

The Acquisition of Naval Ships Business from Mitsui E&S Shipbuilding: Strengthening our Defense Business

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1. Long-term Vision in Defense and Space Business 

- Expand business fields across land, sea, air, space as well as cyber and electromagnetic domains
- Deploy dual-use products such as unmanned systems and cybersecurity
- Provide total solutions that advance safety and security

Defense & Space

Contribute toward building a more secure and safer world

- ✓ Meeting demand for high reliability, safety and quality
- ✓ Developing and commercializing cutting-edge technologies



- Steadily strengthen our competitive advantages
- Meet emerging needs such as manpower saving, unmanned vehicles and cybersecurity

Maintain and expand current domestic business and related business fields

Expand service business
 1) Upgrade & MRO businesses, education & training
 2) Repair business for US forces in Japan

Roll out overseas business through joint development and technology transfer of domestic equipment

New technologies to build a safer world

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Photo sources: Website of Japan Maritime Self-Defense Force, Japan Air Self-Defense Force, Japan Ground Self-Defense Force

Thank you for making time today despite your busy schedules at the end of the fiscal year.

First, I will briefly explain our Defense and Space Business and the positioning of the Naval Ships Business in the Defense and Space Business.

Please look at the photos in the middle. We included examples of an MHI combat vehicle, missile, submarine, naval ship, helicopter, fighter plane, and rocket. We handle a platform that spans land, sea, and air. Our ships carry missiles, torpedoes, and helicopters, and they carry out missions in cooperation with fighter planes and submarines. They are also used to transport combat vehicles. In that sense, naval ships are a key component or system in our business segment.

In our business plan, we outline the twin aims of steadily strengthening the competitive advantages of these existing product groups and seeking to meet emerging needs, such as manpower saving, unmanned vehicles, and cybersecurity.

In terms of activities to steadily strengthen our competitive advantages, we will focus on Maintenance, Repair, and Overhaul (MRO), as well as on upgrades, education and training, and the repair business for US forces in Japan. Through these efforts we aim to maintain or expand the existing domestic business and related business fields and expand service areas. In addition, we will seek to roll out overseas businesses through joint development and technology transfer of domestic equipment.

In terms of our activities to meet emerging needs, such as manpower saving, unmanned vehicles, and cybersecurity, we are developing new technologies to build a safer world.

The acquisition of the Naval and Governmental Ships Business from Mitsui E&S Shipbuilding is in line with this business plan.

2. Overview of the Acquisition



Company Name	(TBD)	
Head Office	Tamano City Okayama Prefecture	to be located in current Mitsui E&S Shipbuilding's Tamano Works
Businesses & Products	i. Naval and Governmental Ships	Business related to manufacturing of naval ships and governmental ships, and the equipment and devices equipping them.
	ii. Ocean Development & Underwater Equipment	Business related to manufacturing of autonomous surface and underwater vehicles
	iii. MRO (Maintenance, Repair, and Overhaul)	Business related to MRO of naval ships and government vessels, and the equipment and devices equipping them, and autonomous surface and underwater vehicles
Revenue	37.5 billion yen	※ For fiscal year ended March 2020
Total Assets	20.7 billion yen	※ As of March 31, 2020
Closing Date	Targeting October 1, 2021	



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Here is an overview of the acquired company.

This is a summary of the details included in Mitsui E&S Holding's timely disclosure and in our press release. So, I will skip this slide.

3. Major Collaboration between Mitsui E&S and MHI



- 1996-** Construction of the Submarine Rescue Ship "Chihaya"
- 2000-** Construction of the Deep-sea Scientific Drilling Vessel "Chikyu"
- 2009-** MHI supported Mitsui Shipbuilding in the construction of the destroyer "Fuyuzuki"
- October 2018** MHI was contracted to build a new frigate (FFM) by the Ministry of Defense Mitsui E&S Shipbuilding and MHI have started collaboration in this project
- October 2020** New frigate "Kumano" launched (Tamano Works of Mitsui E&S Shipbuilding)
- March 2021** New frigate "Mogami" launched (Nagasaki Shipyard of MHI)



Destroyer "Fuyuzuki"



New Frigate "Kumano"



New Frigate "Mogami"

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This page shows a timeline of major collaboration references between Mitsui E&S and MHI.

We have collaborated with Mitsui E&S Shipbuilding in many ways to date. In the 1990s, we cooperated in constructing the submarine rescue ship *Chihaya* through our technology related to submarines. In 2000, we were in charge of the submarine drilling equipment for the construction of the deep-sea scientific drilling vessel *Chikyu*. Around 2009, we supported Mitsui Shipbuilding in the construction of the destroyer *Fuyuzuki* by providing an on-board system, an area where we excel.

In recent years, MHI was selected as the primary contractor and Mitsui E&S Shipbuilding was chosen as the secondary contractor for a new destroyer (FFM). The second frigate, which we designed, was constructed by Mitsui E&S Shipbuilding. In October 2020, a launching ceremony was held for the second frigate *Kumano* at Tamano Works. In March 2021, earlier this month, a new frigate *Mogami* was launched at our Nagasaki Shipyard.

In this way, MHI and Mitsui E&S Shipbuilding have a long-standing history or track record of collaboration. We have both felt the affinity and complementarity of our businesses. We believe this foundation is what led to this acquisition.

4. Strategic Rationale



1. Surface Ship Business

The various auxiliary ships that Mitsui E&S Shipbuilding specializes in and the naval ships that MHI specializes in are **complementary in product positioning and development, design, and construction technologies**

Fusion of technologies and capabilities where each company has competitive advantage

- Expand product lineup
- Standardize design functions & integrate operations
- Share manufacturing resources

- Increase ability to respond to fluctuations in manufacturing volume and expand business scale
- Strengthen development capabilities
- Improve production efficiency

Major Product Lineups of Mitsui E&S Shipbuilding



Submarine rescue ship "Chihaya"



Acoustic surveillance ship "Hibiki"



Replenishment ship "Mashu"



Tank landing ship "Osumi"

Major Product Lineups of MHI



AEGIS Destroyer "Atago"



Destroyer "Akizuki"



Destroyer "Asahi"



New Frigate "Mogami"

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*Source: JMSDF Website

Next, I will explain the strategic rationale behind each acquired business.

First, the Naval and Governmental Ships Business.

The various auxiliary ships that Mitsui E&S Shipbuilding specializes in and the naval ships that MHI specializes in are complementary in product positioning and development, design, and construction technologies. Through the fusion of technologies and capabilities where each company has competitive advantages, we aim to expand the product lineup, standardize design functions and integrate operations, and share manufacturing resources. By doing so, we can standardize operations, expand business scale, strengthen development capabilities, and improve production efficiency.

The photos at the bottom are the major product lineups of Mitsui E&S Shipbuilding and MHI.

4. Strategic Rationale



2. Underwater Equipment Business

Both companies have been developing dual-use **minimally-manned and autonomous technologies and unmanned vehicles** for on-water / under-water / seabed / deep sea applications areas

Integrate development and design resources

Strengthen development capabilities and improve efficiency

Accelerate development and launch of manpower-saving and unmanned technologies

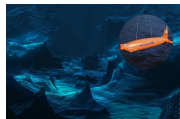
⇒ Meet the needs of the JSDF and governmental operators

(Decrease in military personnel due to the declining birthrate and aging population)

Mitsui E&S Shipbuilding's main products and initiatives



EMD: Expendable Mine Disposal System



R&D for Deep-sea Ocean Exploration using Unmanned Vehicles

MHI's main products and initiatives



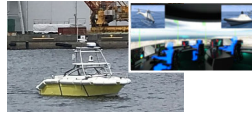
Unmanned Underwater Vehicle for Mine Countermeasures "OZZ-5"



Expendable Mine Disposal System "S-10"
*Source: JMSDF Website



ROV: Remotely Operated Vehicle



R&D on Autonomous Surface Vehicle



Mining Testing Machine for Offshore Resource Drilling
*Source: METI Website

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Next, the Underwater Equipment Business.

Both companies have been developing dual-use minimally manned and autonomous technologies and unmanned vehicles for on-water, underwater, seabed, and deep-sea application areas. By integrating development and design resources and strengthening development capabilities and improving efficiency, we can accelerate the development and launch of manpower-saving and unmanned technologies. This meets the needs of the JSDF and governmental operators, given the decrease in personnel due to the declining birthrate and aging population.

The photos at the bottom are the main products and initiatives of both companies.

4. Strategic Rationale



3. MRO Business

In the MRO business for JMSDF, leverage digital technology to strengthen operational support such as in the key areas of failure prediction and preventive maintenance

Provide after-sales service not only for destroyers but also for auxiliary and governmental ships that contributes to improving utilization rates and reducing life cycle costs

Highly responsive support of naval ships at each base of JMSDF



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Lastly, the Maintenance, Repair, and Overhaul or MRO Business.

In the MRO Business for JMSDF, MHI leverages digital technology to strengthen operational support, such as in key areas of failure prediction and preventive maintenance.

By acquiring the new company, we seek to provide after-sales service, not only for destroyers but also for auxiliary and governmental ships that contribute to improving utilization rates and reducing life cycle costs.

Currently, we conduct the inspection and repair of ships belonging to the Sasebo Base in Nagasaki. And we conduct the inspection and repair of ships belonging to the Yokosuka base in Yokohama. The addition of Tamano will allow us to also handle the inspection and repair of ships belonging to the Kure base.

Before I finish, I will summarize the vision of the Defense and Space Business one more time.

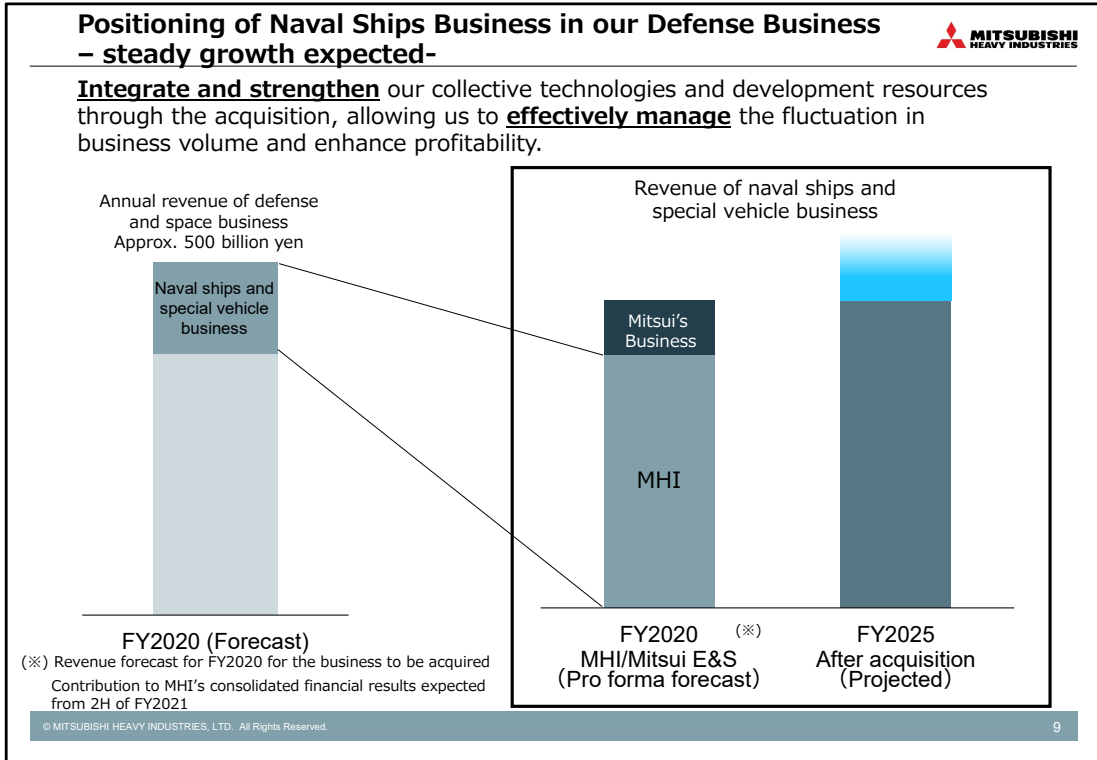
MHI is expanding its business areas from land, sea, air, and space to cyber and electromagnetic domains. In particular, we are rolling out dual-use products in the fields of unmanned aerial vehicle systems and cybersecurity. By providing total solutions for building a safer world, we intend to contribute to national security and the safety and security of society.

This concludes my presentation.

Positioning of Defense Business and Portfolio Management

Hisato Kozawa
Director, Senior Vice President
CFO

March 29, 2021

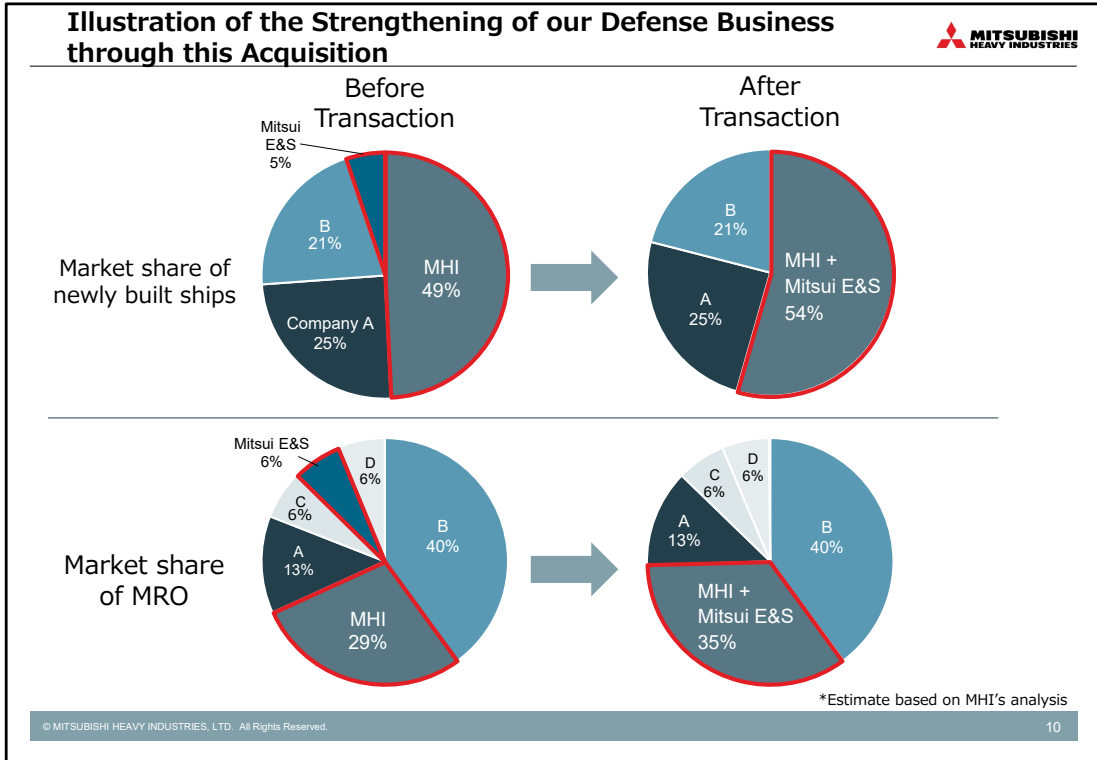


I would like to give a supplementary explanation, including financial data, regarding the acquisition of the naval ship business, etc., from Mitsui E&S Shipbuilding.

MHI's annual revenue in the Defense and Space Business is approximately JPY500 billion, although there are some fluctuations depending on the year.

Our naval ships and special vehicle business, which will be the division to receive the acquired business, accounts for roughly 25% of this revenue. Based on a simple calculation, the acquisition will increase revenue in the Naval Ships and Special Vehicle Business by around 20% annually.

It is expected that needs for manpower savings and unmanned vehicles in on-water and underwater applications will expand at an accelerated rate in marine defense too. We take pride that MHI and Mitsui E&S Shipbuilding are both leading the industry in these realms technologically. By joining forces and demonstrating synergies, further growth can be expected in this field.



This slide shows the market share of our ship business in the Japanese market. We have excluded the so-called special vehicles in these figures. Note in advance that the figures are based on MHI's estimates based on published materials.

MHI currently has a roughly 50% share of the newly built ships market and slightly less than a 30% share of the MRO market. The addition of Mitsui E&S Shipbuilding's Tamano Business is expected to boost the market share by 5% and 6%, respectively.

Portfolio Changes in FY2020



Key Premise: Utilize portfolio management to contribute to recovery and enhancement of profitability and development of growth areas

- For each business, determine whether more growth can be expected inside or outside of MHI
- Consider acquisition of businesses in which growth or synergies are expected to be greater as part of MHI
- Sell or divest businesses that are expected to grow more outside of MHI
 - Made Mitsubishi Power a wholly owned subsidiary of MHI to promote and accelerate energy transition businesses
 - Embarked on acquisition of naval ships business of Mitsui E&S Shipbuilding to strengthen this stable core business
 - Transformed business model / business structure of offshore wind business
 - Divestiture of machine tool business
 - Divestiture of Koyagi Shipyard (in negotiation)

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On slide 11, we gave examples of changes in our business portfolio assets, which we have been executing this fiscal year. These changes are not limited to assets related to naval ships but are related to Company-wide assets.

For example, we made changes aimed at securing synergies by incorporating businesses into MHI, such as making the Thermal Power Business a wholly owned subsidiary. As for offshore wind power, we transformed our tie-up with Vestas Wind Systems A/S and established a joint venture with Copenhagen Infrastructure Partners. Examples where it would be better to entrust other companies with operations include the divestitures of the machine tool business announced recently and of Koyagi Shipyard, which is currently in negotiation.

We will continue to promote improvements in our business portfolio, with the aim to improve our corporate value through the maximization of each business's value.

This concludes my brief presentation. Thank you.

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