

Notice Concerning Issuance of Euro Yen Convertible Bonds due 2011
(convertible bonds type - bonds with stock acquisition rights,
tenkanshasaigata shinkabu yoyakuken-tsuki shasai)

The Board of Directors of Kawasaki Heavy Industries, Ltd. (KHI), at its meeting on September 2, 2004, has resolved on issuance of Euro Yen Convertible Bonds due 2011 (convertible bonds type - bonds with stock acquisition rights, tenkanshasaigata shinkabu yoyakuken-tsuki shasai). Details of this resolution are as follows.

1. Name of issue:

Euro Yen Convertible Bonds due 2011 of Kawasaki Heavy Industries, Ltd. (convertible bonds type – bonds with stock acquisition rights, tenkanshasaigata shinkabu yoyakuken-tsuki shasai) (hereinafter referred to as the “Bonds”, which term shall, unless the context requires otherwise, include stock acquisition rights incorporated in the Bonds; and the stock acquisition rights attached thereto are hereinafter referred to as the “Stock Acquisition Rights”)

2. Total amount of issue of the Bonds:

Grand total of ¥22,000,000,000 and an aggregate principal amount of the Bonds which are additionally issued pursuant to exercise of the Option(as set forth in Item7.(a) below) granted to the Managers, Nomura International plc being the Lead Manager, and an aggregate principal amount of replacement Bond Certificate that may be issued against appropriate evidence and indemnity in case of loss, theft or destruction of any Bond Certificate.

3. Issue price of the Bonds:

100% of the principal amount of the Bonds.

4. Issue price of a Stock Acquisition Right:

Zero.

5. Rate of interest:

No interest will accrue on the Bonds.

6. Date of payment and date of issuance:

September 21, 2004 (London time).

7. (a) Place and Method of Offering / (b) Offer price of the Bonds:

(a) Offering to overseas markets mainly in Europe (except for the U.S.) through underwriting of the principal amount of the Bonds by the Managers, Nomura International plc being the Lead Manager. KHI has granted the Managers an option, exercisable at any time up to and including September 15, 2004 (London time) to subscribe under certain circumstances up to a further ¥3,000,000,000 aggregate principal amount of the Bonds.

(b) 102.5% of the principal amount of the Bonds.

8. Particulars of the Stock Acquisition Rights:

(1) Class and number of Shares to be acquired upon exercise of the Stock Acquisition Rights:

(a) Class of Shares:

Common stock of KHI

(b) Number of Shares:

The number of Shares to be issued or transferred to the Bondholder (references hereinafter to the word "acquired" used in conjunction with the Shares shall be read as including both the words "issued" and "transferred", and the word "acquisition" shall be construed accordingly) exercising the Stock Acquisition Right will be determined by dividing the aggregate Issue Price of the Bonds deposited at the same time upon exercise of the Stock Acquisition Right by the Conversion Price (as determined in accordance with Paragraph 8.(3)(b) below). Fractions of a Share will not be issued upon exercise of any Stock Acquisition Right and no adjustment or cash payment will be made in respect thereof. However, if more than one Stock Acquisition Right is exercised at any one time by the same Bondholder, the number of Shares which shall be acquired upon exercise of such Stock Acquisition Rights shall be calculated on the basis of the aggregate principal amount of the Bonds to which such Stock Acquisition Rights are attached. If the number of Shares to be acquired by the Bondholder exercising the Stock Acquisition Right does not constitute a unit of 1,000 Shares or an integral multiple thereof, the Bondholder will be deemed to have exercised his/her right to request KHI for purchase of the Shares not constituting a unit as set forth in the Commercial Code and, consequently, cash adjustment

will be made in respect thereof.

(2) Total number of Stock Acquisition Rights to be issued:

Grand total of 22,000 and the number obtained by dividing the aggregate principal amount of the Bonds which are additionally issued pursuant to exercise of the Option (as set forth in Item 7.(a) above) by ¥1,000,000 and an additional number obtained by dividing the aggregate principal amount of replacement Bond Certificate that may be issued against appropriate evidence and indemnity in case of loss, theft or destruction of any Bond Certificate, by ¥1,000,000.

(3) Amount to be paid upon exercise of the Stock Acquisition Right and the Conversion Price:

(a) Amount to be paid upon exercise of a Stock Acquisition Right is equal to the issue price of the Bond.

(b) The price at which a Share shall be acquired upon exercise of the Stock Acquisition Right (hereinafter referred to as “Conversion Price”) will initially be determined by a Representative Director of KHI referring to the investor’s demands and other market factors, pursuant to the authorization of the Board of the Directors; provided that such initial Conversion Price shall not be less than 1.3 times the Closing Price of ordinary trading on the Tokyo Stock Exchange, Inc. on the date of the execution of the Subscription Agreement or the day before (Tokyo time).

(4) Rationale for determining the issue price of the Stock Acquisition Right and the amount to be paid upon its exercise:

Considering that a Stock Acquisition Right is attached to a Bond and a Stock Acquisition Right and a Bond are mutually and closely interrelated as the Stock Acquisition Right is not capable to be transferred separately from the Bond, the Bond shall lapse upon exercise of the Stock Acquisition Right due to the substitute payment, and the exercise period of the Stock Acquisition Right shall be expired if the Bond is redeemed prior to its maturity; and the value of the Stock Acquisition Right and the economical value to be obtained by KHI upon the issue of the Bonds with Stock Acquisition Right with the coupon rate thereof and issue price thereof and on the other terms and conditions thereof, as a result of attaching the Stock Acquisition Right, the issue price has been determined to be zero (0). Since the Bond is a bond with stock acquisition right of convertible bonds type, the amount to be paid upon exercise of a Stock Acquisition Right shall be equivalent to the issue price, and initial Conversion Price shall be the amount to be determined in accordance with Paragraph (3)(b) above.

(5) Adjustment of the Conversion Price:

If KHI shall issue or transfer the Shares for a consideration per Share receivable by KHI, less than the current market price per Share of common stock of KHI subsequent to the issue of the Bonds, the Conversion Price will be adjusted by the following formula:

$$\text{Conversion Price after adjustment} = \text{Conversion Price before adjustment} \times \frac{\text{Number of Shares outstanding} + \frac{\text{Number of Shares newly issued or transferred} \times \text{Issue or transfer price per Share}}{\text{Current market price}}}{\text{Number of Shares outstanding} + \text{Number of Shares newly issued or transferred}}$$

In this formula, “Number of Shares outstanding” means the total number of Shares of common stock of KHI issued and outstanding other than the Shares held by KHI as treasury stock.

The Conversion Price will also be subject to appropriate adjustment in case of a stock split, consolidation of shares, an issue by KHI of rights to acquire Shares of common stock of KHI at a consideration per Share receivable by KHI less than the current market price per Share (including those attached to the bonds), or occurrence of certain other events.

(6) Amount of a portion of the issue price of the Shares to be issued upon exercise of the Stock Acquisition Rights, which is transferred to stated capital:

The amount to be transferred to stated capital shall be the Conversion Price (if adjusted pursuant to (5) above, Conversion Price after adjustment) multiplied by 0.5, with any fraction less than one yen being counted as a full yen.

(7) Exercise period of the Stock Acquisition Rights:

On and after October 12, 2004, up to, and including, the closing time of business on September 16, 2011 (local time where the exercise is requested). Provided, however, (i) in case of the early redemption as set out in Item 9.(2)(a), (b) and (c) , then up to the close of business (local time where the exercise is requested) on the third business day in Tokyo prior to the date scheduled for redemption thereof, (ii) in case of the early redemption as set out in Item 9.(2)(d),

then up to the time when the relevant notice of redemption is deposited at the specified office of the Agent, (iii) in case that such Bond shall become due and repayable as set out in Item 9.(3), then up to the time when such Bond becomes so due and payable and (iv) in case of the purchase and cancellation as set out in Item 9.(4), then up to the day on which the Bonds are cancelled or delivered for cancellation. In no event, the Stock Acquisition Right shall be exercised after September 16, 2011. Upon expiration of the Exercise Period as above, all the Stock Acquisition Right outstanding will lapse and cease to be exercisable or valid for any purposes.

(8) Other conditions to the exercise of Stock Acquisition Rights:

No Stock Acquisition Right may be exercised in part only.

(9) Events and conditions of the cancellation of Stock Acquisition Right:

No event of the cancellation of Stock Acquisition Right is provided.

(10) Handling of Shares to be issued upon exercise of the Stock Acquisition Rights during a dividend accrual period:

KHI will pay the full amount of annual dividend or interim dividend (being a cash distribution pursuant to Article 293-5 of the Commercial Code), if any, on the Shares issued upon exercise of the Stock Acquisition Rights during a dividend accrual period (currently, a six-month period ending on 31st of March and 30th of September) during which the relevant stock acquisition date falls as if that exercise had taken effect at the beginning of such dividend accrual period.

9. Particulars of the Bonds:

(1) Redemption at maturity:

The Bonds will be redeemed on September 30, 2011 at 100 % of their principal amount.

(2) Redemption prior to maturity:

(a) Early redemption pursuant to the provision of 130% call option:

On and after September 30, 2007, KHI may, having given not less than 30 nor more than 60 days' notice to the Bondholders (which notice shall be irrevocable), redeem all, but not some only, of the Bonds then outstanding at 100% of their principal amount, provided, however, that no such redemption may be made unless the last reported selling price (the

"Closing Price") (regular way) of Shares on the Tokyo Stock Exchange, Inc. (the "Exchange") of the Shares for each of 30 consecutive Trading Days (as defined below), the last of which occurs not more than 30 days prior to the date upon which the notice of such redemption is first published, is at least 130% of the Conversion Price (as defined in Item 8.(3)(b)) in effect on each such trading day.

The term "Trading Day" means a day when the Tokyo Stock Exchange, Inc. is open for business, but does not include a day when no such last selling price is reported.

(b) Early redemption due to change of taxation, etc.:

The Bonds then outstanding may also be redeemed at the option of KHI in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice (which notice shall be irrevocable), at 100% of their principal amount thereof, if KHI satisfies the Trustee that it has or will become obliged to pay additional amounts pursuant to the covenant as a result of any change in, or amendment to, the laws or regulations or taxation rule of Japan and such obligation cannot be avoided by KHI taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which KHI would be obliged to pay such additional amounts were a payment in respect of the Bonds then due.

(c) Early redemption in case that KHI becomes wholly-owned subsidiary of another company due to kabushiki-kokan or kabushiki-iten:

In the case of a resolution being passed at a general meeting of shareholders of KHI for KHI to become a wholly-owned subsidiary of another corporation by way of kabushiki-kokan or kabushiki-iten, then, under certain conditions, KHI may, at its option, having given not less than 30 nor more than 60 days' notice to Bondholders (which notice shall be irrevocable), redeem all, but not some only, of the Bonds then outstanding at the following redemption prices (expressed as a percentage of the principal amount of the Bonds).

From September 21, 2004 to September 29, 2004	107%
From September 30, 2004 to September 29, 2005	106%
From September 30, 2005 to September 29, 2006	105%
From September 30, 2006 to September 29, 2007	104%
From September 30, 2007 to September 29, 2008	103%
From September 30, 2008 to September 29, 2009	102%
From September 30, 2009 to September 29, 2010	101%
From September 30, 2010 to September 29, 2011	100%

(d) Early redemption at the Bondholder's option:

The holder of any Bond is entitled, at his option, to require KHI to redeem such Bonds on September 30, 2008 at 100% of their principal amount. To exercise such option, the holder of such Bond shall deposit at the office of the Agent not less than 30 nor more than 60 days prior to the redemption date above, a notice of redemption in the predetermined form, together with such Bond Certificate.

(3) Redemption due to the event of defaults:

If, upon the occurrence of certain events, including default in the payment with respect to the Bonds, as described in the Terms and Conditions of the Bonds, the Trustee gives notice to KHI that the Bonds are immediately due and repayable pursuant to the Terms and Conditions of the Bonds, the Bonds become immediately due and repayable and KHI shall forthwith redeem the Bonds then outstanding at 100% of their principal amount.

(4) Purchase and cancellation:

KHI and/or any of its Subsidiaries may at any time purchase Bonds in the open market or otherwise. Such Bonds may, at the option of KHI or the relevant Subsidiary, be held or resold. Bonds that have been purchased by KHI may, at the option of KHI, be cancelled, at which time the Stock Acquisition Rights incorporated therein shall simultaneously be deemed to be waived and forfeited without any action to be taken by KHI. Bonds that have been purchased by the relevant Subsidiary may, at the option of the relevant Subsidiary, be delivered for cancellation, at which time the Stock Acquisition Rights incorporated therein shall simultaneously be deemed to be waived and forfeited without any action to be taken by such Subsidiary or KHI.

(5) Form of Bond Certificate:

Bond Certificate in bearer form representing Bonds with Stock Acquisition Rights.

(6) Security or Guarantee:

Not applicable.

(7) Financial Covenants:

Negative pledge

10. Listing:

The Bonds are scheduled to be listed on the London Stock Exchange.

11. Substitute Payment:

When the Bondholder exercises the Stock Acquisition Right, the Bondholder exercising such Stock Acquisition Right shall be deemed to make a request to KHI that, in lieu of the full redemption of the relevant Bond, KHI treat the full amount required to be paid upon exercise of the Stock Acquisition Right relating to the Bond, as set forth under Items 7 and 8 of paragraph 1 of Article 341-3 of the Commercial Code.

12. Others (for reference)

(a) Use of Proceeds:

The proceeds will be applied towards KHI's capital expenditure requirements and repayment of KHI's long-term debt.

(b) KHI's Equity Finance in the last three years

Euro Yen Convertible Bonds due 2010 (convertible bonds type - bonds with stock acquisition rights, tenkanshasaigata shinkabu yoyakuken-tsuki shasai)

Total amount of issue of the Bonds : ¥25,000,000,000

Date of issuance : December 8, 2003

The Conversion Price : ¥182

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