

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

Kawasaki Heavy Industries, Ltd. (KHI) notifies the decision of the following terms and conditions of Euro Yen Convertible Bonds due 2011 (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"), issuance of which was resolved by the Board of Directors of KHI on September 2, 2004.

1. Terms and conditions of the Stock Acquisition Rights:

(1) Issue price of a Stock Acquisition Right:

Zero.

2. Amount to be paid upon exercise of the Stock Acquisition Right:

Same as the issue price of the Bond.

* Conversion Price: ¥232 per Share

Price of shares of Kawasaki Heavy Industries, Ltd. (KHI)'s common stock (the "Shares"), etc. as of the date of decision (September 2, 2004) 【for reference only】 :

① Closing Price of the Shares at the Tokyo Stock Exchange, Inc.: ¥165

② Up-rate obtained by using the following formula:

$$\left[\left(\frac{\text{Conversion Price}}{\text{Stock Price(Closing Price)}} - 1 \right) \times 100 \right]: 40.61\%$$

3. The amount to be transferred to stated capital:

¥116 per Share

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 2. above.

***Details of the Bonds 【for reference only】**

(1) 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 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.

(2) The date of resolution on issuance:

September 2, 2004.

(3) Date of payment and date of issuance:

September 21, 2004 (London time).

(4) 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 at KHI's option, 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 at the Bondholder's option, 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, then up to the time when such Bond becomes so due and payable and (iv) in case of the purchase and cancellation, 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.

(5) Maturity date:

September 30, 2011

These materials are not an offer of securities for sale into the United States. The securities may not be offered or sold in the United States unless they are registered or exempt from registration and any public offering of securities to be made in the United States will be made by means of a prospectus that will contain detailed information about the Issuer and management, as well as financial statements.