

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED MARCH 31, 2001 AND 2000

1 Basis of Presenting Consolidated Financial Statements

Kawasaki Steel Corporation (the “Company”) and its domestic subsidiaries maintain their accounts and records in accordance with the provisions set forth in the Commercial Code of Japan (the “Code”) and the Securities and Exchange Law and in conformity with accounting principles and practices generally accepted in Japan, which may differ in some material respects from accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

The Company’s overseas subsidiaries maintain their accounts and records in conformity with generally accepted accounting principles and practices prevailing in their respective countries of domicile.

The notes to the consolidated financial statements include information which is not required under accounting principles generally accepted in Japan but is presented herein as additional information.

The translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of the reader, using the approximate exchange rate at March 31, 2001, which was ¥123.90 to US\$1.00. These convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be converted into U.S. dollars at this or any other rate of exchange.

2 Summary of Significant Accounting Policies

(a) Consolidation Principles

The consolidated financial statements include the accounts of the Company’s domestic and foreign subsidiaries (the “Group” as a Kawasaki Steel Corporation consolidated group). All significant intercompany transactions and accounts are eliminated.

Investments in associates are accounted for by the equity method whereby the Group includes in net income its share of income or losses of these companies, and records its investments at cost adjusted for its share of income, losses or dividends received.

(b) Translation of Foreign Currencies

Revenues and expenses are translated at the rates of exchange prevailing when transactions are made.

Assets and liabilities of foreign subsidiaries and associates are translated into Japanese yen at the exchange rates in effect on the respective balance sheet dates. Revenue and expenses are also translated at the exchange rates in effect on the respective balance sheet dates. Translation adjustments of foreign currency financial statements in 2000 are not included in the determination of net income and are reflected in assets in the consolidated balance sheets. In 2001, the Group adopted the revised Accounting Standards for Foreign Currency Transactions which was issued by the Business Accounting Deliberation Council. Under the new method, all monetary assets and liabilities denominated in foreign currencies are translated into yen at the rate of exchange in effect at the balance sheet date. As a result of this change, ordinary profit increased by ¥252 million (\$2,037 thousand) and loss before income taxes decreased by the same amount. In accordance with the revised Regulation concerning consolidated financial statements, translation adjustments of foreign currency financial statements in 2001 are reflected in shareholders’ equity and minority interests in the consolidated balance sheets.

(c) Cash and Cash Equivalents

For the purposes of the statements of cash flow, cash and cash equivalents comprise cash in hand, deposits held at call with banks, net of overdrafts and all highly liquid investments with maturities of three months or less.

(d) Short-term Investments and Investments in Securities

Through March 31, 2000, marketable securities included in short-term investments and investments in securities were stated at cost. Other investments were carried at cost. The cost is determined by the moving average method.

Effective April 1, 2000, the Group adopted the Accounting Standards for Financial Instruments which was issued by the Business Accounting Deliberation Council. In accordance with the new standards, securities are classified into four categories: trading securities, held-to-maturity debt securities, equity investments in associates, and other securities.

Other investments are carried at cost. The cost is determined by the moving average method.

(Trading Securities)

The Group has no trading securities.

(Held-to-maturity debt securities and other securities)

Management determines the appropriate classification of debt securities at the time of purchase and reevaluates the classification as of each balance sheet date. Debt securities are classified as held-to-maturity when the Group has the positive intent and ability to hold the securities to maturity. Held-to-maturity debt securities are stated at amortized cost adjusted for the amortization of premiums and the accretion of discounts to maturity.

Marketable equity securities and debt securities not classified as held-to-maturity are classified as other securities. Other securities are carried at fair value with the unrealized gains and losses, net of tax, reported in a separate component of shareholders' equity. Under the Code, unrealized holding gains on securities, net of related taxes is not available for distribution as dividends and bonuses to directors and corporate auditors. The amortized cost of debt securities in this category is adjusted for the amortization of premium and the accretion of discounts to maturity. Realized gains and losses and declines in value judged to be other than temporary on other securities are charged to income.

(e) Inventories

Inventories are mainly carried at cost as determined by the last-in, first-out method, except for inventories of the engineering business, which are valued by the individual identification method.

(f) Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation is mainly computed at rates based on the estimated useful lives of assets using the declining-balance method.

The principal estimated useful lives are as follows:

Building and structures	14 to 50 years
Machinery and equipment	5 to 15 years

The cost of maintenance, repairs and minor renewals is charged to expenses in the year incurred; major renewals and betterments are capitalized.

When assets are sold or otherwise disposed of, the profits or losses thereon, computed on the basis of the difference between the depreciated cost and proceeds, are credited or charged to income in the year of disposal, and the cost and accumulated depreciation are removed from the respective accounts.

(g) Accrued Severance Indemnities

Through March 31, 2000, accrued severance indemnities were provided for the present value of the amount that would be required if all eligible employees voluntarily retired on the balance sheet date.

Effective April 1, 2000, the Group adopted the Accounting Standards for Retirement Benefits which was issued by the Business Accounting Deliberation Council. In accordance with the new standards, accrued severance indemnities are provided based on the amount of projected benefit obligation reduced by pension plan assets at fair value at the end of the annual period. The transition obligation at the date of adoption, ¥51,191 million (\$413,168 thousand), is amortized in 5 years. As a result of this change, ordinary profit increased by ¥3,387 million (\$27,340 thousand) and loss before income taxes increased by ¥1,699 million (\$13,720 thousand).

(h) Leases

In Japan, finance leases other than those that are deemed to transfer the ownership of the leased assets to lessees are accounted for by a method similar to that applicable to ordinary operating leases.

(i) Research and Development and Computer Software

Research and development expenditure is charged to income when incurred.

Expenditure related to computer software developed for internal use is charged to income when incurred, except if it contributes to the generation of income or to future cost saving. Such expenditure is capitalized as an asset and is amortized using the straight-line method over its estimated useful life, which is in the range of 5 years.

(j) Income Taxes

The Group recognizes deferred income taxes arising from temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements.

(k) Per Share Information

The computation of basic net income per share is based on the weighted average number of shares of common stock outstanding during each period. The average number of shares used in the computation was 3,212,779 thousand and 3,251,541 thousand for the years ended March 31, 2001 and 2000, respectively.

Cash dividends per share shown in the statements of income are the amounts applicable to the respective years.

3 Short-term Investments, and Investments in Securities and Associates

At March 31, 2000, short-term investments, and investments in securities and associates were as follows:

	Millions of yen		
	2000		
	Carrying amount	Market value	Unrealized gain (loss)
Short-term investments:			
Market value available:			
Bonds and debentures	¥ 69	¥ 69	¥ 0
Other securities	3	182	179
	72	¥ 252	¥ 180
Market value not available	3,592		
Total	¥ 3,665		
Investments in securities and associates:			
Market value available:			
Equity securities	¥143,382	¥185,471	¥ 42,088
Market value not available	53,978		
Total	¥197,180		

The following is a summary of held-to-maturity debt securities and other securities at March 31, 2001:

Millions of yen			
March 31, 2001			
Held-to-maturity debt securities			
Book value (Carrying amount)	Gross unrealized gains	Gross unrealized losses	(Estimated fair value)
Market value available:			
Bonds	¥ 494	¥ 12	¥ 506
	¥ 494	¥ 12	¥ 506
Market value not available	607		
Total	¥ 1,102		
Other securities			
Cost	Gross unrealized gains	Gross unrealized losses	Book value (Estimated fair value)
Market value available:			
Equity securities	¥ 88,638	¥ 62,744	¥ 149,589
Other securities	10	-	8
	¥ 88,648	¥ 62,744	¥ 149,597
Market value not available			35,177
Total			¥ 184,774
Thousands of U.S. dollars			
March 31, 2001			
Held-to-maturity debt securities			
Book value (Carrying amount)	Gross unrealized gains	Gross unrealized losses	(Estimated fair value)
Market value available:			
Bonds	\$ 3,991	\$ 99	\$ 4,090
	\$ 3,991	\$ 99	\$ 4,090
Market value not available	4,907		
Total	\$ 8,898		
Other securities			
Cost	Gross unrealized gains	Gross unrealized losses	Book value (Estimated fair value)
Market value available:			
Equity securities	\$ 715,405	\$ 506,412	\$ 1,207,337
Other securities	82	-	66
	\$ 715,487	\$ 506,412	\$ 1,207,403
Market value not available			283,915
Total			\$ 1,491,318

4 Inventories

Inventories at March 31, 2001 and 2000 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Finished goods	¥ 86,064	¥ 93,485	\$ 694,626
Work in process	92,144	94,107	743,697
Raw materials and supplies	104,815	106,629	845,966
	<u>¥ 283,023</u>	<u>¥ 294,222</u>	<u>\$ 2,284,289</u>

5 Short-term Bank Loans, Commercial Paper and Long-term Debt

The annual average interest rates applicable to short-term bank loans and commercial paper at March 31, 2001 and 2000 were 1.17% and 0.92%, respectively.

Long-term debt at March 31, 2001 and 2000 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Domestic unsecured convertible bonds due 2004	¥ 69,886	¥ 69,886	\$ 564,052
Domestic unsecured bonds 2000 through 2010	270,000	310,000	2,179,177
Euro yen bonds due serially 2000 through 2002	3,050	32,937	24,623
U.S. dollars bonds due 2000	-	5,120	-
Loans from banks and insurance companies, maturing through 2031:			
Secured loans	137,548	148,346	1,110,156
Unsecured loans	631,078	708,052	5,093,451
	<u>1,111,563</u>	<u>1,274,343</u>	<u>8,971,459</u>
Less, current portion	217,090	215,682	1,752,139
	<u>¥ 894,473</u>	<u>¥ 1,058,660</u>	<u>\$ 7,219,320</u>

Aggregate annual maturities of long-term debt subsequent to March 31, 2001 are as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2002	¥ 217,090	\$ 1,752,139
2003	232,682	1,877,987
2004	331,085	2,672,201
2005	148,593	1,199,300
2006 and thereafter	182,112	1,469,832
	<u>¥ 1,111,563</u>	<u>\$ 8,971,459</u>

As is customary in Japan, short-term and long-term bank loans are made under general agreements which provide that security and guarantees for future and present indebtedness will be given upon request of the bank, and that the bank shall have the right, as the obligations become due, or in the event of their default, to offset cash deposits against such obligations due to the bank.

At March 31, 2001 and 2000, assets pledged as collateral for long-term debt, including the current portion of long-term debt, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Land	¥ 111,863	¥ 72,794	\$ 902,851
Buildings and structures	35,299	34,048	284,901
Machinery and equipment	13,518	26,484	109,107
Notes and accounts receivable	12,311	6,787	99,369
Investments in securities	6,304	11,383	50,886
Others	205	123	1,657

6 Revaluation of Land for Business

For part of subsidiaries, revaluation of land for business was carried out in accordance with the Law concerning Revaluation of Land and on the basis of the amendment to the Law on March 31, 2001.

With respect to evaluation differences, amounts equivalent to taxes related to the evaluation differences were included in “Deferred tax assets” or “Deferred tax liabilities.” Amounts belonging to minority shareholders were included in “Minority interests,” and amounts from which these are deducted were counted as “Net unrealized holding gains on land” in shareholders’ equity.

As a result of this, “Total assets” increased by ¥33,680 million (\$271,835 thousand), “Total liabilities” increased by ¥23,613 million (\$190,583 thousand), “Minority interests” decreased by ¥6,122 million (\$49,416 thousand), and “Total shareholders’ equity” increased by ¥16,189 million (\$130,668 thousand), respectively.

- Method of revaluation
Calculations were made in accordance with the Law concerning Revaluation of Land
- Date of revaluation
March 31, 2001
- Book-value of land for business before revaluation thereof:
¥97,404 million (\$786,154 thousand)
- Book-value of the land for business after the revaluation thereof:
¥125,931 million (\$1,016,400 thousand)

7 Accrued Severance Indemnities

The following tables set forth the changes in the benefit obligation, plan assets and funded status of the Company and its subsidiaries at March 31, 2001.

	Millions of yen	Thousands of U.S. dollars
	<u>2001</u>	<u>2001</u>
Benefit obligation at end of year	¥ (244,913)	\$ (1,976,704)
Fair value of plan assets at end of year	128,593	1,037,884
Benefit obligation in excess of plan assets	(116,319)	(938,821)
Unrecognized plan assets	(48)	388
Unrecognized net transition obligation at date of adoption	39,829	321,462
Unrecognized actuarial losses	12,332	99,533
Unrecognized prior service cost	284	2,293
	<u>(63,922)</u>	<u>(515,920)</u>
Prepaid cost	5,259	42,446
Accrued pension liability recognized in the consolidated balance sheet	<u>¥ (69,181)</u>	<u>\$ (558,366)</u>

Note: Some domestic subsidiaries have adopted allowed alternative treatment of the accounting standards for retirement benefits for small business entities.

Severance and pension costs of the Company and its subsidiaries included the following components for the year ended March 31, 2001.

	Millions of yen	Thousands of U.S. dollars
	<u>2001</u>	<u>2001</u>
Service cost	¥ 8,025	\$ 64,772
Interest cost	6,889	55,601
Expected return on plan assets	(4,895)	(39,508)
Amortization:		
Transition obligation at date of adoption	11,362	91,706
Actuarial losses	9	76
Prior service cost	35	290
Net periodic benefit cost	<u>¥ 21,426</u>	<u>\$172,937</u>

The assumptions used in accounting for the defined benefit plans for the year ended March 31, 2001 were mainly as follows:

Method of attributing benefit to periods of service	Straight –Line basis
Discount rate	3.0%
Long-term rate of return on plan assets	4.1%
Amortization period for prior service cost	12 years
Amortization period for actuarial losses	12 years
Amortization period for transition obligation at date of adoption	5 years

8 Contingencies

At March 31, 2001 and 2000, the Group was contingently liable as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Guarantees of loans	¥ 7,396	¥ 9,253	\$ 59,697
Similar - to - guarantee acts	¥ 12,409	¥ 11,414	\$ 100,154
Trade notes discounted	¥ 3,437	¥ 4,959	\$ 27,740
Trade notes endorsed	¥ 2,324	¥ 2,206	\$ 18,762

9 Leases

The Group leases certain building and structures, machinery and equipment, office space and other assets. Total lease payments under these leases were ¥413 million (\$3,340 thousand) and ¥480 million for the years ended March 31, 2001 and 2000, respectively.

Pro forma information on leased property, such as acquisition costs, accumulated depreciation and future minimum lease payments for property held under finance leases which do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the years ended March 31, 2001 and 2000 was as follows:

	Millions of yen	
	2001	
	Machinery and equipment	Total
Acquisition costs	¥ 2,306	¥ 2,306
Accumulated depreciation	1,487	1,487
Net leased property	¥ 819	¥ 819

	Millions of yen	
	2000	
	Machinery and equipment	Total
Acquisition costs	¥ 2,528	¥ 2,528
Accumulated depreciation	1,666	1,666
Net leased property	¥ 861	¥ 861

	Thousands of U.S. dollars	
	2001	
	Machinery and equipment	Total
Acquisition costs	\$ 18,618	\$ 18,618
Accumulated depreciation	12,007	12,007
Net leased property	\$ 6,611	\$ 6,611

Future minimum lease payments under finance leases as of March 31, 2001 and 2000 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Due within one year	¥ 325	¥ 377	\$ 2,630
Due after one year	493	484	3,981
Total	¥ 819	¥ 861	\$ 6,611

The acquisition costs and future minimum lease payments under finance leases include the imputed interest expense portion.

Depreciation expenses, which are not reflected in the accompanying consolidated statements of income, computed by the straight-line method, were ¥413 million (\$3,340 thousand) and ¥480 million for the years ended March 31, 2001 and 2000, respectively.

Obligations under non-cancelable operating leases as of March 31, 2001 and 2000 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Due within one year	¥ 367	¥ 221	\$ 2,963
Due after one year	1,739	795	14,037
Total	¥ 2,106	¥ 1,017	\$ 17,000

Total lease payments receivable were ¥22,817 million (\$184,162 thousand) and ¥22,431 million for the year ended March 31, 2001 and 2000, respectively.

Pro forma information on leased property as lessor under finance leases that do not transfer ownership of the leased property to the lessee on an “as if capitalized” basis for the year ended March 31, 2000 was as follows:

	Millions of yen		
	2001		
	Machinery and equipment	Others	Total
Acquisition costs	¥ 93,943	¥ 12,253	¥ 106,196
Accumulated depreciation	44,929	6,691	51,621
Net leased property	¥ 49,014	¥ 5,561	¥ 54,575

	Millions of yen		
	2000		
	Machinery and equipment	Others	Total
Acquisition costs	¥ 92,306	¥ 12,296	¥ 104,602
Accumulated depreciation	42,713	6,083	48,797
Net leased property	¥ 49,592	¥ 6,213	¥ 55,805

	Thousands of U.S. dollars		
	2001		
	Machinery and equipment	Others	Total
Acquisition costs	\$ 758,221	\$ 98,897	\$ 857,118
Accumulated depreciation	362,625	54,009	416,634
Net leased property	<u>\$ 395,596</u>	<u>\$ 44,888</u>	<u>\$ 440,484</u>

Future minimum lease payments receivable under finance leases as of March 31, 2001 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Due within one year	¥ 18,567	¥ 18,305	\$ 149,860
Due after one year	35,480	37,262	286,365
Total	<u>¥ 54,048</u>	<u>¥ 55,568</u>	<u>\$ 436,225</u>

The acquisition costs and future minimum lease payments receivable under finance leases do not include the imputed interest expense portion.

Depreciation expenses which are not reflected in the accompanying consolidated statement of income, computed by the straight-line method, were ¥17,832 million (\$143,928 thousand) and ¥17,453 million for the years ended March 31, 2001 and 2000, respectively.

Future minimum lease payments receivable under non-cancelable operating leases as of March 31, 2001 and 2000 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Due within one year	¥ 278	¥ 203	\$ 2,246
Due after one year	325	281	2,623
Total	<u>¥ 603</u>	<u>¥ 485</u>	<u>\$ 4,869</u>

10 Derivatives and Hedging Activities

The Group has a basic policy that derivative financial instruments are used to reduce the interest rate risk and foreign exchange rate risk, not to gain profit. The Group has established a control environment which includes policies and procedures for risk assessments and for the approval, reporting and monitoring of transactions involving derivative financial instruments. The Group does not hold or issue derivative financial instruments for trading purposes.

The Group is exposed to certain market risks arising from its forward exchange contracts and swap agreements. The Group is also exposed to the risk of credit loss in the event of non-performance by the counterparties to the currency and interest; however, the Group does not anticipate nonperformance by any of these counterparties, all of whom are financial institutions with high credit ratings.

11 Shareholder's Equity

Under the Company's articles of incorporation, it is possible for the Company to purchase and retire common shares up to a maximum of 620,000 thousand shares or up to ¥98,000 million by using the Company's capital surplus, subject to the resolution of the Board of Directors. During the year ended March 31, 2001, the Company purchased and retired 59,600 thousand shares, with an aggregate value of ¥7,476 million (\$60,344 thousand).

12 Research and Development

Research and development expenditures charged to income were ¥19,336 million (\$156,067 thousand) and ¥19,637 million for the years ended March 31, 2001 and 2000, respectively.

13 Income Taxes

The Company and its domestic subsidiaries are subject to several taxes based on income, which in the aggregate resulted in statutory tax rates of approximately 41.0% for the years ended March 31, 2001 and 2000. Foreign subsidiaries are subject to income taxes of the countries in which they operate.

The effective rate for the two years ended March 31, 2001 and 2000 differs from the statutory tax rate for the following reasons:

	<u>2001</u>		<u>2000</u>	
Statutory tax rate	41.0	%	41.0	%
Lump-sum amortization of goodwill on consideration and equity of associates	(10.3)		-	
Adjustments of deferred tax assets by verifying realizability	-		(9.5)	
Equity in net earnings of associates	(6.9)		(5.0)	
Lower tax rates of overseas subsidiaries	-		(3.9)	
Expenses not deductible for income tax purposes	-		10.4	
Others	(2.4)		1.7	
Effective tax rate	<u>21.4</u>	%	<u>34.7</u>	%

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets at March 31, 2001 and 2000 are presented below:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Deferred tax assets:			
Operating loss carry-forwards	¥ 45,387	¥ 60,027	\$ 366,325
Accrued severance indemnities	20,011	19,217	161,515
Write-down of investments in securities	19,964	-	161,132
Elimination of intercompany profits	10,627	11,206	85,771
Unrealized holding losses on land	5,152	-	41,589
Accrued expenses	4,211	2,979	33,994
Others	24,804	23,911	200,197
Total gross deferred tax assets	<u>125,006</u>	<u>117,343</u>	<u>1,050,523</u>
Less valuation allowance	<u>(19,021)</u>	<u>(24,449)</u>	<u>(153,526)</u>
Net deferred tax assets	105,985	92,894	896,997
Deferred tax liabilities:			
Unrealized holding gains on securities	(24,209)	-	(195,394)
Unrealized holding gains on land	(23,613)	-	(190,583)
Reserve for advanced depreciation of property	(17,258)	(19,612)	(139,296)
Others	(5,251)	(3,220)	(42,388)
Total gross deferred tax liabilities	<u>(65,180)</u>	<u>(22,832)</u>	<u>(567,661)</u>
Net deferred tax assets	<u>¥ 40,804</u>	<u>¥ 70,061</u>	<u>\$ 329,336</u>

In assessing the realizability of deferred tax assets, the management of the Company considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is entirely dependent upon the generation of future taxable income in specific tax jurisdictions during the periods in which those temporary differences become deductible. Although realization is not assured, management considered the projected future taxable income in making this assessment. Based on these factors, management believes it is more likely than not that the Company will realize the benefits of these deductible differences, net of the existing valuation allowance as of March 31, 2001.

Income taxes have not been accrued in respect of the undistributed earnings of foreign subsidiaries and associated companies, as these amounts are intended to be reinvested indefinitely. The unrecognized deferred tax liabilities related to these earnings are immaterial.

14 Segment Information

Information about operations in industry segments, geographic segments and sales to foreign customers of the Group for the years ended March 31, 2001 and 2000, is as follows:

(1) Industry Segments

Sales:	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Steel			
Sales to customers	¥ 990,465	¥ 935,001	\$ 7,994,075
Intersegment	5,132	5,318	41,423
Total sales	¥ 995,598	¥ 940,319	\$ 8,035,498
Engineering			
Sales to customers	¥ 102,031	¥ 117,478	\$ 823,497
Intersegment	3,088	-	24,930
Total sales	¥ 105,120	¥ 117,478	\$ 848,427
Chemical			
Sales to customers	¥ 81,180	¥ 73,067	\$ 655,211
Intersegment	1,523	139	12,295
Total sales	¥ 82,703	¥ 73,207	\$ 667,506
LSI/Information			
Sales to customers	¥ 52,884	¥ 35,995	\$ 426,836
Intersegment	14,252	14,071	115,029
Total sales	¥ 67,137	¥ 50,066	\$ 541,865
Lease/Finance			
Sales to customers	¥ 50,471	¥ 55,559	\$ 407,358
Intersegment	17,190	15,236	138,741
Total sales	¥ 67,661	¥ 70,796	\$ 546,099
Others			
Sales to customers	¥ 38,524	¥ 40,299	\$ 310,936
Intersegment	6,076	5,272	49,043
Total sales	¥ 44,601	¥ 45,571	\$ 359,979
Elimination/Corporate			
Sales to customers	¥ -	¥ -	\$ -
Intersegment	(47,263)	(40,037)	(381,461)
Total sales	¥ (47,263)	¥ (40,037)	\$ (381,461)
Consolidated Total			
Sales to customers	¥ 1,315,559	¥ 1,257,401	\$ 10,617,913
Intersegment	-	-	-
Total sales	¥ 1,315,559	¥ 1,257,401	\$ 10,617,913

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Operating Expenses:			
Steel	¥ 929,426	¥ 906,027	\$ 7,501,424
Engineering	106,369	119,087	858,510
Chemical	76,028	69,746	613,632
LSI/Information	64,377	49,968	519,593
Lease/Finance	65,871	69,044	531,654
Others	40,878	40,893	329,935
Elimination/Corporate	(46,784)	(42,218)	(377,599)
Consolidated total	¥ 1,236,168	¥ 1,212,548	\$ 9,977,149

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Operating Income:			
Steel	¥ 66,171	¥ 34,292	\$ 534,074
Engineering	(1,249)	(1,608)	(10,083)
Chemical	6,675	3,461	53,874
LSI/Information	2,759	98	22,272
Lease/Finance	1,789	1,751	14,445
Others	3,722	4,677	30,043
Elimination/Corporate	(478)	2,180	(3,861)
Consolidated total	¥ 79,390	¥ 44,853	\$ 640,764

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Assets:			
Steel	¥ 1,305,555	¥ 1,365,620	\$ 10,537,171
Engineering	120,000	128,728	968,525
Chemical	64,821	59,855	523,176
LSI/Information	46,106	40,504	372,128
Lease/Finance	296,774	368,317	2,395,273
Others	281,185	261,561	2,269,455
Elimination/Corporate	65,868	122,478	531,624
Consolidated total	¥ 2,180,311	¥ 2,347,066	\$ 17,597,352

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Depreciation:			
Steel	¥ 86,849	¥ 99,983	\$ 700,968
Engineering	2,529	1,718	20,412
Chemical	4,101	4,100	33,101
LSI/Information	3,446	3,647	27,814
Lease/Finance	29,675	29,547	239,513
Others	2,409	2,247	19,448
Elimination/Corporate	(1,234)	(987)	(9,965)
Consolidated total	¥ 127,776	¥ 140,257	\$ 1,031,291

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Capital expenditures:			
Steel	¥ 46,529	¥ 36,176	\$ 375,537
Engineering	1,781	5,959	14,377
Chemical	4,432	3,882	35,773
LSI/Information	3,302	3,697	26,655
Lease/Finance	28,562	30,216	230,531
Others	2,610	4,425	21,068
Elimination/Corporate	(1,713)	(117)	(13,826)
Consolidated total	¥ 85,505	¥ 84,240	\$ 690,115

(2) Geographic Segments

Geographic segment information has not been disclosed because the sales and assets of consolidated foreign subsidiaries for the years ended March 31, 2001 and 2000 were less than 10% of consolidated net sales and assets.

(3) Sales to Foreign Customers

Sales to foreign customers for the years ended March 31, 2001 and 2000 amounted to ¥315,669 million (\$2,547,778 thousand) and ¥316,192 million, respectively.

15 Special Profit (Loss)

In March 31, 2001 and 2000, special profit (loss) consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Profit on sales of property, plant and equipment	¥ 13,240	¥ 7,444	\$ 106,864
Profit on sales of marketable securities	-	22,556	-
Profit on sales of investments in securities	7,824	3,286	63,148
Profit on creation of retirement benefit trust	901	-	7,276
Loss on disposal of tangible fixed assets	(7,707)	-	(62,207)
Write-down of marketable securities	-	(1,465)	-
Write-down of investments in securities	(52,654)	(2,245)	(424,975)
Write-down of inventories - real estate for sale -	(1,909)	(2,290)	(15,415)
Lump-sum amortization of goodwill on consolidation and equity of associates	(6,012)	-	(48,528)
Write-down of memberships in golf clubs	(4,598)	-	(37,112)
Loss on disposal of affiliates' businesses	-	(7,519)	-
Loss on restructuring of businesses	(9,122)	-	(73,625)
Expenses on special retirement payments	(6,495)	(20,298)	(52,426)
Cost of past service portion	-	(6,028)	-
Amortization of transition obligation on accrued severance indemnities	(11,051)	-	(89,199)
	¥ (77,586)	¥ (6,559)	\$ (626,199)

16 Significant Subsidiaries

The Company's significant subsidiaries are as follows:

Name	Ownership interest	Country of incorporation (location of head office)
Daiwa Steel Corporation	73.6%	Japan (Kobe)
Kawatetsu Galvanizing Co., Ltd.	61.9%	Japan (Tokyo)
Kawasaki Steel Metal Products & Engineering Inc.	99.5%	Japan (Kobe)
Kawasaki Steel Container Co., Ltd.	40.6%	Japan (Itami)
Toyohira Steel Corporation	43.4%	Japan (Sapporo)
Yabumoto Corp.	57.1%	Japan (Osaka)
Kawatetsu Mining Co., Ltd.	68.6%	Japan (Tokyo)
Kawatetsu Transportation & Technology Co., Ltd.	99.7%	Japan (Kobe)
Mizushima Ferro-Alloy Co., Ltd.	86.9%	Japan (Kurashiki)
Kawatetsu Machinery Co., Ltd.	100.0%	Japan (Tokyo)
Kawasaki Refractories Co., Ltd.	93.9%	Japan (Ako)
River Steel Co., Ltd.	85.0%	Japan (Yokohama)
Kawatetsu Kozai Kogyo Kaisha, Ltd.	79.4%	Japan (Osaka)
Kawatetsu Kohnan Steel Center Co., Ltd.	75.0%	Japan (Kobe)
Kawasaki Steel Techno-Wire Corporation	100.0%	Japan (Chiba)
Kawatetsu Kizai Kogyo Co., Ltd.	100.0%	Japan (Tokyo)
Kawatetsu Electrical Steel Co., Ltd.	98.0%	Japan (Osaka)
Kawatetsu Steel Tube Co., Ltd.	100.0%	Japan (Chiba)
Kawasaki Steel Techno-Research Corporation	100.0%	Japan (Tokyo)
Kawatetsu Electric Engineering Co., Ltd.	100.0%	Japan (Kobe)
Touhoku Steel Corporation	87.5%	Japan (Sendai)
Kawatetsu Metal Fabrica Co., Ltd.	90.0%	Japan (Marugame)
Kawatetsu Techno-Construction Co., Ltd.	100.0%	Japan (Tokyo)
Kawatetsu Ferrite Corporation	100.0%	Japan (Tokyo)
Kawatetsu Systems, Inc.*	69.0%	Japan (Tokyo)
Kawasaki Enterprises, Inc.	62.0%	Japan (Tokyo)
KSC Urban Development Co., Ltd.	70.2%	Japan (Tokyo)
Kawatetsu Life Corporation	100.0%	Japan (Kobe)
Philippine Sinter Corporation	100.0%	Philippines (Manila)
Kawasaki LNP, Inc.	100.0%	United States of America (Delaware)

* On September 19, 2000, the change of the company name in English to "Kawatetsu Systems Inc." was approved at the shareholders' meeting of Kawasaki Steel Systems R&D Corporation.

17 Subsequent Events

(a) Consolidation of Entire Business of Kawasaki Steel Corporation and NKK Corporation

In April 2001, the Company and NKK Corporation (“NKK”) reached a basic agreement to consolidate their entire operations.

(1) Basic structure and schedule

In the first stage, the Company and NKK plan to jointly establish a Holding Company (“Holding”) and become 100%-owned subsidiaries of Holding by the “stock-for-stock exchange” method by October 2002.

In the second stage, full integration will be completed under Holding to form new entities based on each segment by April 2003.

(2) The company name, location of the head office, representative board members of Holding and other basic issues will be decided through discussion.

(3) Share exchange ratio

The “stock-for stock” exchange ratio to form Holding will be determined by the Company and NKK, taking into consideration “fairness opinions” from independent professional institutions.

(b) Divestiture of Leasing Business

On May 23, 2001, the Company entered into a letter of intent with Tokyo Leasing Co., Ltd. (“Tokyo Leasing”) to the effect that the Company will sell to Tokyo Leasing its leasing business with assets of approximately ¥200 billion operated by the Company’s subsidiary, Kawasaki Enterprises, Inc. The detailed terms and conditions are to be determined after due diligence by October, 2001, and the transaction will be closed by March, 2002.

(c) Cash Dividends

Cash dividends of the year ended March 31, 2001 were as proposed by the Board of Directors and approved by the shareholders at the annual general meeting held on 28 June, 2001:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥1.5 per share)	¥ 4,787	\$ 38,643