

## Message from the President

In fiscal year 2000, the Japanese economy showed a gradually recovering tendency in the first half. However, the recovery stalled in the second half due to various negative factors, including a decline in exports, particularly to the United States and Asian markets, and stagnation in private-sector capital investment, which had shown a favorable tendency, centering on IT-related fields.

Domestic demand for steel products increased from the previous year, particularly in the important construction and automotive sectors. However, in this business climate, market conditions affecting steel began to deteriorate in the second half. Exports also turned downward in the second half, affected by slackening of the supply and demand situation for sheet products in Asia. In spite of this decline, exports remained on a high level during the year as a whole, as in fiscal 1999. Prices continued to improve in the first half, resulting in a slight improvement in fiscal 2000 as a whole, in comparison with the previous year.

In steel production, Kawasaki Steel recorded crude steel production of 12.14 million tons and steel product production of 11.49 million tons for the year. These results were both increases from fiscal 1999, of 11.1% and 9.3%, respectively.

Summarizing the sales results in the company's steel business, domestic sales tonnage increased, beginning with shipments to the construction and automotive industries, supported by concerted marketing activities. Export tonnage also showed a modest increase thanks to increased sales to customers with which Kawasaki Steel has formed cooperative relationships, particularly in Korea. As a result, total sales tonnage increased, and sales revenues in the steel business rose by 3.5% in comparison with the previous year. Revenues also increased in the company's chemical business and LSI business, but declined in engineering and some other sectors. On balance, total revenues for the year rose to ¥778.5 billion, or an increase of 1.6% from fiscal 1999.

In this environment, Kawasaki Steel continued to implement thoroughgoing profit improvement measures, which included cost reductions and streamlining of assets with the aim of further strengthening its corporate fundamentals. As a result, ordinary profit rose to ¥43.0 billion. However, the company also carried out a review of the valuation of negotiable securities and loans under new accounting standards for financial products. Including the results of this adjustment, the company recorded a loss of ¥27.6 billion for the year. As the positive side, this change in accounting practices strengthened Kawasaki Steel's management base significantly by improving the company's financial fundamentals so that annual profitability is not affected by external factors such as stock prices. Among other positive developments, the company also reduced the balance of its interest bearing liabilities at year end by ¥95.5 billion yen in comparison with fiscal 1999, to ¥678.7 billion, as a result of ongoing efforts to increase its free cash flow and slim its asset base.

Regarding the distribution of profits for the year, although the direction of the business environment remains unclear, as in recent years, a dividend of ¥1.5 per share was approved by the General Meeting of Shareholders in order to meet the expectations of the company's shareholders.

In the consolidated results for the year, thanks to efforts to improve profitability and reduce costs in the Kawasaki Steel Group as a whole, consolidated sales revenues rose to ¥1,315.5 billion and consolidated ordinary profit improved to ¥53.6 billion. However, including the effect of the review of the valuation of negotiable securities and loans by Kawasaki Steel itself, the Group reported a consolidated net loss of ¥18.2 billion for the year.

Among important management moves during the year, in its steel business, Kawasaki Steel concluded a comprehensive tie-up agreement with the Hyundai HYSCO in Korea in order to secure a stable supply destination for steel materials. Under this agreement, Kawasaki Steel will supply hot rolled steel coils and provide manufacturing technology for automotive cold rolled sheets to Hyundai HYSCO. In other developments, in October of last year, the company started up a new pipe manufacturing line at Chita Works, which will supply high strength, high workability electric resistance welded steel pipe.

Looking at the future of the Japanese economy, there is growing concern about stagnation in the business climate. Among negative factors, in addition to the slowdown in the US economy, increasing uncertainty about the direction of the economy may affect private sector capital investment, and it appears that some time will still be required for a full-scale recovery in personal consumption. In the steel industry, a decline in domestic demand is foreseen, and a large drop in exports is also expected, mainly due to softening of the supply and demand equation in Asia. Considering these factors, the business environment is expected to be extremely difficult.

In response to these conditions, Kawasaki Steel will work steadily to achieve the management targets of its 2nd Mid-Term Management Plan during the present year, which is the final year of the plan, in order to establish a stable earnings base.

Specifically, in the steel business, with competition becoming increasingly intense both inside and outside of Japan, Kawasaki Steel will strengthen service in its sales activities, and will strive to develop products and technologies with competitive superiority and further expand sales. In its environmental business, strong emphasis will be placed on expanding activities aimed at securing orders for the waste gasification melting system. In the LSI sector, the company will split off its LSI operations in July of this year in order to foster a management system better adapted to the nature of the business, and is aiming at further development of this business as one of the core businesses of the Kawasaki Steel Group. In addition, the construction business in the Kawasaki Steel Group is being reorganized and consolidated to achieve higher management efficiency.

To realize stronger business performance on a consolidated basis in the Kawasaki Steel Group as a whole, a variety of measures are being taken to strengthen the earnings bases of the individual

Group companies and improve management efficiency in the group as a whole.

It should also be mentioned that in April 2001 Kawasaki Steel Corporation have entered into a Memorandum of Understanding with NKK Corporation (“NKK”) under which the two companies will consolidate all aspects of their businesses. By integrating the business operations of the two companies, Kawasaki Steel and NKK intend to establish a firm earnings base and create a truly excellent company for the 21st century. Kawasaki Steel also concluded an important tie-up agreement with AK Steel Corporation. in the United States, which mainly covers steel materials for automotive applications, and together with NKK, has formally begun negotiations aimed at establishing a comprehensive cooperative relationship with the Thyssen Krupp Steel AG in Germany.

In the area of environmental protection, as a good corporate citizen, Kawasaki Steel intends to continue to contribute to the creation of a more abundant society and culture by applying advanced technologies.

In closing, I would like to request that all of our shareholders grant this company the same generous understanding and support in the future as they have in the past.

June 28, 2001

Kanji Emoto

President