

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED MARCH 31, 2002 AND 2001

1 Basis of Presenting Non-Consolidated Financial Statements

Kawasaki Steel Corporation (the "Company") maintains its 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 notes to the non-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 are included solely for the convenience of the reader, using the approximate exchange rate at March 31, 2002, which was ¥133.25 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) Translation of Foreign Currencies

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

(b) Short-term investments, Investments in associates and Investments in securities

Securities are classified into four categories: trading securities, held-to-maturity debt securities, investments in associates, and other securities.

(Trading Securities)

The Company has no trading securities.

(Held-to-maturity debt 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 Company 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.

(Investments in associates)

Investments in associates are carried at cost. The cost is determined by the moving average method.

(Other securities)

Securities not classified as trading securities, held-to-maturity debt securities and investments in associates are classified as other securities. Marketable 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. Realized gains and losses and declines in value judged to be other than temporary on other securities are charged to income. Unmarketable other securities are carried at cost. The

cost is determined by the moving average method.

(c) 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.

(d) 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 on the declining-balance method.

The principal estimated useful lives are as follows:

| | |
|--------------------------|----------------|
| Buildings 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 depreciated cost and proceeds, are credited or charged to income in the year of disposal, and cost and accumulated depreciation are removed from the respective accounts.

(e) Accrued Severance Indemnities

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 translation obligation at the date of adoption, ¥36,165 million (\$271,410 thousand), is amortized in 5 years from fiscal year 2000, exclusive of ¥267 million (\$2,006 thousand) lump-sum amortized because of spin-off of LSI division.

(f) 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.

(g) Research and Development and Computer Software

Research and development expenditure is charged to income when incurred.

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

(h) Income Taxes

In accordance with accounting principles generally accepted in Japan, the Company recognizes deferred income taxes arising from temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements.

(i) 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 3,191,956 thousand for the years ended March 31 2002 and 2001, respectively.

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

3 Contingencies

At March 31, 2002 and 2001, the Company was contingently liable as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---------------------------|-----------------|-----------|------------------------------|
| | 2002 | 2001 | 2002 |
| Guarantees of loans | ¥ 5,616 | ¥ 5,580 | \$ 42,153 |
| Similar-to-guarantee acts | ¥ 46,728 | ¥ 290,220 | \$ 350,680 |

4 Leases

The Company leases certain building and structures, machinery and equipment, office space and other assets. Total lease payments under these leases were ¥4,149 million (\$31,138 thousand) and ¥6,195 million for the years ended March 31, 2002 and 2001, respectively.

Pro forma information on leased property such as acquisition costs, accumulated depreciation and future minimum lease payments under finance lease that do not transfer ownership of the leased property to the lessee on an “as if capitalized” basis for the years ended March 31, 2002 and 2001 was as follows:

| | Millions of yen | | |
|-----------------------------|-------------------------------|-----------------|------------------|
| | 2002 | | |
| | Machinery and equipment | Others | Total |
| Acquisition costs | ¥ 27,805 | ¥ 2,950 | ¥ 30,756 |
| Accumulated Depreciation | 16,339 | 1,885 | 18,224 |
| Net leased property | <u>¥ 11,466</u> | <u>¥ 1,065</u> | <u>¥ 12,531</u> |
| | 2001 | | |
| | Machinery and equipment | Othesr | Total |
| Acquisition costs | ¥ 41,728 | ¥ 4,105 | ¥ 45,833 |
| Accumulated Depreciation | 26,732 | 2,679 | 29,411 |
| Net leased property | <u>¥ 14,996</u> | <u>¥ 1,425</u> | <u>¥ 16,422</u> |
| | Thousands of U.S. dollars | | |
| | 2002 | | |
| | Machinery and equipment | Others | Total |
| Acquisition costs | \$ 208,675 | \$ 22,142 | \$ 230,817 |
| Accumulated depreciation | 122,620 | 14,149 | 136,769 |
| Net leased property | <u>\$ 86,055</u> | <u>\$ 7,993</u> | <u>\$ 94,048</u> |

Future minimum lease payments under finance leases as of March 31, 2002 and 2001 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---------------------|-----------------|-----------------|------------------------------|
| | 2002 | 2001 | 2002 |
| Due within one year | ¥ 3,223 | ¥ 5,261 | \$ 24,192 |
| Due after one year | 9,308 | 11,160 | 69,856 |
| Total | <u>¥ 12,531</u> | <u>¥ 16,422</u> | <u>\$ 94,048</u> |

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 non-consolidated statements of income, computed by the straight-line method, were ¥4,149 million (\$31,138 thousand) and ¥6,195 million for the years ended March 31, 2002 and 2001, respectively.

5 Income taxes

The Company is 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, 2002 and 2001.

The effective tax rate for the two years ended March 31, 2002 and 2001 differs from the statutory tax rate for the following reasons:

| | 2002 | 2001 |
|---|---------------|---------------|
| Statutory tax rate | 41.0 % | 41.0 % |
| Expenses not deductible for income tax purposes | 3.1 | (2.3) |
| Other | (1.0) | 0.2 |
| Effective tax rate | <u>43.1 %</u> | <u>38.9 %</u> |

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets at March 31, 2002 and 2001 are presented below:

| | Millions of yen | Thousands of U.S. dollars |
|--|-----------------|------------------------------|
| | 2002 | 2002 |
| Deferred tax assets: | | |
| Write-down of investments in securities | ¥ 21,443 | \$ 160,929 |
| Write-down of investments in associates | 19,013 | 142,689 |
| Operating loss carry-forwards | 13,774 | 103,375 |
| Allowance for doubtful accounts | 9,655 | 72,458 |
| Loss on disposal of tangible fixed assets | 3,929 | 29,492 |
| Write-down of inventories/real estate for sale | 2,859 | 21,458 |
| Accrued expenses | 2,690 | 20,188 |
| Others | 6,554 | 49,192 |
| Total deferred tax assets | <u>79,920</u> | <u>599,781</u> |
| Deferred tax liabilities: | | |
| Unrealized holding gains on securities | (3,558) | (26,709) |
| Reserve for advanced depreciation of property | (703) | (5,283) |
| Reserve for special repairs | (345) | (2,595) |
| Others | (193) | (1,454) |
| Total deferred tax liabilities | <u>(4,802)</u> | <u>(36,041)</u> |
| Net deferred tax assets | <u>¥ 75,117</u> | <u>\$ 563,732</u> |

| | <u>Millions of yen</u> | |
|---|------------------------|-----------------|
| | <u>2001</u> | |
| Deferred tax assets: | | |
| Operating loss carry-forwards | ¥ | 25,896 |
| Write-down of investments in securities | | 19,105 |
| Accrued severance indemnities | | 15,506 |
| Write-down of investments in associates | | 13,012 |
| Loss on disposal of tangible fixed assets | | 4,031 |
| Accrued expenses | | 2,636 |
| Others | | 7,976 |
| Total deferred tax assets | | <u>88,165</u> |
| Deferred tax liabilities: | | |
| Unrealized holding gains on securities | | (23,338) |
| Reserve for advanced depreciation of property | | (14,706) |
| Others | | (2,319) |
| Total deferred tax liabilities | | <u>(40,364)</u> |
| Net deferred tax assets | ¥ | <u>47,800</u> |

6 Special Profit (Loss)

In March 31, 2002 and 2001, special profit (loss) consisted of the following:

| | <u>Millions of yen</u> | | <u>Thousand of U.S. dollars</u> |
|---|------------------------|-------------------|-------------------------------------|
| | <u>2002</u> | <u>2001</u> | <u>2002</u> |
| Profit on sales of property, plant and equipment | ¥ 21,221 | ¥ - | \$ 159,261 |
| Profit on sales of investments in securities | 2,197 | 6,069 | 16,493 |
| Profit on sales of investments in associates | 1,739 | 1,644 | 13,052 |
| Reversal of allowance for special repairs | 6,924 | - | 51,969 |
| Profit on creation of retirement benefit trust | 35,270 | - | 264,691 |
| Loss on disposal of tangible fixed assets | - | (7,707) | - |
| Write-down of investments in securities | (13,792) | (51,105) | (103,509) |
| Write-down of investments in associates | (16,643) | (9,079) | (124,907) |
| Write-down of inventories /real estate for sale | (3,486) | - | (26,167) |
| Allowance for doubtful receivables in and advances to associates | - | (6,616) | - |
| Allowance for doubtful receivables in and advances | (19,047) | - | (142,947) |
| Loss on financial assistance to Kawasho Corp. | (34,500) | - | (258,912) |
| Loss on restructuring of businesses | - | (8,274) | - |
| Expenses on special retirement payments | (4,678) | (5,877) | (35,113) |
| Amortization of transition obligation on accrued severance indemnities | (7,538) | (7,233) | (56,570) |
| | <u>¥ (32,334)</u> | <u>¥ (88,179)</u> | <u>\$ (242,659)</u> |

7 Subsequent Event

(a) The Agreement for Consolidation of Kawasaki Steel and NKK

Kawasaki Steel Corporation ("KSC") and NKK Corporation ("NKK") have entered into the Agreement for Consolidation, which was approved at the respective both annual shareholders' meetings on June 26, 2002.

1. Establishment of JFE Holdings, Inc.

KSC and NKK will jointly establish a Holding Company and become respectively a 100% subsidiary of the Holding Co. by the "stock-for-stock exchange" method on September 27, 2002.

2. Conditions of Stock-for-Stock Exchange

(1) Scheduled date for Stock-for-Stock Exchange

September 26, 2002

(2) 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

3. Capital of JFE Holdings, Inc.

The capital will be 100 billion yen, and the rest of total shareholder's equities of KSC and NKK on the date for Stock-for-Stock Exchange will be Capital surplus as Additional paid-in capital.