

KAWASAKI STEEL



Fiscal Year Ended March 31, 2001

ANNUAL REPORT 2001

SUMMARY



KAWASAKI STEEL CORPORATION

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.

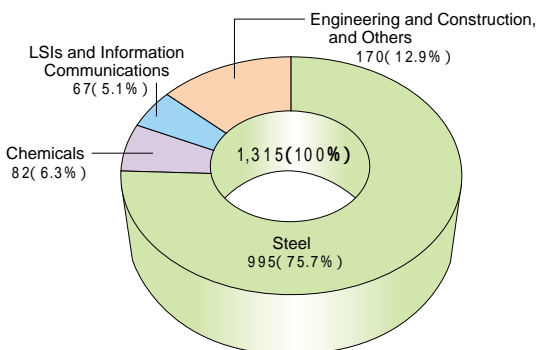
June 28, 2001



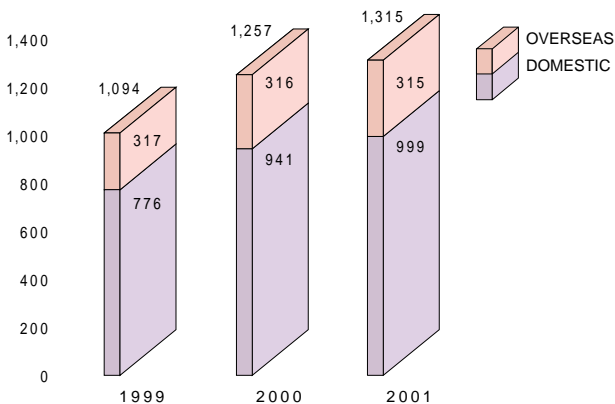
Kanji Emoto
President

Consolidated

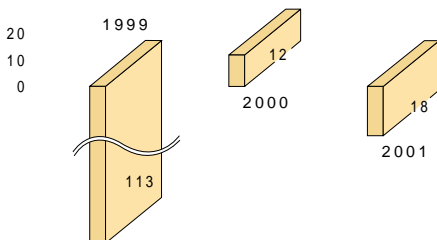
SALES (Year ended March 31, 2001) (Billions of yen)



SALES (Year ended March 31) (Billions of yen)

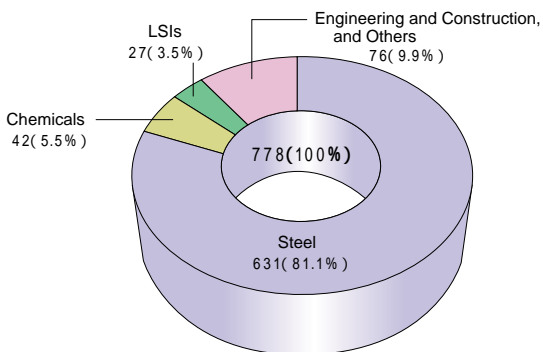


NET INCOME (Year ended March 31) (Billions of yen)

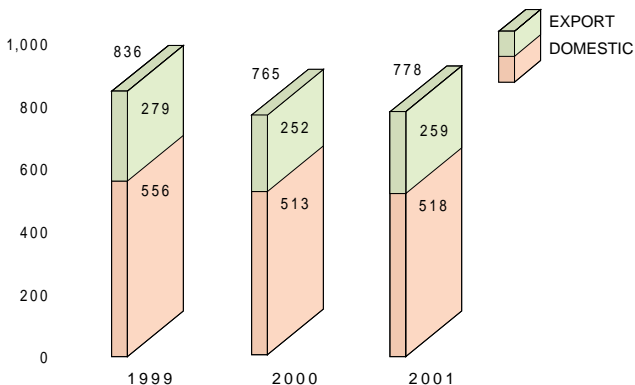


Non-Consolidated

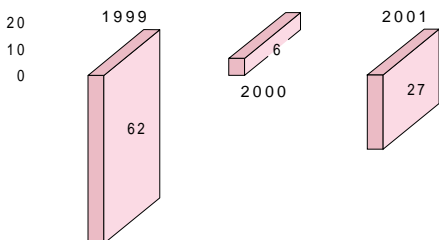
SALES (Year ended March 31, 2001) (Billions of yen)



SALES (Year ended March 31) (Billions of yen)



NET INCOME (Year ended March 31) (Billions of yen)



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-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.



President Emoto (right) of Kawasaki Steel and President Shimogaichi of NKK (left) exchanging handshakes at a press conference on April 13

Tie-up with AK Steel (US) in Automotive Steel Products

In April 2001, Kawasaki Steel concluded a tie-up agreement with AK Steel Corporation in the United States, under which the two companies will enter into a strategic cooperative relationship mainly in the field of automotive steel products.

By creating a close cooperative relationship between the two companies, this tie-up will make it possible to provide a higher level of satisfaction to the customers of both companies. Planned activities under the tie-up include the following.

Mutual technical cooperation in the field of automotive steel materials (product technology, process technology, application technology)

Reciprocal licensing in connection with the above
Joint research and development (product development, computer simulation technology development, application technology development, etc.)

AK Steel was originated from its predecessor company, Armco Steel Company, L.P., which was formed in 1989 as a JV between Armco Inc. and Kawasaki Steel. After integrating Armco Inc.'s specialty steel operations in 1999, AK Steel is an integrated blast-furnace mill that produces and sells mainly carbon steel, stainless steel, and coated

steel products. In particular, AK Steel holds the top share of automotive steel sheets in the United States. Kawasaki Steel and AK Steel expect to create a system for mutual technical cooperation through this tie-up.

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.

Signing of Comprehensive Tie-up Agreement with Hyundai HYSCO (Korea)

In December 2000, Kawasaki Steel concluded a comprehensive tie-up agreement with the Korean company Hyundai HYSCO (formerly Hyundai Pipe Co.). The two companies agreed to form a relationship of mutual cooperation in order to provide a stable supply of high quality, cost competitive automotive steel sheets to the rapidly growing Korean auto industry. The main features of the tie-up are as follows.

(1) Supply of hot rolled coil

Kawasaki Steel will supply approximately 500,000 tons per year of hot rolled coil material for cold rolling, which is required by Hyundai HYSCO.

(2) Supply of production technology for automotive cold rolled steel sheets

Kawasaki Steel will supply production technology for cold rolled steel sheets and coated steel sheets for automotive applications to Hyundai HYSCO.

(3) Purchase of Hyundai HYSCO stock by Kawasaki Steel

Kawasaki Steel will purchase somewhat more than 10% of the outstanding shares of Hyundai HYSCO.

Hyundai HYSCO was established in 1975, and is a steel maker that produces and sells steel pipe and cold rolled steel sheets. The name of the company was changed to Hyundai HYSCO in January of this year.

FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET

(March 31, 2001)

(Millions of yen)

ASSETS

Current assets:

Cash and cash equivalents	¥ 24,762
Short-term investments	611
Notes and accounts receivable:	330,797
Allowance for doubtful accounts (1,132)	
Inventories	283,023
Deferred income taxes	18,699
Other current assets	44,446
Total current assets	<u>701,209</u>

Property, plant and equipment :

Land	277,132
Building and structures	830,046
Machinery and equipment	2,864,518
Construction in progress	20,731
	<u>3,992,429</u>
Accumulated depreciation	(2,877,963)
Total property, plant and equipment	<u>1,114,465</u>

Investments and other assets:

Investments in associates	22,847
Investments in securities	185,264
Long-term receivables, net	14,549
Less allowance for doubtful accounts	(34,535)
Deferred tax assets	47,799
Other	128,711
Total investments and other assets	<u>364,636</u>
Total assets	<u>¥ 2,180,311</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:

Short-term bank loans	¥ 168,472
Current portion of long-term debt	217,090
Notes and accounts payable:	226,875
Accrued income taxes	5,353
Other current liabilities	166,246
Total current liabilities	<u>784,038</u>

Long-term liabilities:

Long-term debt	894,473
Accrued severance indemnities	69,181
Reserve for repair for blast furnace	34,887
Deferred tax liabilities	25,665
Other liabilities	34,954
Total long-term liabilities	<u>1,059,162</u>
Total liabilities	<u>1,843,201</u>

Minority interests

31,542

Shareholders' equity :

Common stock	239,644
Capital surplus	112,134
Consolidated surplus	(48,972)
Net unrealized holding gains on land	16,189
Net unrealized holding gains on securities	35,103
Foreign currency transaction adjustments	(46,569)
	<u>307,531</u>

Less, treasury stock, at cost:

2001- 24,286,631 shares	(1,963)
Total shareholders' equity	<u>305,567</u>
Total liabilities and shareholders' equity	<u>¥ 2,180,311</u>

FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF INCOME

(Year ended March 31, 2001)

(Millions of yen)

Net sales	¥1,315,559
Cost of sales	1,061,800
Selling, general and administrative expenses	174,368
Operating income	<u>79,390</u>
Non-operating income(expenses)	(25,716)
Ordinary profit	<u>53,674</u>
Special profit	21,966
Special loss	99,552
Income(loss) before income taxes	<u>(23,911)</u>
Income taxes	(5,115)
Minority interests in subsidiaries	(559)
Net income(loss)	<u>¥ (18,236)</u>

CONSOLIDATED STATEMENT OF CASH FLOWS

(Year ended March 31, 2001)

(Millions of yen)

Cash flows from operating activities	¥ 241,334
Cash flows from investing activities	(42,716)
Cash flows from financing activities	(225,991)
Effect of exchange rate change on cash and cash equivalents	1,899
Net(increase)decrease in cash and cash equivalents	<u>(25,474)</u>
Cash and cash equivalents at beginning of year	51,522
Increase in cash and cash equivalents at beginning of year by newly consolidated subsidiaries	(1,285)
Cash and cash equivalents at end of year	<u>24,762</u>

CONSOLIDATED MAJOR FINANCIAL DATA

(Year ended March 31)

	2001	2000	1999	1998
Net sales(Millions of yen)	¥1,315,559	¥1,257,401	¥1,094,396	¥1,243,791
Operating income(loss)(Millions of yen)	79,390	44,853	26,307	74,786
Net income(loss)(Millions of yen)	(18,236)	12,429	(113,826)	8,459
Total assets(Millions of yen)	2,180,311	2,347,066	1,971,833	2,165,995
Shareholders' equity(Millions of yen)	305,567	331,425	372,529	482,179
Net income(loss)per share(Yen)	(5.68)	3.82	(35.00)	2.60
Operating margin(%)	6.0	3.6	2.4	6.0
Equity ratio(%)	14.0	14.1	18.9	22.3
Return on assets(%)	(0.8)	0.5	(5.8)	0.4

NON-CONSOLIDATED BALANCE SHEET

(March 31, 2001)

(Millions of yen)

ASSETS

Current assets:

Cash and time deposits /	¥ 4,122
Notes and accounts receivable:	
Trade	52,775
Associates	53,334
Other	10,481
Allowance for doubtful accounts	(100)
	<u>116,491</u>
Inventories	174,697
Deferred income taxes	15,025
Other current assets	3,849
Total current assets	<u>314,187</u>

Property, plant and equipment :

Land	86,949
Building and structures	632,005
Machinery and equipment	2,282,918
Construction in progress	18,531
	<u>3,020,405</u>
Accumulated depreciation	(2,375,197)
Total property, plant and equipment	<u>645,207</u>

Investments and other assets:

Investments in and advances to associates	236,381
Investments in securities	169,942
Deferred income taxes	32,775
Other	52,881
Less allowance for doubtful accounts	(9,414)
Total investments and other assets	<u>482,566</u>
Total assets	<u>¥ 1,441,961</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:

Short-term bank loans and commercial paper /	¥10,100
Current portion of long-term debt	139,820
Notes and accounts payable:	
Trade	44,066
Associates	77,176
Other	2,880
Accrued income taxes	62
Other current liabilities	90,745
Total current liabilities	<u>364,853</u>

Long-term liabilities :

Long-term debt	528,828
Accrued severance indemnities	46,766
Other liabilities	45,237
Total long-term liabilities	<u>620,832</u>
Total liabilities	<u>985,686</u>

Shareholders' equity :

Common stock	239,644
Additional paid-in capital	112,134
Legal reserve	40,688
Retained earnings	30,221
Net unrealized holding gains on securities	33,585
Total shareholder 's equity	<u>456,275</u>
Total liabilities and shareholders' equity	<u>¥ 1,441,961</u>

FINANCIAL STATEMENTS

NON-CONSOLIDATED STATEMENT OF INCOME

(Year ended March 31, 2001)

(Millions of yen)

Net sales	¥ 778,536
Cost of sales	645,922
Selling, general and administrative expenses	78,694
Operating income	53,920
Non-operating income(expenses)	(10,918)
Ordinary profit	43,002
Special profit	7,713
Special loss	95,893
Income(loss) before income taxes	(45,177)
Income taxes	(17,576)
Net income(loss)	¥ (27,600)

NON-CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

(Year ended March 31, 2001)

(Millions of yen)

	Number of shares issued (thousands)	Common stock	Additional paid-in capital	Legal reserve	Retained earnings	Net unrealized holding gains on securities
Balance at March 31, 2000	¥ 3,251,556	¥ 239,644	¥ 119,611	¥ 40,209	¥ 63,178	¥ -
Prior years 'tax effect						
Net income for the year					(27,600)	
Net unrealized holding gains on securities						33,585
Cash dividends					(4,877)	
Bonuses to directors and corporate auditors						
Transfer to legal reserve				479	(479)	
Conversion of convertible debentures to common stock						
Purchase of treasury stock	(59,600)		(7,476)			
Balance at March 31, 2001	¥ 3,191,956	¥ 239,644	¥ 112,134	¥ 40,688	¥ 30,221	¥ 33,585

NON-CONSOLIDATED MAJOR FINANCIAL DATA

(Year ended March 31)

	2001	2000	1999	1998
Net sales(Millions of yen)	¥778,536	¥765,924	¥836,240	¥960,655
Operating income(loss)(Millions of yen)	53,920	29,454	23,791	65,213
Net income(loss)(Millions of yen)	(27,600)	6,541	(62,265)	10,355
Total assets(Millions of yen)	1,441,961	1,513,393	1,681,793	1,856,037
Shareholders 'equity(Millions of yen)	456,275	462,644	456,102	515,602
Net income(loss)per share(Yen)	(8.52)	2.01	(19.14)	3.18
Dividends per share (Yen)	1.50	1.50	1.50	3.00
Operating margin(%)	6.9	3.8	2.8	6.8
Equity ratio(%)	31.6	30.6	27.1	27.5
Return on assets(%)	(1.9)	0.4	(3.7)	0.6

SHAREHOLDERS' INFORMATION

Head Offices

Tokyo Head Office
Hibiya Kokusai Building,
2-3, Uchisaiwaicho 2-chome,
Chiyoda-ku, Tokyo 100-0011,
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Tel : (81) 3-3597-3111
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1-28, Kitahonmachi-dori 1-chome,
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Fax: (81) 78-232-5080

Investor Relations Section

Tel : (81) 3-3597-3296
Fax: (81) 3-3597-3266
Finance Department
Tokyo Head Office

Capital

Common stock authorized
: 5,940,400,000 shares
Outstanding as of March 31, 2001
: 3,251,556,286 shares
¥239,644,544,475

Number of Shareholders (As of March 31, 2001)
219,034

Transfer Agent

The Chuo Mitsui Trust & Banking Co., Ltd.
7-1, Kyobashi 1-chome, Chuo-ku,
Tokyo 104-0031, Japan

Independent Certified Public Accountants
Century Ota Showa & Co.

Number of Employees (As of March 31, 2001)
9,916

Major Shareholders

The Chuo Mitsui Trust & Banking Co., Ltd.
The Dai-Ichi Kangyo Bank, Ltd.
Nippon Life Insurance Co.
Sinsei Bank, Ltd.
Japan Trustee Services Bank, Ltd.
The Sakura Bank, Ltd.
(Sumitomo Mitsui Banking Co.)
The Daiwa Bank, Ltd.
The Tokio Marine and Fire Insurance Co., Ltd.
Asahi Mutual Life Insurance Co.
The Toyo Trust & Banking Co., Ltd.

Stock Exchange Listings

Tokyo, Osaka, Nagoya,
Fukuoka, Sapporo

Annual Report on the Internet

If you are able to access the Internet on your computer, you will find Kawasaki Steel Corporation 's detailed Annual Report on the World Wide Web at :

<http://www.kawasaki-steel.co.jp/>