

## Strategic Direction

Kawasaki Steel Corporation (KSC) and its subsidiaries and affiliates (KSC Group) have decided to consolidate all business operations with NKK Corporation (NKK) with the aim of improving the competitiveness of the core steel business in a business environment of increasingly intense competition and restructuring the businesses of KSC and its group companies to achieve higher management efficiency. The KSC Group is endeavoring to further strengthen its business fundamentals and secure more stable and improving consolidated financial results.

In order to secure stable profits, the sales, research and development, and production divisions will act in an integrated manner to conduct reliable product development and technology development in line with the needs of respective customers. At the same time, the KSC Group will continue to expand and deepen the strategic alliances which it has built with overseas companies in the past several years. The KSC Group will also clarify each member company's role so as to maximize financial results on a consolidated basis and realize further improvements in financial fundamentals.

In addition, the KSC Group will make efforts to realize the synergistic effects of consolidation with NKK as quickly as possible through simultaneous implementation of business strategies and united operation between the two companies.

Finally, in the area of environment preservation, the KSC Group will continue to adopt thoroughgoing environmental protection measures, as it has in the past, fulfill its social responsibilities as expected by society, and operate its businesses in an environment- friendly manner so as to merit the sympathy and understanding of society.

### Consolidation with NKK

Subject to the approval at the annual shareholders' meeting, KSC and NKK will become 100% subsidiaries of a new company called JFE Holdings, Inc. in September 2002 by a stock-for-stock exchange method. JFE Holdings and its subsidiaries and affiliates (JFE Group) intend to realize world-class competitiveness by taking advantage of the two company groups' strong customer base, advanced technology, and state-of-the-art steel works and manufacturing plants, which boast the highest levels of efficiency, while creating an innovative corporate culture which accepts the challenges of a constantly changing business environment. By doing so, the JFE Group intends to achieve the following:

- (1) Further strengthening of the group's capabilities to respond to global customer requirements in the fastest manner
- (2) Enhancing credibility with shareholders and capital markets worldwide
- (3) Providing employees with greater challenges and opportunities
- (4) Contributing to local communities and environmental preservation

The JFE Group will endeavor to enhance its efficiency and profitability as a global company. Its financial targets are as follows:

Financial Targets [for FY 2005 ended March 31, 2006, on a consolidated basis]	
Ordinary income (*1)	¥200 billion
Interest-bearing debts outstanding	¥1,800 billion
Return on assets (*2)	6.5%
Return on sales (*3)	7.5%

Note) Sales in FY 2005 are assumed to be ¥2,600 billion (same level as in FY 2001).

\*1 Income before extraordinary profit and loss items

\*2 (Ordinary income + Interest expenses) / Total assets

\*3 Ordinary income / Sales

In April 2003, the businesses of KSC and NKK under JFE Holdings will be consolidated and reorganized by type of business, and the following new companies will be established: JFE Steel Corporation, JFE Engineering Corporation, JFE Urban Development Corporation, JFE R&D Corporation, and Kawasaki Microelectronics Inc. (already established in July 2001 by spin-off from KSC).

JFE Steel Corporation will adopt a product-wise management system, strengthening its responsiveness to customers' needs and control over the profitability of each product line. In order to realize the highest level of competitiveness by integrated operation of nearby steel works and to accelerate the harmonious merger of the two companies, the companies' four steel works (KSC's Chiba Works and NKK's Keihin Works in eastern Japan, KSC's Mizushima Works and NKK's Fukuyama Works in western Japan) will be reorganized into two works, to be called the East Works and West Works. JFE Steel Corporation will therefore have two major steel works and a specialty plant (KSC's Chita Works) which produces tubular steel products.

JFE Engineering Corporation will adopt a consolidated division system comprising divisions and functional group companies in order to respond flexibly to changes in the business environment, promote common business strategies with group companies, and maximize profits on a consolidated basis.

Note) JFE Steel Corporation and JFE Engineering Corporation will adopt a "corporate officer system" in order to accelerate the decision-making process and execution of business.

Both JFE Steel Corporation and JFE Engineering Corporation will have R&D functions so as to realize closely linked operation among product/technology development, manufacturing, and sales and marketing. The newly established JFE R&D Corporation will focus on research and development for common basic technologies and development of projects with growth potential to effectively realize the synergistic effects of the entire group.

The JFE Group will ultimately reorganize and restructure all subsidiaries and affiliates of KSC and NKK. However, as a first step, the JFE Group plans to merge subsidiaries operating similar business in the area of construction material and containers in April 2003. In the chemical business, discussions of a consolidation of KSC's chemical division and NKK's subsidiary, ADCHEMCO Corporation, are now underway.