ABU DHABI SHIP BUILDING
أبوظبي لبناء السفن

Management Discussion and Analysis

Operations in the period ended 30 June 2026 were impacted by the regional situation, which has resulted in materials cost increases, delays in delivery, and increased sea and air freight costs. ADSB mission systems staff have been deployed in support of UAE Navy and National Guard urgent operational requirements and some OEM support has not been available. ADSB is also experiencing retention and recruitment issues with blue collar staff. All of these factors have had an impact on revenue recognition during the period.

However, work continues on all programs and on an underlying basis the company remains profitable with revenues ahead of the comparable period last year. Net cash at 30 June 2026 was AED 867 million. After the period end in July the First of Class vessel for the Kuwait program was launched, and vessel deliveries are scheduled for the second half of the year.

Net loss before tax for the period ended 30 June 2026 of AED (106) million was driven by the result of an accounting adjustment in relation to the contractual arrangement of the new Kuwait program for the supply of eight missile boats to the Kuwait Navy vis-à-vis the existing Falaj3 contract to build four new Offshore Patrol Vessels for the UAE Navy, which has resulted in a reversal of some revenue previously recognised.

This revenue reversal results in a significant accounting adjustment of some AED (120) million in the current year. This revenue and profit is not lost and will be recognised in 2027 onwards.

Following the signature of the AED 7 billion contract in February 2026 with EDGE for the supply of missile boats to the Kuwait Navy, our contract backlog now stands at more than AED 11 billion. In addition to this order book, the Company has a significant pipeline of potential new business both for its key customers, the UAE Navy and National Guard, and for export. It is hoped that another significant export contract will be announced in the second half of the year.

The Kuwait program is projected to make a significant contribution to profitability, and this order book will sustain the profitability of the Company for the next several years. Revenues in the next few years are expected to more than double to that of last year as we start to deliver on the Kuwait program.

ADSB continues to monitor the impact of the current regional conflict on revenues and profitability in the current year while giving all possible support to its customers the UAE Navy and National Guard and to EDGE on other urgent projects.

Revenues in the first 6 months of 2026 of AED 666 million were higher than that of the AED 518 million in the same period last year, again reflecting the progress contribution from the contract to build three BR71 MKII 71-meter corvettes along with ADSB-designed patrol boats and logistical support for the Angolan Navy, where ADSB has launched of the First of Class in March 2026, the remaining two corvettes are in production and 11 interceptor boats were delivered, four of which were delivered in July 2026 despite logistical challenges.

On the prestigious Falaj3 contract to build four new Offshore Patrol Vessels for the UAE Navy, ADSB has now successfully completed fourteen milestones. Following the commissioning of the First of Class by the UAE Navy at a ceremony held at the NAVDEX exhibition in February 2025, ADSB launched the Second of Class of these vessels in February 2026.

During the period, the Small Boat business segment continued with the build of the remaining nineteen Search and Rescue boats and delivered seven boats in the quarter after it delivered five boats in 2025, while the MRO and Mission Systems business segments completed a total of 29 dockings, berthing and boat launchings.

ADSB continued to strengthen its design function and its research and development on autonomous and semi-autonomous vessels, in partnership with EDGE and related companies, and is working on a number of projects to support its customers.

After receipt of the customer advance including VAT on the Kuwait program of AED 1.45 billion, net of advance payments made to subcontractor and payments to Angola and Falaj3 suppliers in the first half of 2026, the net cash position as of 30 June 2026 significantly improved to AED 867 million and is expected to remain strong towards the end of the year. During the quarter, ADSB received EUR 75 million (approximately AED 325 million) in respect of the Angola program.

ADSB is proud to have been able to support UAE Navy and National Guard operations during the regional situation and notwithstanding the operational challenges has continued production on all programs. I would like to thank all ADSB staff for their hard work and dedication in this period, and all of our partners and stakeholders for their valuable assistance.

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David Massey
Chief Executive Officer

Mussafah Industrial Area
P.O. Box 8922
Abu Dhabi, UAE

adsb.ae

منطقة المصفح الصناعية
ص.ب: 8922
أبوظبي، الإمارات العربية المتحدة

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