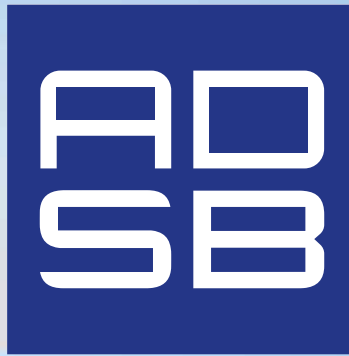




BEYOND SHIPBUILDING

MANAGEMENT DISCUSSION AND ANALYSIS

For the Period Ended 31 March 2018

adsb.ae

I. FINANCIAL HIGHLIGHTS

2018

For the three months ended 31 March 2018, respectively



2017

For the three months ended 31 March 2017, respectively

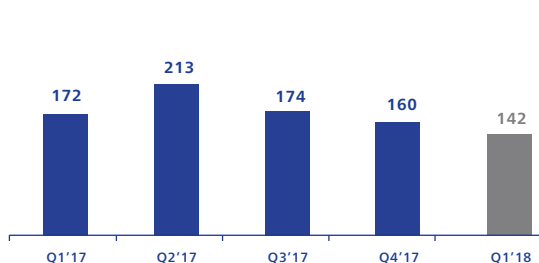


Abu Dhabi Ship Building PJSC and its subsidiaries (together referred to as "the Group") recorded a consolidated net profit of AED 12.5 million after gain on foreign exchange of AED 3.0 million for the three months ended 31 March 2018 as compared to a consolidated net profit of AED 9.4 million after gain on foreign exchange of AED 1.8 million during the corresponding period in 2017.

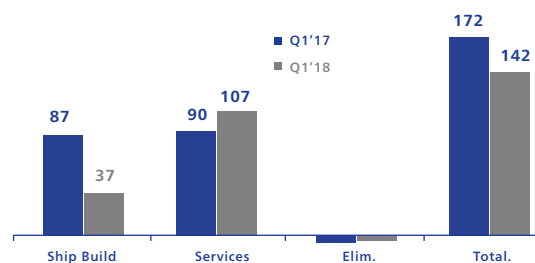
Revenue

Consolidated Contract Revenues Trend (AED'Mn)

Q1 2018 vs. Q1 2017: -18%



Consolidated Segmental Contract Revenues (AED'Mn)



Lower revenue in 2018 as compared to corresponding period in 2017 is attributable to lower activities for Ship Build due to contracted projects nearing completion stage.

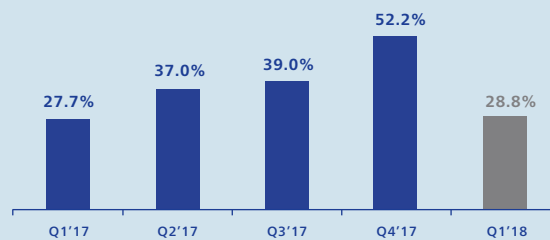
Gross Profit

Consolidated Gross Profit Trend (AED'Mn)

Q1 2018 vs. Q1 2017: -15%



Consolidated Gross Profit % Trend

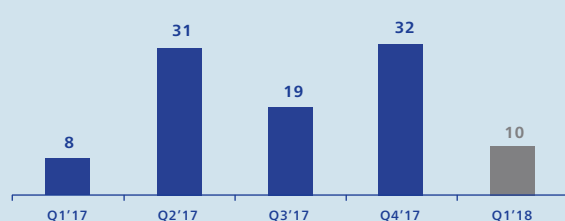


Margin improvement in Q1 2018 in comparison to Q1 2017 due to higher contribution by services work. Volume reduction in revenue leading to lower gross profit in 2018.

Pre-FX Profit

Consolidated Pre-FX Profit Trend (AED'Mn)

Q1 2018 vs. Q1 2017: +25%

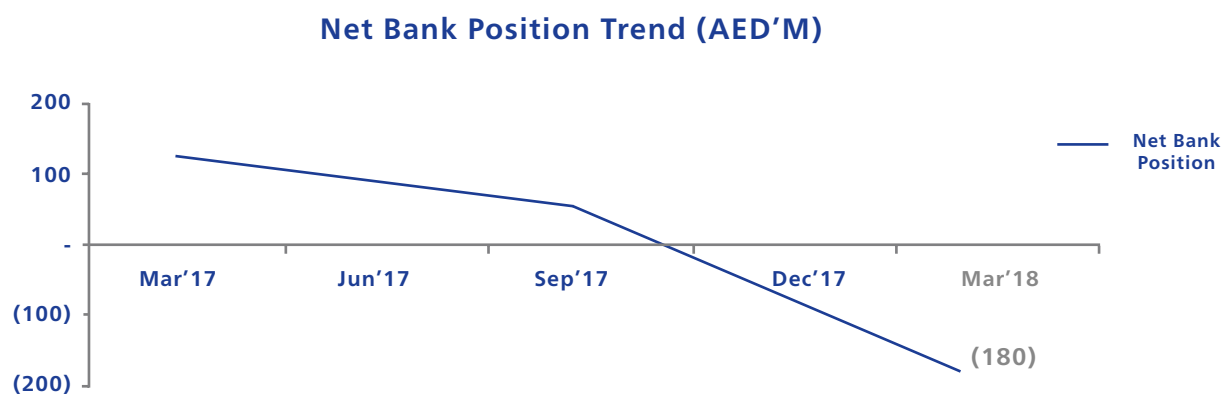


Consolidated Pre-FX Profit % Trend



Higher net profit before foreign exchange as compared to corresponding period in 2017, mainly attributable to other income recognition due to recovery from an old project.

Liquidity



Net bank liability position increased by AED 105 million [1.4 times] from 31 December 2017 as inflows from customers remained outstanding. ADSB processed shareholder approved dividends of AED 31.8M. ADSB has put in place an action for expediting recovery against receivables which will result in improvement of its liquidity position going forward.

The Group's total overdraft facility with various commercial banks is AED 340 million with AED 117 million available for drawdown as of 31 March 2018.



II. OPERATIONAL HIGHLIGHTS

1. Ship Build

Ship Build segment continued to deliver its contracted projects.

A. Naval Ship Building

The Naval Ship Building unit is ADSB's international and national prime contracting business, which concentrates on design, build, integration, commission, testing, trials, integrated logistics support and delivery of complex maritime assets for the defense and paramilitary sectors across the GCC and beyond.

ADSB has demonstrated strong local ship building capabilities for complex naval warships, and has maintained its position as the region's largest naval ship building company. ADSB also collaborates with strategic design partners to ensure the provision of future service support.

Baynunah Program

Baynunah is a flagship program that has designed, constructed, commissioned and delivered six state of the art 72-meter corvettes for the UAE Navy. All six vessels under the program have been delivered to UAE Navy.

During the first quarter of 2018, ADSB continued the execution of its commitments towards UAEN class improvement requirements with respect to additional software and platform upgrades on the vessel(s). In this quarter, ADSB also promptly resolved all warranty actions raised by the Customer and ensured operational readiness of the last vessel.

ADSB also made notable progress under a separate contract to implement capability enhancements on Baynunah class vessels with respect to the installation/integration of <advanced satellite communication capability>. ADSB has successfully completed this extensive enhancement on five vessels during their respective post-delivery <navigational refit>. First quarter of 2018 marked the completion of the communication capability on the sixth vessel during its refit schedule. The pilot installation for 'Unmanned Aircraft System' (UAS), which includes the setup of communication systems for the operation of unmanned aerial vehicles (UAV) from the vessel, will be completed during the sixth vessel 'navigational refit' in the second quarter of 2018.

Arialah Program

In December 2013, ADSB signed a contract with GHQ Armed Forces for the supply of two highly complex 67-meter Offshore Patrol Vessels (OPVs) to the Critical Infrastructure and Coastal Protection Authority (CICPA).

The program made significant progress and achieved major milestones in 2017. The first vessel, Arialah, was delivered to CICPA in June 2017, and final acceptance completed in December

2017. In the first quarter of 2018, the second vessel, Hmeem, completed the final sea trials and was delivered to CICPA. The first quarter of 2018 marked the completion of the program in accordance with the contract, except warranty.

Kuwait Landing Craft

Contract with the Ministry of Defense of the State of Kuwait for the construction of two 64-meter Landing Crafts, one 42-meter Landing Craft and five 16-meter Sea Keepers.

The program marked significant achievements in 2017 by the delivery of all vessels. The warranty works are currently ongoing.

B. Small Boats Construction (SBC)

At the international and national level, ADSB's SBC concentrates on the design, build, integration, commission, test, trials, integrated logistics support, and delivery of specialized / high-speed composite maritime assets for the defense and paramilitary sectors.

10-Meter Interceptor Boats

ADSB signed two contracts with CICPA for the supply of 22 high-speed interceptor boats in the final quarter of 2016. Following a change request by the customer, production activities commenced after plans were approved for the hull structure by BV Class. The schedule for completion of the boats is proceeding well with program completion expected to remain unchanged, which will be in the second quarter of 2018.

15.6-Meter Offshore Support Vessels (Etimad)

The order for construction and delivery of four 15.6-meter Offshore Support Vessels was received from Etimad in March 2017. The project is based on exploring new design partners as part of the growth strategy for SBC. With extensive joint efforts between ADSB and its partners, the overall contract remains on schedule, with the first hull complete and the next two nearing completion prior to outfit. The overall contract is on target for completion in the second quarter of 2018.

VIP Limo

The order for construction and delivery of one 16-meter VIP Limo boat was signed in the second quarter of 2017, with delivery expected in the second quarter of 2018. Lamination of the main hull and deck and wheelhouse as well as deliveries of all main equipment has since been completed by ADSB. The equipment installation and outfitting activities by ADSB are on schedule for the planned project completion by second quarter of 2018.

02x 20-Meter Closed Cabin Boats

Subsequent to successful delivery and performance of ten 20-meter Closed Cabin boats for GHQ with ADSB as prime contractor in October 2017, an order for additional two 20-meter boats has been received from GHQ in February 2018 with a delivery period within 5 months. The full

scope of work, excluding the procurement of engines, has already been subcontracted to Hareb Marine. The boats are in an advanced stage of construction, with a forecasted delivery ahead of contract.

2. Services

Services include the maintenance, repair and overhaul (MRO) of all types of military and commercial vessels (main fleet & offshore).

Marine Support Services (MSS)

The first quarter of 2018 marked considerable progress in the performance of capability management under the MSS contract, including cost plus spares and services, where the agreement with the Naval Logistic Center (NLC) regarding the milestones and establishment of a Fleet Coordination Center (FCC) for the client has been concluded. Additionally, the Integrated Logistic Support (ILS) section played an important role in adding an overall benefit under the MSS contract. The warehouse management proposal under the MSS contract was offered, and formal acceptance of the Naval Logistic Center (NLC) has been received.

Naval / Commercial MRO

ADSB maintained robust performance with respect to quality repairs of military and commercial vessels on the agreed schedules, in Musaffah yard, as well as in Floating dock in the Mina Zayed Port.

During the first quarter of 2018, Floating Dock's average occupancy was 89%.

Sterling performance was posted with respect to concurrent repair activities on various types of vessels including military vessels. ADSB supported the upgrades of different configurations of combat systems on board military vessels during the refit activities. ADSB has been working on several proposals for upgrades and refits on board military vessels, falling due in fourth quarter of 2018.

Yachting Services

Safwa Marine which was established in 2013, with the objective of penetrating the untapped market for luxury and super yachts in the UAE and Middle East has now become an operational segment of ADSB as Yachting Services.

In the first quarter of 2018, Yachting Services completed 11 charters and successfully delivered 4 yacht refits and services projects. Moreover, the segment is scheduled to complete the delivery on its contract to design, build and deliver a luxury passenger transportation boat early next quarter. The segment also received a Letter of Appointment for design and build of luxury passenger transportation solutions for one of the development projects in Dubai's World Island Project.

III. SUBSIDIARIES

Frontiers LLC

Frontiers has entered into a new Preventive and Corrective Maintenance program with the Naval Logistic Centre (NLC) for the years 2018 and 2019. The new ISM contract is part of the three-year Follow-on-Support contract with the NLC, which commenced on 1 July 2017.



Rizwan Chowdhari

Chief Financial Officer