

Topics

JFE Group to be Established

Kawasaki Steel Corporation (KSC) and NKK Corporation (NKK) have entered into an Agreement for Consolidation under which the two companies will establish a new group and reorganize and integrate all their operations. The companies submitted the Agreement and obtained the approval from their respective annual shareholders' meeting in June 2002.

I. Name of New Group

The name of the new group will be the JFE Group. The letter J stands for Japan, F for Fe, which is the symbol of the chemical element iron, and E for Engineering. JFE also implies "Japan future enterprise," which embodies the image of a future-oriented Japanese business group with steel and engineering as its core businesses.

II. Corporate Mission

The JFE Group is determined to realize world-class competitiveness through its strong customer base, advanced technology, and high efficiency steel works and manufacturing plants, and to create an innovative corporate culture with a spirit of constant challenge. By doing so, the Group will pursue the following:

1. Further strengthening of the capabilities necessary to fulfill customers' needs on a global basis
2. Winning enhanced credibility with shareholders and capital markets worldwide
3. Providing employees with greater challenges and opportunities
4. Contributing to local communities as well as global environmental preservation

III. Establishment of Holding Company

1. Company Name, Location of Headquarters, and Board of Directors and Corporate Auditors

(Name)

JFE Holdings, Inc.

(Headquarters)

1-1-2 Marunouchi, Chiyoda-ku, Tokyo (current NKK Head Office)

(Board of Directors)

Chairman, Co-CEO, and Representative Director:

Kanji Emoto (currently Chairman, KSC)

President, Co-CEO, and Representative Director:

Yoichi Shimogaichi (currently Chairman, NKK)

Executive Vice President and Representative Director:

Cho Otani (currently Executive Vice President, NKK)

Executive Vice President and Representative Director:

Tetsuo Miyazaki (currently Executive Vice President, KSC)

Director (absentee):

Fumio Sudo (currently President and CEO, KSC)

Shigeharu Dote (currently Executive Vice President, NKK)

(Corporate Auditors)

Shinji Sakuwa (currently Corporate Auditor, KSC)

Tatsuo Hayashi (currently Senior Corporate Auditor, NKK)

Aritsugu Tashiro (currently Corporate Auditor, NKK)

Toshikuni Nishinohara (former Deputy President, Mizuho Holdings, Inc.)

2. Scheduled date for establishment of JFE Holdings

September 27, 2002

3. Functions

JFE Holdings will operate as a lean group headquarters which is responsible for strategic planning, risk management, accountability, and corporate communications for all subsidiaries and affiliates.

4. Stock Exchange Ratios

1,000 shares of KSC common stock for 100 shares of JFE Holdings common stock

1,000 shares of NKK common stock for 75 shares of JFE Holdings common stock

5. Capitalization

JFE Holdings will be capitalized at 100 billion yen.

IV. Management Structure after Reorganization of Operating Companies

1. Business Formation

By April 2003, the businesses of KSC and NKK under JFE Holdings will be regrouped and reorganized into the following main companies by business segment.

<u>Company name</u>	<u>Business segment</u>
JFE Steel Corporation	Steel
(Headquarters)	
2-2-3 Uchisaiwaicho, Chiyoda-ku, Tokyo (current KSC Tokyo Head Office)	

(Board of Directors)

Chairman of Board: Masayuki Hanmyo (currently President and CEO, NKK)

President: Fumio Sudo (currently President and CEO, KSC)

JFE Engineering Corporation Engineering

(Headquarters)

1-1-2 Marunouchi, Chiyoda-ku, Tokyo (current NKK Head Office)

(Board of Directors)

President: Shigeharu Dote (currently Executive Vice President, NKK)

JFE Urban Development Corporation Urban Development

Kawasaki Microelectronics Inc. * Semiconductors

* Established in July 2001 as a 100% subsidiary of KSC by separation of KSC's LSI business.

JFE R&D Corporation * Research and Development

* Please refer to Section 4. Research and Development, below.

2. Management of JFE Steel Corporation

- (1) JFE Steel will adopt a product-wise management system, strengthening the company's responsiveness to customers' needs and control over profitability by product line.
- (2) In order to realize the highest level of competitiveness by integrated operations of adjacent steel works, and to accelerate the consolidation process, the four steel works of KSC and NKK - Chiba Works, Keihin Works, Mizushima Works and Fukuyama Works - will be reorganized into two steel works, East Works and West Works. JFE Steel will therefore have two major steel works and Chita Works, which is specializing in production of pipes and tubes.

3. Management of JFE Engineering Corporation

JFE Engineering will adopt a consolidated division system consisting of 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.

4. Research and Development

The R&D operations of KSC and NKK will be reorganized as follows:

- (1) JFE Steel and JFE Engineering will each maintain R&D functions to realize

closely linked operations among product/technology development, manufacturing, and sales and marketing.

- (2) A new company called JFE Research and Development will be established to focus on research and development for common basic technologies and development of projects with growth potential in order to effectively realize the synergy effects of the group as a whole.

5. Reorganization of Subsidiaries and Affiliates

The JFE Group will reorganize and restructure all subsidiaries and affiliates of KSC and NKK. As a first step, JFE Holdings plans to merge the following businesses in April 2003:

- (1) Construction material:

Kawasaki Steel Metal Products & Engineering Inc.

Nippon Kokan Light Steel Kabushiki Kaisha

- (2) Containers *:

Kawasaki Steel Container Co., Ltd.

KOKAN DRUM COMPANY, LTD.

(*) Planned to be established in April 1, 2003 as JFE Container Co., Ltd.

In the chemical business, discussions on the consolidation of KSC's chemical division and NKK's subsidiary, ADCHEMCO Corporation, are now underway.

V. Financial Targets (Consolidated base, for fiscal year ending March 31, 2006)

The JFE Group will endeavor to enhance efficiency and profitability to match those of competitors in the worldwide. The Group's financial targets are as follows:

1. Financial Targets

By carrying out various profit improvement programs, as well as pursuing the synergy effects described below, the JFE Group intends to meet the following financial targets:

	Fiscal Year ended March 31, 2001	Fiscal Year ending March 31, 2006
(1) Ordinary Income (*1)	¥110 billion	¥200 billion
(2) Interest-bearing debts outstanding	¥2,530 billion	¥1,800 billion
(3) Return on assets (*2)	3.7%	6.5%
(4) Return on sales (*3)	4.1%	7.5%

Note) Sales in fiscal year ending March 2006 are assumed to be ¥2,600 billion (same level as fiscal year ended March 31, 2002).

(*1) Income before Extraordinary profit and loss items

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

(*3) Ordinary income / Sales

2. Synergy Effects

- (1) Reduction in overhead and related expenses: ¥30 billion
- (2) Reduction in procurement costs through volume discounts and unified specifications: ¥20 billion
- (3) Reduction in costs of production, maintenance, and logistics by optimized production allocation, and savings in capital expenditures by integrating investment programs and optimizing utilization of common facilities: ¥20 billion
- (4) More efficient R&D operations and exchange of technology and know-how: ¥10 billion
- (5) Total synergy effect: ¥80 billion

VI. Accelerated Realization of Synergy Effects

1. Synergy Effects in present fiscal year ending March 2003

In order to realize the synergy effects of the consolidation in the steel business segment earlier than originally scheduled, KSC and NKK have studied measures such as promoting OEM and sharing competitive technology through technological exchange. The JFE Group expects to actualize synergy effects totaling ¥20 billion by the end of the fiscal year ending March 2003. Details are as follows:

Items	Annual synergy effects
Sharing competitive technology through technological exchange and expanding areas of exchange	¥6 billion
Reducing capital expenditure by eliminating redundancies in capital expenditure programs and optimized utilization of common facilities, and promotion of OEM	¥10 billion
Reduction in procurement costs through volume discounts and unified specifications	¥4 billion
Total	¥20 billion

2. Blast Furnace Operation and Optimization of Production

(1) Blast Furnace Relining Schedule

- i) Relining of No. 2 blast furnace at NKK's Keihin Works will be postponed by one year and is now scheduled to be completed in the second half of the fiscal year ending March 2005.
- ii) No. 2 blast furnace at KSC's Mizushima Works will be relined in the second half of

the fiscal year ending March 2004 as originally scheduled, but modernization of the hot stoves will be postponed.

(2) Blast Furnace Operation

JFE Steel will have a total of eleven blast furnaces but is contemplating shutting down two units, as detailed below:

- i) As for Chiba Works, JFE Steel will close the No.5 blast furnace by the end of fiscal year ending March 2004 and operate only the No.6 blast furnace.
- ii) At Mizushima Works, the No.1 blast furnace has been used as a back-up while other blast furnaces are relined. As it becomes possible for JFE Steel to utilize iron from other works, the No.1 blast furnace of Mizushima Works will remain idle even at the time its No.2 blast furnace is relined.

3. Integration of Other Production Facilities

With regard to integration of production facilities other than blast furnaces, the two companies have been conducting studies focused on consolidating production lines and effectively utilizing production facilities in consideration of geographical factors and the uniqueness of the facilities.

Corporate Symbol

An eternally-rotating sphere will symbolize the JFE Group's stated mission. The endlessly-rotating globe represents a group constantly pursuing new opportunities by actively seeking out new contacts and by deepening its communication with all customers. The color blue stands for trust and profoundness and expresses the image of the corporation acting on the global stage and, by association with the sky and universe, infinite possibilities.



JFE

Kawasaki Steel, NKK and Thyssen Krupp Steel Sign Comprehensive Cooperation Agreement

Kawasaki Steel Corporation, NKK Corporation, and Thyssen Krupp Steel AG have signed a comprehensive cooperation agreement under which the three companies will cooperate and conduct joint activities in the field of flat-rolled carbon steel, focusing on automotive steel products and R&D in this area.

Adding further pressure to already-tough competition in price, quality, and services, automotive customers have increasingly been demanding global availability of steel materials for autos and automotive components. Leading steel producers are asked more and more frequently to participate in simultaneous engineering processes and to provide support in continuously optimizing the weight and cost of new car models. The three companies share the vision of creating a global supply network, as well as jointly developing R&D activities to meet these global needs of automotive customers. Under this agreement, the three companies have agreed to a license exchange and other cooperative activities.

After a careful study of the practical merits, the three companies agreed on the following items:

1. Technical License Exchange

The companies will mutually exchange technologies. The parties will provide technologies related to steel sheets such as coated panels with excellent formability and advanced know-how in tailored products in order to facilitate the expansion of their respective businesses with auto manufacturers with worldwide production operations.

2. Joint R&D Projects

The companies also intend to carry out joint R&D projects concerning the development of innovative high-tensile steel which simultaneously realizes high formability, coatability, and surface quality, as well as new coating technologies and application technologies that optimize processing (blanking, forming, painting, etc.) at the customer's plant.

The targets of the cooperation agreement will be realized through an executive committee consisting of top management representatives of the three companies, who will meet regularly to decide the issues regarding the overall cooperation strategy. Under the executive committee, working groups have been formed to develop specific projects such as material development, including high-tensile steels, coated steel development, and advanced steel application technology development.

Kawasaki Steel Concludes Agreement to Build and Operate Waste Treatment Facility for Kurashiki City

The 10-company Mizushima Industrial Complex Business Group, of which Kawasaki Steel Corporation is a leading member, made a successful bid for a project in Kurashiki City involving the construction and operation of a recycling type waste treatment facility for the city. The group was awarded the project on November 30, 2001.

Following the successful bid, a special purpose company (SPC) called Mizushima Eco-works Co., Ltd. was established in January of this year for the main purpose of operating the waste recycling business. After agreement on the entrusting contract was reached between the SPC and Kurashiki City, approval was given by the Kurashiki City Council on March 15 and the formal agreement was concluded.

Under the agreement, the operation period of this business is 20 years, from April 2005 to the end of March 2025. Construction of the facility will start after the environmental impact assessment has been completed, and commercial operation is scheduled to begin in April 2005.

The concept of this project is to simultaneously treat approximately 300 tons/day of municipal waste (burnable trash, incinerator ash and sewerage sludge) etc. from Kurashiki City and 250 tons/day of industrial waste mainly from the Mizushima Industrial Complex and Okayama Area. This will be the first case of waste treatment by a privately constructed, privately operated PFI process in Japan.

In this project, Mizushima Eco-works will plans to recycle 100% of wastes as usable resources using the Kawatetsu Thermoselect gasification and melting process, which was developed by Kawasaki Steel.