

Kawasaki Heavy Industries, Ltd.

May 20, 2021

Notice of a joint incorporation-type company split (simple split)
with Hitachi Zosen Corporation related to
Kawasaki's Tunnel Boring Machine (TBM) business

Kawasaki Heavy Industries, Ltd. (hereinafter "Kawasaki") hereby announces that it resolved at a meeting of the Board of Directors held on May 20, 2021 that Kawasaki, along with Hitachi Zosen Corporation (hereinafter "Hitachi Zosen"), will transfer its TBM business (including the design, development, repair and sales of TBMs, civil engineering machines, etc., and their parts; however, excluding manufacturing-related business) to Kawasaki Heavy Industries Hitachi Zosen Tunnel Boring Machine Preparation Co., Ltd. (hereinafter "Preparation Company"), which will be newly established based on a joint incorporation-type company split involving the two companies effective from October 1, 2021.

With this company split, the expected decrease in Kawasaki's total assets will be less than 10% of net assets as of the last day of the previous fiscal year, and the expected decrease in Kawasaki's sales will be less than 3% of sales during the previous fiscal year therefore some of the items and details are omitted from this disclosure.

1. Purpose of this company split

On January 27, 2021, Kawasaki concluded a basic agreement with Hitachi Zosen to start detailed studies towards the establishment of a new company in TBM-related business.

In anticipation of the future market environment, the two companies have been discussing collaboration based on the "spirit of equality" in order to develop their TBM-related business and strengthen its competitiveness. As a result, the two companies have reached a basic agreement to consider establishing a new company that can create new value and meet the needs of a wide range of customers by utilizing and strengthening the advantages of both companies' sales and technological capabilities, a wide variety of product lineups, and supply chains.

The two companies have been holding discussions towards the establishment of the new company in October 2021, centered on the preparatory committee also established on January 27, and decided to adopt a joint incorporation-type company split as the means for doing so.

The new company will complement and strengthen the resources owned by both companies, and will carry out sales and engineering operations. Furthermore, by leveraging the synergies in the sales and technical fields created by the integration, the new company will expand its business in Japan and overseas, and aim to be a company that can contribute to the development of social infrastructure through TBM-related business.

2. Overview of this company split

(1) Summary of this company split

[1] Schedule for this company split

Date of resolution of the Board of Directors	May 20, 2021
Date of agreement on the plan for this company split	May 20, 2021
Planned date of implementation (effective date)	October 1, 2021 (planned)

(Note) This company split at Kawasaki and Hitachi Zosen constitutes an incorporation-type company split under Article 805 of the Companies Act and will therefore be implemented without obtaining approval through a resolution of a general meeting of shareholders.

(Note) The effective date of this company split will be subject to the completion of the procedures established in the competition law and other related laws and regulations of Japan and various related countries. If a change in the schedule for this company split occurs due to a delay in these procedures or any other reason, the schedule may be changed upon separate discussions between Kawasaki and Hitachi Zosen.

[2] Method of this company split

This will be a joint incorporation-type company split in which Kawasaki and Hitachi Zosen will be the splitting companies and the Preparation Company to be newly established by the two companies will be the successor company.

[3] Details of the share allocation related to this split

When this company split is implemented, the Preparation Company will issue 19,200 ordinary shares, with 9,600 shares each to be allocated to Kawasaki and Hitachi Zosen as consideration for this company split.

[4] Handling of stock acquisition rights and bonds with stock acquisition rights in association with this company split

There are no applicable items.

[5] Capital increase or decrease due to this company split

There will be no changes to the capital of Kawasaki or Hitachi Zosen due to this company split.

[6] Rights and obligations to be succeeded to by the successor company

The Preparation Company will succeed to the assets, rights and obligations of Kawasaki and Hitachi Zosen in connection with the TBM-related business established in the plan for this company split.

[7] Prospect of performance of obligations

There are no obligations to be succeeded to by the successor company under this company split.

(2) Calculation of the share allocation related to this company split

[1] Grounds and reasons for the share allocation

In order to ensure the fairness and validity of the share allocation related to this company split, Kawasaki and Hitachi Zosen selected Deloitte Tohmatsu Financial Advisory LLC as an independent calculation agent and requested the calculation of the value of the subject business including this company split. Kawasaki and Hitachi Zosen took into comprehensive consideration the results of the calculations by the independent calculation agent as well as the circumstances and future prospects of the subject business, and as a result of careful discussions between the two companies regarding the company split, ultimately determined this company split after judging that the “[3] Details of the share allocation related to this split” of “2. Overview of this company split” were valid.

[2] Name of the independent calculation agent and its relationship with Kawasaki and Hitachi Zosen

Deloitte Tohmatsu Financial Advisory LLC, which Kawasaki and Hitachi Zosen asked to calculate the value of the subject business, is not a related party of Kawasaki or Hitachi Zosen and has no material interests that should be stated in connection with this company split.

[3] Overview of calculations

Deloitte Tohmatsu Financial Advisory LLC adopted the discounted cash flow method (DCF method) as its evaluation method. By doing so, it is possible to reflect and evaluate actively the future activities of the subject business of Kawasaki and Hitachi Zosen. Assumptions are based on the business plans related to the subject business presented by Kawasaki and Hitachi Zosen respectively. The calculation starting date is March 31, 2021, and the financial record date is March 31, 2021 or the most recent date on which the information could be obtained. As a result of this evaluation, the value of the subject business of Kawasaki and Hitachi Zosen was calculated to be at the same level.

(3) Overviews of the companies involved in this company split

	Splitting company in incorporation-type company split (As of March 31, 2021)	Splitting company in incorporation-type company split (As of March 31, 2021)
[1] Trade name	Kawasaki Heavy Industries, Ltd.	Hitachi Zosen Corporation
[2] Head Office address	1-3, Higashikawasaki-cho 1-chome, Chuo-ku, Kobe	7-89, Nankokita 1-chome, Suminoe-ku, Osaka
[3] Title and name of representative	Representative Director, President and Chief Executive officer Yasuhiko Hashimoto	Representative Director, President and COO Sadao Mino
[4] Business description	Aerospace systems business Rolling stock business Energy solutions and marine business Precision machinery and robot business Motorcycle and engine business, etc.	Environment and plant business Machinery business Social infrastructure business, etc.
[5] Capital	104,484 million yen	45,442 million yen
[6] Date of establishment	October 15, 1896	May 29, 1934

[7] Total number of issued shares	167,080,532 shares	170,214,843 shares
[8] Accounting period	March 31	March 31
[9] Major shareholders and shareholding ratio	<ul style="list-style-type: none"> ▪ Custody Bank of Japan, Ltd. (Trust account) [8.4%] ▪ The Master Trust Bank of Japan, Ltd. (Trust account) [8.3%] ▪ Nippon Life Insurance Company [3.4%] ▪ Kawasaki Heavy Industries Employee Stock Ownership Association [2.6%] ▪ Mizuho Bank, Ltd. [2.5%] <p>* As of March 31, 2021</p>	<ul style="list-style-type: none"> ▪ The Master Trust Bank of Japan, Ltd. (Trust account) [8.9%] ▪ Custody Bank of Japan, Ltd. (Trust account) [4.9%] ▪ MUFG Bank, Ltd. [3.1%] ▪ State Street Bank and Trust Company 505019 [2.3%] ▪ The Bank of New York 133972 [2.1%] <p>* As of March 31, 2021</p>

[10] Financial condition and business results for the previous fiscal year (consolidated)		
Net assets	482,775 million yen	128,167 million yen
Total assets	1,963,276 million yen	429,336 million yen
Net assets per share	2,785.71 yen	749.58 yen
Net sales	1,488,486 million yen	408,592 million yen
Operating income	-5,305 million yen	15,396 million yen
Recurring profit	-2,855 million yen	11,792 million yen
Net income attributable to owners of parent	-19,332 million yen	4,258 million yen
Earnings per share	-115.73 yen	25.26 yen

(4) Overview of business divisions to be succeeded

	Kawasaki Heavy Industries, Ltd.	Hitachi Zosen Corporation
[1] Business description of divisions to be succeeded	Tunnel boring machine-related business	Tunnel boring machine-related business
[2] Operating results of divisions to be succeeded (consolidated)	Net sales: 6,498 million yen	Net sales: 7,001 million yen
[3] Assets and liabilities to be succeeded (consolidated) (Planned for October 1, 2021)	Assets: 490 million yen Liabilities: 0 million yen	Assets: 487 million yen Liabilities: 0 million yen

(Note) The amounts of assets and liabilities to be succeeded are the current estimated amounts.

(5) Situation after this company split

The trade name, Head Office address, the title and name of the representative, business description, capital and fiscal year of Kawasaki and Hitachi Zosen will not change due to this company split.

Matters concerning the Preparation Company will be as follows.

[1] Trade name	Kawasaki Heavy Industries Hitachi Zosen Tunnel Boring Machine Preparation Co., Ltd.
[2] Head Office address	Osaka
[3] Title and name of representative	Representative Director and President Masaharu Hirayama
[4] Business description	Tunnel boring machine-related business
[5] Capital	480 million yen
[6] Accounting period	March 31

(6) Future prospects

The impact of this company split on Kawasaki's consolidated results will be minor. We will issue notification promptly if it is determined that there will be a large impact on business results.

End

(Reference) Forecast of consolidated results for the current term (published May 11, 2021) and consolidated results for the previous term

	Consolidated net sales	Consolidated operating income	Consolidated recurring profit	Net income attributable to owners of parent
Results forecast for the current term (Term ending March 2022)	Million yen 1,500,000	Million yen 30,000	Million yen 20,000	Million yen 17,000
Results for the previous term (Term ended March 2021)	1,488,486	-5,305	-2,855	-19,332