK

In April 2001, Kawasaki Steel Corporation (“KSC”) and NKK Corporation (“NKK”) jointly announced that the two firms have entered into a Memorandum of Understanding expressing their intention to combine their entire operations, following the approval of this agreement by the board of directors of both companies. The two firms are committed to initiating the consolidation process as outlined.

(1) Background of the Business Consolidation

In April 2000, KSC and NKK entered into an Agreement of Mutual Cooperation for the Operations (transportation, maintenance and procurement) of four steel works in Japan. Since then, KSC and NKK have been endeavoring to expand the scope of this mutual cooperation through various joint-programs for cost reduction. During these efforts, drastic changes have been taking place, such as the global consolidation of major industries and the expansion of globally-integrated procurement policies. In order to provide customized high quality products and related services worldwide and expand business under the circumstances above, KSC and NKK agreed that consolidation is the best strategy.

With steel and engineering as core business, the consolidated company will be committed to establishing a strong earnings base and enhancing shareholders’ value.

(2) Objectives of the Business Consolidation

KSC and NKK will realize top-tier competitiveness in the world through strong customer base, advanced technology and state-of-the-art steel works and manufacturing plants with the highest efficiency, and create an ever-challenging and innovative corporate culture. By doing so, KSC and NKK will pursue the following:

- (a) Strengthening further the capabilities to respond to global customer requirements in the fastest manner
- (b) Enhancing credibility from shareholders and capital markets in the world
- (c) Providing employees with more challenges and opportunities
- (d) Contributing to local communities and environment conservation

(3) Outline of the Consolidation

KSC and NKK will consolidate, on the basis of equal partnership and in mutual trust, the entire business, including subsidiaries and affiliates, subject to regulatory and shareholders' approval.

(a) Basic Structure and Schedule

[1st Step]

By October 2002, the two firms will plan to jointly establish a Holding Company ("Holding") and become respectively a 100% subsidiary of the Holding by the "stock-for-stock exchange" method. The Holding goes public on the Tokyo Stock Exchange, and consequently KSC and NKK go private through this exchange.

[2nd Step = Final Stage]

By April 2003, full integration is expected to be completed under the Holding to form new entities on the basis of business segment.

(b) Name, place of head office, representative board members of the Holding, etc.

These basic issues will be determined later.

(c) Share Exchange Ratio

"Stock-for-stock" exchange ratio to form the Holding will be determined by both companies, taking into consideration "fairness opinions" from independent professional institutions.

(4) Synergy Effects of the Business Consolidation

KSC and NKK will continue their efforts to accomplish the various targets of each company's mid-term management plan, and will do their best to realize in the fastest manner the expected synergy effects from business consolidation, not only in the steel business but also in the engineering business and so forth.

(a) Building solid business base by strengthening further the capability to respond to global customer requirements

Combining R&D resources to develop more variety of product lines and to enhance the speed of product development

Optimizing the production allocation, and reducing a lead-time by developing revolutionary Supply Chain Management systems

Providing the best services to customers by expanding and integrating worldwide networks

(b) Becoming a “global leader” of cost-competitiveness

Reducing production and transportation costs by optimized production allocation

Reducing procurement costs through volume discount and unified specifications

Saving the capital expenditure through integrating capex programs and optimized utilization of common facilities

Reducing the overhead and related expenses

(c) Re-organizing business

Restructuring all the business lines, including subsidiaries and affiliates, for more efficient operations

(d) Improving financial conditions

Reducing debts by improving cash flow

Slimming down assets such as fixed assets and working capital

Centralized management of fund-raising and short-term investment for more efficient cash management and lower financing costs in all subsidiaries and affiliates

(5) Preparation for the well-organized Business Consolidation

The Consolidation Preparation Committee (CPC) will be established and co-chaired by the CEOs of KSC and NKK to drive forward the consolidation. CPC will have various subcommittees to carry out the smooth integration of entire business.

KSC and NKK are committed to working together, even prior to the completion of the business consolidation, through any practicable joint programs for customer satisfaction.

2. Start of negotiations on three-company global cooperation with Thyssen Krupp Steel and NKK

In April 2001, following the announcement that Kawasaki Steel Corporation and NKK Corporation will consolidate all business operations of each, Kawasaki Steel jointly with NKK began formal negotiations with the Thyssen Krupp Steel AG (a holding company for the Steel Division of Thyssen Krupp AG) in Germany with the aim of entering into a comprehensive cooperative relationship on a global scale. In these negotiations, the three companies will succeed in an expanded form the tie-up negotiations that NKK had been conducted with a carbon steel operation, namely Thyssen Krupp Stahl AG, a subsidiary of Thyssen Krupp Steel AG. The negotiations between NKK and Thyssen Krupp Stahl to date had centered on steel for automotive

applications, but a scope to discuss possible cooperation with Thyssen Krupp Steel AG was newly conceived, which will be broadened to include stainless steel, electrical sheets, and other products which are strengths of Kawasaki Steel. Full-scale negotiations are now underway with the aim of realizing the tie-up in its final form.

3. Basic agreement to transfer lease business from Kawasaki Steel Corporation to Tokyo Leasing

In May 2001, Kawasaki Steel reached a basic agreement with Tokyo Leasing Co., Ltd., under which it will transfer to Tokyo Leasing a lease and installment purchase business with assets on a scale of ¥200.0 billion owned by Kawasaki Enterprises Inc.

Kawasaki Enterprises was restructured following the disposition of bad debts with support from Kawasaki Steel at the end of March, 1999. However, with the lease business now in the process of reorganizing in order to expand its scale of business, a tie-up with a major leasing company was considered necessary to ensure the continuing profitability of Kawasaki Enterprises, and was studied concretely on this basis.

After the due diligence process is completed, the transfer price and other details will be decided through mutual consultation. A transfer contract is to be concluded by October of this year, and the actual transfer is to take place by March 2002 at the latest.

It should be noted that this transaction will reduce Kawasaki Steel's interest-incurring liabilities by approximately ¥200.0 billion on a consolidated basis, and will thereby contribute to further strengthening of the company's financial fundamentals.