

Notice Concerning Issuance of Euro Yen Convertible Bonds due 2010
(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 November 19, 2003, has resolved on issuance of Euro Yen Convertible Bonds due 2010 (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 2010 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:

¥25,000,000,000 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. (a) Issue price of the Bonds / (b) Offer price of the Bonds:

- (a) 100% of the principal amount of the Bonds.
- (b) 102.5% of the principal amount of the Bonds.

4. Issue price of a Stock Acquisition Right:

Zero.

5. Date of payment and date of issuance:

8th December, 2003 (London time).

6. Rate of interest:

No interest will accrue on the Bonds.

7. Form of Bond Certificate:

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

8. Place and Method of Offering:

Offering to overseas markets mainly in Europe (except for the U.S.) through underwriting of the principal amount of the Bonds by UBS Limited.

9. 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 9.(4)(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. 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:

25,000 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) Number of the Stock Acquisition Rights to be attached to the Bond:

1 (one) Stock Acquisition Right per Bond

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

(a) Amount to be paid upon exercise of the 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 be determined by Masamoto Tazaki, Representative Director or Masatoshi Terasaki, Representative Director on the date of execution of the Subscription Agreement in relation to the Bonds, in the range of 40% to 60% of the closing price of ordinary trading on Tokyo Stock Exchange, Inc. on the date of the execution of the Subscription Agreement or the day before (the “Closing Price”) above the Closing Price, and referring to the investor’s demands and other market factors, pursuant to the authorization of the Board of the Directors.

(5) 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 that the theoretical economical value of the Stock Acquisition Right on the assumption of the initial Conversion Price to be determined in accordance with Paragraph 9.(4)(b) above 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 9.(4)(b) above.

(6) Adjustment of the Conversion Price:

If KHI shall issue and deliver 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:

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

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, etc. or certain other cases as set out in the Terms and Conditions of the Bond.

(7) Amount of a portion of the issue price of the Shares to be issued upon exercise of the Stock Acquisition Rights, which is not transferred to stated capital:

The amount of the Conversion Price (if adjusted pursuant to 9.(6) above, Conversion Price after adjustment) deducted by the amount to be transferred to stated capital. The amount to be transferred to stated capital shall be the Conversion Price (if adjusted, Conversion Price after adjustment) multiplied by 0.5, with any fraction less than one yen being counted as a full yen.

(8) Exercise period of the Stock Acquisition Rights:

On and after 22nd December, 2003, up to, and including, the closing time of business on 16th September, 2010 (local time). Provided, however, in case of the early redemption as set out in Item 10.(3)(a), (b) and (c) , then up to the close of business on the third business day in Tokyo prior to the date fixed for redemption thereof.

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

In case that the Bond shall become due and repayable, no Stock Acquisition Right may be exercised. Also, No Stock Acquisition Right may be exercised in part only.

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

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

(11) 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, 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.

10. Method and term of redemption of the Bonds:

(1) Redemption at maturity:

The Bonds will be redeemed on 30 September, 2010 (London time) at 100 % of their principal amount.

(2) 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.

(3) Early redemption:

(a) Early redemption due to change of taxation:

The Bonds then outstanding may also be redeemed under certain conditions at the option of KHI in whole, but not in part, at any time, at the 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.

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

On and after 22 December, 2006, under certain conditions, KHI may redeem all, but not some only, of the Bonds then outstanding at their principal amount, provided, however, that no such redemption may be made unless the closing price of the Shares for each of 30 consecutive trading days is at least 130% of the Conversion Price in effect on each such trading day.

(c) Early redemption due to share exchange:

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, KHI may redeem all, but not some only, of the Bonds then outstanding at the following redemption prices under certain conditions.

Period during which the redemption date falls	Redemption price
From 8 December 2003 to 30 September 2004	106%
From 1 October 2004 to 30 September 2005	105%
From 1 October 2005 to 30 September 2006	104%
From 1 October 2006 to 30 September 2007	103%
From 1 October 2007 to 30 September 2008	102%
From 1 October 2008 to 30 September 2009	101%
From 1 October 2009 to 29 September 2010	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

28 September, 2007 at 100% of their principal amount. To exercise such option, the holder of such Bond shall deposit at the office of the Paying 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, at which time the Stock Acquisition Rights incorporated therein shall simultaneously be deemed to be waived and forfeited.

11. Security or Guarantee:

None.

12. Financial Covenants:

Negative pledge

13. Rating:

None.

14. Listing:

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

15. Substitute Payment:

Upon exercise of 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, as set forth under Items 7 and 8 of paragraph 1 of Article 341-3 of the Commercial Code.

16. Use of Proceeds:

The proceeds will be applied towards KHI's capital expenditure requirements and repayment of KHI's corporate bonds.