Review and Outlook of Financial Results

■ Income Statement

Review of FY 2001 (fiscal year ended March 31, 2002)

During fiscal year 2001, the Japanese economy remained weak due to a sharp decrease in capital expenditure in the private sector, together with continuing low personal consumption and public investment. The economy was also significantly affected by a decrease in exports due to a slowdown in the US economy.

Under these circumstances, the KSC Group made thoroughgoing efforts to reduce costs and streamline assets in FY 2001, as the last year of the company's 2nd Mid-term Management Plan. However, in spite of these efforts, sales for FY 2001 decreased by 7.6% compared to the previous year, falling to ¥1,215.9 billion, and operating income and ordinary income also decreased to ¥43.8 billion (down 44.7%) and ¥24.3 billion (down 54.6%), respectively, impacted by the worsening economy.

<u>Steel</u>

In the Steel business segment, sales volume inched up, benefiting from an increase in exports to allied rolling mills, mainly in South Korea. However, despite higher prices for 13%Cr seamless pipe, the average sales price fell due to softening of the markets for other products. To overcome this situation, the KSC Group worked continuously to reduce costs and improve profitability.

On balance, consolidated sales in the steel business for FY 2001 decreased by ¥92.5 billion (down 9.3%) from the previous year, falling to ¥903.0 billion, and operating income decreased by ¥30.9 billion (down 46.7%), to ¥35.2 billion.

<u>Engineering</u>

Despite continuous efforts to return to the black, the Engineering business segment reported a deficit due to the weak Japanese economy and increasingly fierce competition.

<u>Chemical</u>

Operating profit in the Chemical business segment declined due to softening of the domestic markets for benzene and phthalic anhydride and a slowdown in the U.S. economy. On December 20, 2001, KSC entered into an agreement with a unit of General Electric Company, GE Plastics (with headquarters in Pittsfield, Massachusetts, USA), under which KSC will sell its LNP Engineering Plastics business to the GE unit.

In March 2002, KSC sold the stock of its wholly-owned subsidiary, Kawasaki Chemical Holdings Company Inc., which is the parent of Kawasaki LNP Inc., the company conducting the LNP Engineering Plastics business.

LSI and IT

In the LSI and IT business segment, the sales and operating profit of the LSI business have declined sharply since December 2001, and as a result, this segment fell into deficit. In July 2001, KSC split off its LSI Division as a wholly-owned subsidiary by the corporate split method, and its entire LSI business was transferred to a newly established company named Kawasaki Microelectronics, Inc.

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Lease and Group Finance

In the Lease and Group Finance business segment, the leasing business earned a stable operating income by concentrating its marketing activities on reliable customers, and the expanded cash management system in the Group Finance segment helped group companies reduce amounts of cash in hand. KSC sold the leasing business operated by its subsidiary, Kawasaki Enterprises, Inc., to Tokyo Leasing Co., Ltd. on March 29, 2002.

Consolidated Net Income

As mentioned above, ordinary profit for FY 2001 was ¥24.3 billion. KSC posted extraordinary profits, including profit on the sale of assets and profit on the creation of a retirement benefit trust, and extraordinary losses, including a write-down on investments in securities, financial assistance to an affiliated trading house, Kawasho Corporation, and expenses on special retirement payments. As a result, net income was ¥6.8 billion.

Omission of year-end dividend

In consideration of the fact that the business environment is expected to remain severe for KSC in FY 2002, together with the impact of the dividend payment on the company's capital structure, the Board of Directors of KSC decided to omit payment of a year-end dividend for FY 2001.

Outlook for FY 2002

No signs of recovery can be seen in either personal consumption or capital investment in Japan in the coming year, and, while the Asian economy appears to have bottomed out, the timing of a renewed expansion is uncertain. Thus, there is little room for optimism in the outlook for the Japanese economy in FY 2002.

In the Steel business segment, the business environment will remain difficult, with domestic demand falling due to the economic conditions outlined above. Moreover, where exports are concerned, there is concern that a trade conflict with the U.S. will force steel-exporting countries to shift their sales to Asia markets, creating even more intense competition in that region.

On the other hand, the KSC Group sees an important business opportunity in moves among its major customers to reduce their number of suppliers. This should allow KSC to increase its market share, and accordingly, the company is intensifying its efforts to improve customer satisfaction. The KSC Group also intends to strengthen the overseas joint ventures and tie-ups with foreign rolling mills which it has built over the past several years in order to secure stable demand for exports of semi-finished materials. Where sales prices are concerned, it is KSC’s policy not simply to accept requests for price discounts from customers but to respond in a deliberate manner with the aim of building long-term relationships of trust. KSC will also try to improve market prices by adopting “total inventory management,” in which production levels are tied to final demand. Finally, the company will continue to strengthen its cost reduction activities and will make concerted efforts to speed up the realization of synergistic effects of its merger with NKK.

In non-steel businesses segments, the environment will continue to be harsh, as in the Steel business segment, and the divestiture of the KSC Group’s leasing business and engineering plastic business will have a negative impact on operating profit. To overcome this situation, the KSC Group will make every possible effort to improve profits.

Consolidated sales for fiscal year 2002 are expected to be ¥1,100 billion, and operating profit, ordinary profit, and net income are estimated at ¥65 billion, ¥50 billion, and ¥25 billion, respectively.

■ Balance Sheet and Cash Flow Statement

Balance Sheet as of March 31, 2002

Total assets decreased by ¥249.3 billion, to ¥1,930.9 billion, due to depreciation, a write-down on investments in securities, and divestiture of the leasing business. Liabilities decreased by ¥230.6 billion, to ¥1,612.5 billion, as a result of a reduction in interest-bearing debt. Stockholders' equity decreased by ¥20.6 billion, to ¥284.9 billion, because of a decrease in net unrealized holding gains on securities.

Cash Flow Statement for FY 2001 (fiscal year ended March 31, 2002)

Operating activities generated ¥131.7 billion in cash flows. In investing activities, the company spent ¥76.1 billion, offsetting capital expenditures and proceeds on the disposal of assets. In financing activities, ¥21.1 billion were provided to prepare for repayment and redemption of debt scheduled for the 1st half of FY 2002.

Adding in the effects of foreign exchange rates, the balance of cash and cash equivalents at year-end was ¥102.9 billion, or an increase of ¥78.1 billion from March 2001.

Outlook for FY 2002

In FY 2002, while continuing to make necessary capital expenditures, the KSC Group will endeavor to increase profit, enhance the efficiency of investments, and streamline assets so as to improve return on assets and cash flow. The interest bearing debt is estimated at ¥1,000 billion at year-end (March 31, 2003), or a reduction of ¥146.3 billion from the end of the last fiscal year.

These figures are our best estimates based upon currently available information and include elements of uncertainty. Therefore, investors should refrain from making any investment decisions relying solely on these figures.