Management Results

1. General Conditions in Fiscal Year 2000

During the first half of fiscal year 2000, the Japanese economy continued to make a gradual recovery. However, beginning in the second half, exports declined, particularly to the United States and Asia, and private sector capital investment, which had shown a firm tone centering on IT related investment, turned sluggish. As a result of these and other negative factors, the recovery in the business climate failed to make further progress.

Under these conditions, the Kawasaki Steel Corporation Group implemented a variety of profit improvement measures, including cost reductions and streamlining of the asset base, with the aim of further strengthening Group’s business fundamentals. As a result, the Group achieved broad improvements in its consolidated business results, recording consolidated sales of ¥1,315.5 billion, an operating profit of ¥79.3 billion, and ordinary profit of ¥53.6 billion.

Reviewing the consolidated results in each of the main segments, in the steel business, domestic shipments increased, particularly to the construction and automotive industries, as a result of carefully developed marketing activities. Export tonnage was affected by a slackening of the supply-and-demand equation for sheet products in the Asian market and turned downward in the second half, but sales to partners in business tie-ups increased, particularly in Korea, resulting in a modest gain in total exports for the year as a whole. Where market prices were concerned, in the domestic market, bar steel products continued to return to higher levels, while sheet products showed a downward tendency due to a worsening in international market conditions. Including the effect of a deterioration in the product mix, an overall decline in domestic prices was unavoidable. On the other hand, export prices improved for the year as a whole, on both a dollar base and on a yen base, thanks to a rise in prices resulting from improvement in the supply-and-demand situation in the first half, together with a continuing recovery in prices for pipes and tubular products. In this environment, the Group as a whole made concerted efforts to improve profitability by continuing to carry out cost reductions, including manpower reductions, and reduce depreciation costs by holding down capital investment.

As a result, both sales and profits improved, with consolidated sales in the steel business of ¥995.5 billion and a consolidated operating profit reaching ¥66.1 billion.

In the Group’s engineering business, conditions remained difficult, as in the past, with increasingly keen competition in a stagnant business climate. The Group made strenuous efforts to improve profitability in this segment, but continuation of the deficit from the previous year was unavoidable.

In the chemical business, the plastic compound business is growing on a worldwide basis, and particularly in the United States. Results in this area continued to show a favorable tone, and market conditions for chemical products also improved in response to rising crude oil prices. These positive factors resulted in improvements in both sales and earnings in comparison with the previous year.

Looking at the LSI and information/telecommunications businesses, the LSI business recorded a profit in the first half, thanks to a strong tone in network and telecommunication-related IC and image processing IC for digital cameras and OA equipment, among other fields, and maintained profitability even in the second half, in spite of the rapid deterioration in the business environment after the end of 2000. The information systems field also reported improved sales and earnings, and as a result, the business performance of the LSI and information/telecommunications segment as a whole showed substantial improvement.

In the lease and group finance business, the Group’s lease business has steadily secured profitability by limiting sales activities to top-quality properties. The group finance business has also improved its financing efficiency by a further expansion of the cash management system and other efforts.

As a result of the above, the Group reported a consolidated ordinary profit of ¥53.6 billion for the year. However, Group companies recorded several large special loss items during the year. These included the special retirement allowances paid to employees who changed company affiliation and a transition obligation for the shortfall in the reserve for severance benefit liabilities accompanying the adoption of severance benefit accounting, and losses on valuation resulting from a review of the valuation of negotiable securities and advances occasioned by the adoption of new accounting standards for financial products. Figuring in these special losses, the Group recorded a net loss for the year of ¥18.2 billion. However, the losses on valuation resulted from a review of the valuation of assets for accounting purposes, and were not accompanied by actual cash outlays. Moreover, the charges taken for these items are considered significant for building strong financial fundamentals that will protect profitability for the year from the negative effects of external factors such as changes in stock prices.

It should be noted that the retirement benefit accounting system that was introduced during the fiscal year resulted in a difference of ¥51.1 billion (¥36.1 billion for Kawasaki Steel Corporation on an independent basis) when the accounting standards were changed at the end of March 2000. This transition obligation, as the main item, is to be amortized over a period of five years. For other securities included among negotiable securities, current market price valuations by the capital direct input method were applied to all such items in advance of the current year.

Where cash flow was concerned, operating activities generated funds amounting to ¥241.3 billion. The net loss for the period before adjustment for taxes and other items was ¥23.9 billion. However, as mentioned above, this loss included ¥52.6 billion in losses on the valuation of negotiable securities, which was accounted as a special loss for the year but was not accompanied by a cash outlay, and therefore did not affect cash flow. In addition, the Group also recorded an adjustment of ¥127.7 for depreciation costs and reductions of ¥32.4 billion in accounts receivable and inventory assets resulting from the streamlining of assets. Thus, in total, the consolidated cash flow maintained substantially the same level as in the previous year.

In investing activities, the Group had expenditures of ¥42.7 billion after offsetting capital investments with funds recovered by the sale of assets. In financing activities, expenditures totaled ¥225.9 billion after applying funds generated by operating activities to the repayment of loans and redemption of corporate debentures.

Considering all of the above-mentioned items, the balance of cash and cash equivalents at the end of the year was ¥24.7 billion, which was a decrease of ¥26.7 billion from the end of the previous year. It might be mentioned that the balance of interest-incurring liabilities as of year end was ¥1,280.0 billion, thus meeting and exceeding one target of the 2nd Mid-term Management Plan by a year.

Regarding the distribution of profits, although it appears that the direction of the management environment will continue to be uncertain, as in recent years, management proposed a dividend payment of ¥1.5 per share to the General Meeting of Shareholders.

2. Outlook for Fiscal Year 2001

With regard the future of the Japanese economy, in addition to the slowdown in the American economy, there is also a rising sense of uncertainty about the future in private sector capital investment, and it also appears that some time will still be required for a full-scale recovery in personal consumption. Considering these facts, there is concern of stagnation in the business climate.

In the steel business, where domestic shipments were concerned, the level of demand in various sectors of the construction and manufacturing industries is unclear. It also appears likely that export markets will be affected by continuing inventory adjustments, centering on sheet products, due to a lower level of activity in steel-consuming industries in Asia. In addition to sluggish demand in both the domestic and export markets, downward pressure on market prices is expected, with domestic customers requesting price reductions. Thus, a difficult sales environment is expected. On the other hand, costs are also expected to rise due to higher raw material prices. In summary, it is impossible to make any easy predictions concerning the environment surrounding the steel business.

In spite of this difficult environment, the company sees significant business opportunities in offering a continually expanding range of choices and concentrated flow of products to customers. Kawasaki Steel intends to take advantage of this chance, while also striving to achieve higher levels of customer satisfaction. Moreover, the company is also making important efforts to secure a stable quantitative base for its products by strengthening its relationships with partners in tie-ups and overseas joint ventures cultivated over the course of several years. Where prices are concerned, the company intends to respond prudently to requests for price reductions from customers with the aim of building a relationship of mutual trust with customers from the mid- and long-term point of view, and will attempt to improve market conditions by setting production at an appropriate level considering conditions on the demand side. At the same time, Kawasaki Steel and its group companies intend to secure profitability by continuing to strongly promote cost reductions.

In businesses other than steel, engineering is expected to face a difficult environment, as in the past, and LSI and information/telecommunications will also experience difficult conditions in the immediate future. However, the Group as a whole is actively working to realize further profit improvements with the aim of securing consistent profitability.

Based on the foregoing, the outlook for the Group’s consolidated results in fiscal year 2001 include sales revenues of ¥1,320.0 billion, an operating profit of ¥65.0 billion, ordinary profit of ¥50.0 billion, and net profit for the year of approximately ¥20.0 billion.

Cash flow will be affected by various negative factors, which include a decrease in operating profit and higher payments due to the abolition of import usance for raw materials. However, continuing efforts will be made to improve profitability, hold down investment, and shrink assets, and to reduce interest-incurring liabilities. In particular, considering the planned sale of the assets of Kawasaki Enterprises Inc., the balance of interest-incurring liabilities is expected to be on the order of ¥1,030.0 billion at year end, or a reduction of ¥250.0 billion in comparison with the balance at the end of fiscal year 2000.

Note: The forecast of business results presented above is based on information that is available at the present point in time, and contains elements of uncertainty. We therefore ask that investors refrain from making any investment decisions based solely on these forecast results.