

Share Exchange of Kawasaki Heavy Industries and NIPPI Corporation

Kawasaki Heavy Industries, Ltd. (hereinafter, KHI), and NIPPI Corporation (hereinafter, NIPPI) are pleased to announce that, upon the resolutions adopted at their respective Board of Directors meetings held today, both companies have entered into a Share Exchange Agreement, to transform NIPPI into a wholly owned subsidiary (100% share ownership) of KHI.

Details of the Share Exchange

1. Objectives of the Share Exchange

In 1964, KHI and NIPPI concluded a memorandum regarding an operating alliance, and, in 1970, to further strengthen this alliance, KHI invested in the shares of NIPPI. Subsequently, KHI and NIPPI (hereinafter, the Two Companies) have worked closely together in the aerospace industry.

In recent years, KHI has positioned aerospace as one of its core businesses and is allocating resources to this business field on a priority basis, while also actively pursuing new business programs in the aerospace field and working to expand these activities. On the other hand, NIPPI has developed its operations through the pursuit of activities focused on the aerospace business that have ranged from manufacturing parts for aircraft fuselages and space satellites to the maintenance of aerospace equipment.

The Two Companies play an important role among the top five companies in Japan's aircraft industry. However, looking to the future, the Two Companies have decided that the best course of action to enable them to make dynamic leaps forward in their development is to further specialize in their respective fields of strength, to differentiate their products and services, and to draw on the comprehensive capabilities of the KHI Group by sharing the resources that are necessary to the further development of their respective aerospace business operations, including technology, know-how, and manufacturing facilities. Accordingly, the Two Companies reached agreement to conduct the share exchange described herein.

2. Terms and Conditions of Share Exchange

(1) Schedule

August 27, 2002	Board of Directors of both companies approve the Share Exchange Agreement
August 27, 2002	Signing of the Share Exchange Agreement
December 2002 (planned)	Approval of the Share Exchange Agreement at NIPPI's shareholders' meeting
April 1, 2003 (planned)	Share Exchange

Under the provisions of Article 358 of the Commercial Code of Japan (regarding Simplified Share Exchanges), a vote by the Meeting of Shareholders of KHI to approve the Share Exchange Agreement has not been scheduled.

(2) Share Exchange Ratio

At the request of KHI, Nomura Securities Co., Ltd. (hereinafter, Nomura Securities), and, at the request of NIPPI, Global Management Directions Limited (hereinafter, GMD) computed the ratios for the Share Exchange. KHI and NIPPI have held discussions, making reference to these computations, and the following ratio for the Share Exchange was agreed upon.

	KHI (Parent company)	NIPPI (Wholly owned subsidiary)
Exchange Ratio	1	1.40

Notes:

(i) Share Exchange Ratio

For each share of NIPPI, 1.40 shares of KHI stock will be distributed to holders of NIPPI shares. However, no shares will be distributed for the shares of NIPPI held by KHI (13,043,363 shares).

(ii) Methods and Basis of Computation by Third-Party Institutions

Nomura Securities based its analysis regarding KHI on the average stock market price method and the DCF method (discounted cash flow method). Regarding NIPPI, Nomura Securities based its analysis on the average stock market price method, the DCF method, and a comparison with comparable companies method. Thereupon, Nomura Securities calculated the ratios for the Share Exchange taking into overall account the results of computations made under these methods.

GMD conducted its analysis regarding KHI and NIPPI based on the market price method, the DCF method, and the adjusted net asset value method. Thereupon, GMD computed the ratios for the Share Exchange taking into overall account the results of computations made under these methods.

(iii) Number of Shares of KHI Stock to be issued at the time of the Share Exchange:

Common shares: 52,796,536

(iv) Starting date for computation of cash dividends on the new shares: April 1, 2003

(3) Payments accompanying the Share Exchange

No monetary payments will be made in connection with the Share Exchange.

3. Profile of the Two Companies Under Share Exchange

(As of March 31, 2002)

Trade Name	Kawasaki Heavy Industries, Ltd. (Parent company)	NIPPI Corporation (Wholly owned subsidiary)
Business Lines	Manufacturing, sales, etc., of the following products and their parts: ships and naval vessels, rolling stocks, civil engineering and construction machinery, crushing plants, aircraft, jet engines, gas turbines, prime movers, precision machinery, plant engineering and industrial equipment, boiler plants, environmental control plants, steel structures, motorcycles, industrial robots, etc.	Manufacturing of aircraft (including parts), maintenance and modification of aircraft, manufacturing of rocket parts and space equipment, target systems, manufacturing of non-destructive inspection systems and industrial fans, etc.
Date of Incorporation	October 15, 1896	May 2, 1949
Head Office	Chuo-ku, Kobe, Hyogo	Kanazawa-ku, Yokohama, Kanagawa
Representative	Masamoto Tazaki, President	Yoshimasa Tanaka, President
Capital Stock	¥81,426 million	¥6,048 million
Shares Issued	1,390,595,000 shares	50,755,000 shares
Shareholders' Equity	¥142,206 million	¥17,611 million
Total Assets	¥1,017,272 million	¥36,860 million
Financial Closing Date	March 31	March 31
No. of Employees	14,067	1,284
Major Customers	Private companies in the manufacturing and nonmanufacturing sectors in Japan and overseas and government agencies	Japan Defense Agency, Kawasaki Heavy Industries, Ltd., Mitsubishi Heavy Industries, Ltd., U.S. Navy in Japan, and others
Major Shareholders and Shareholdings	Japan Trustee Services Bank, Ltd. (Trust Account) 5.04% Mizuho Trust Retirement Benefit Trust, DKB Account, Retruster: Trust & Custody Services Bank, Ltd. 4.34% Nippon Life Insurance Company 4.12% The Tokio Marine and Fire Insurance Co., Ltd. 3.68%	Kawasaki Heavy Industries, Ltd. 25.70% Japan Airlines 6.54% The Dai-ichi Mutual Life Insurance Company (Standing Proxy: Trust & Custody Services Bank, Ltd.) 4.97% The Dai-ichi Kangyo Bank, Limited (Standing Proxy: Trust & Custody Services Bank, Ltd.) 4.82%
Major Banks	The Dai-ichi Kangyo Bank, Limited Sumitomo Mitsui Banking Corporation The Industrial Bank of Japan, Limited The Bank of Tokyo-Mitsubishi, Ltd.	The Dai-ichi Kangyo Bank, Limited The Chuo Mitsui Trust and Banking Company, Limited Sumitomo Mitsui Banking Corporation The Bank of Yokohama
The Relationship Between the Two Companies	Capital relationship	KHI owns shares in NIPPI (25.70% of the outstanding shares of NIPPI)
	Personnel relationship	Four former employees of KHI have become regular employees of NIPPI
	Transaction relationship	Buying and selling of products and parts

Note: The Dai-ichi Kangyo Bank, Limited, The Industrial Bank of Japan, Limited, and The Fuji Bank, Limited, consolidated their activities on April 1, 2002, to become Mizuho Bank, Ltd., and Mizuho Corporate Bank, Ltd.

4. Financial Results (for the most recent three fiscal years)

<Non-consolidated>

(in millions of yen, except per share amounts)

Fiscal Year ended	Kawasaki Heavy Industries, Ltd. (Parent company)			NIPPI Corporation (Wholly owned subsidiary)		
	March 2000	March 2001	March 2002	March 2000	March 2001	March 2002
Net sales	944,770	850,801	914,616	25,434	22,044	27,597
Operating income (loss)	(9,850)	(2,976)	25,258	1,073	824	1,433
Recurring income (loss)	(22,026)	(3,806)	12,021	628	773	1,243
Net income (loss)	(16,488)	(12,663)	7,863	386	312	168
Net income (loss) per share (yen)	(11.85)	(9.10)	5.65	7.61	6.16	3.32
Cash dividends per share (yen)	—	—	—	5.00	5.00	5.00
Shareholders' equity per share (yen)	101.62	101.77	102.26	349.02	349.59	347.06

5. Changes after the Share Exchange

(1) The names, lines of business, location of the head offices of the companies: No changes will be made after the Share Exchange

(2) Capital Stock and Capital Surplus of KHI

(i) Capital Stock : No increase in Capital Stock

(ii) Capital surplus:

The increase in capital surplus will be computed by multiplying the value of net assets of NIPPI on the date of the Share Exchange by the ratio of the shares of KHI transferred as a result of the Share Exchange to the total number of NIPPI shares outstanding.

(3) Effects on the Financial Statements of KHI

NIPPI is an affiliated company of KHI accounted for by the equity method, but, as a result of the Share Exchange, NIPPI will become a fully consolidated subsidiary of KHI for the fiscal year ending March 31, 2004. There will be no effects on the financial statements for the current fiscal year.

Note that the consolidated net sales of the Aerospace Business Segment of KHI are expected to increase approximately 10% as a result of the consolidation of the net sales of NIPPI.