ADNOC DRILLING COMPANY P.J.S.C.

First Quarter 2023 Earnings

Webcast & Conference Call Transcript

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PRESENTATION

Nicolas Robert - *ADNOC Drilling - Vice President, Investor Relations*

Ladies and gentlemen, welcome to the ADNOC Drilling first quarter 2023 earnings webcast and conference call. My name is Nicolas Robert, Vice President of Investor Relations here at Drilling.

Before getting into today's presentation, I'd like to take a few seconds to make an introduction. As many of you already know, from early June, I'm moving into a new role as Vice President, Investor Relations at ADNOC headquarters. Replacing me at ADNOC Drilling is our new joiner, Massimiliano Cominelli. Max recently joined the Company from Saipem, where he held a similar role as Head of Investor Relations. If you haven't already done so, please join me in welcoming Max to the team as he will be taking over from me following the end of a transition period with the first quarter reporting cycle.

Now let's get the show on the road. This is our mandatory disclaimer slide which, as a publicly listed company, I need to remind you of and encourage you to read. It contains important information, and we advise caution on the interpretation and limits of historical data and forward-looking statements. For reference, the presentation, and a recording of this call, will be made available on our website shortly after its conclusion.

Sitting alongside me in our office here in Abu Dhabi today are members of our senior management team. Presenting today's first quarter 2023 earnings are our Chief Executive Officer, Mr. Abdulrahman Al Seiari, our Chief Financial Officer, Esa Ikaheimonen, and our Senior Vice President for Oilfield Services, Emri Zeineldin. As a reminder, following the presentation, we'll have a Q&A session where we will be happy to take your questions. Without further ado, I will now hand over the call to our CEO, Mr. Abdulrahman, who will provide an overview of this quarter's key highlights and our strategic progress.

Abdulrahman Al Seiari - *ADNOC Drilling - Chief Executive Officer*

Thank you, Nicolas, and welcome all to our first quarter 2023 earnings call.

I will start with safety as that is always our top priority. We are committed to upholding the highest standards of HSE across our operations, and we continue to deliver safe and efficient operations with, to date, the actual total recordable is 0.43 against a target of 0.7.

Now the first quarter also saw an excellent further growth in our financials: revenue grew 19% year-on-year to $716 million, with industry-leading EBITDA margin of 47%. We achieved strong growth in our bottom line, with net profit of $219 million, an increase of 25% year-on-year. Esa will definitely provide more details in our financial performance shortly.

Finally, we are making good progress on our fleet expansion program, and during the first quarter we announced 10 newbuilds that are hybrid land rigs, with more to come in the process. Now these rigs will start to enter the fleet mostly in the fourth quarter of this year, with limited revenue and bottom-line contribution to this year but definitely significantly more in 2024 and full contribution in 2025 from all the other rigs that we'll get. We expect to make more announcements as we continue delivering on our guidance of 142 owned rigs by 2024. Next slide.

As a strategic partner at the heart of ADNOC Upstream, we are fully committed to executing our strategy and delivering value to our clients. In doing so we will ensure that our shareholders will see a lot of value creation as well as we believe we have already demonstrated. We are expanding our rig fleet by acquiring more units to support ADNOC in delivering its accelerated production capacity growth. Our shareholding offers an opportunity to benefit from that growth. We are performing Integrated Drilling Services on 40 rigs. We expect this momentum to continue over the course of 2023, having already received a variation order for eight additional integrated drilling services rigs from our client. Our recent growth rate demonstrates the opportunity we have in line with oilfield services. We are now taking steps to become a leader in unconventional development, and we are currently having two rigs engaged in drilling unconventional gas wells. This area offers a significant longer term growth opportunity. Initially here in the UAE, but ultimately also elsewhere in line with our expansion strategy. Lastly, we are exploring new revenue opportunities in drilling and also in services and technology. Both inside and outside Abu Dhabi.

I will now hand it over to Mr. Emri to provide more details on the operations side.

Emri Zeineldin - *ADNOC Drilling - Senior Vice President, Oilfield Services*

Thank you, Mr. Abdulrahman. I will now walk you through some of the operational highlights from the first quarter.

As previously mentioned, we acquired ten newbuild hybrid land rigs for $252 million or approximately $25 million apiece. Our acquisition of hybrid rigs supports our commitment to being a responsible driller, with ESG at the core of our operations. Our drilling performance was robust during the quarter, as we drilled 142 wells. The Offshore segment continued its strong performance, recording 67 days of average duration compared to 77 days of the prior quarter. Meanwhile, the Onshore segment maintained its outstanding 41 days of average duration as well as achieving a key milestone of drilling the longest well by utilizing Integrated Drilling Services at over twenty-one thousand feet. Our Oilfield Services business, as key driver of growth, continues its strong momentum, recording a 16% improvement in Integrated Drilling Service efficiency versus the 2022 benchmark. Moreover, we added new services to our oilfield services offering, and performed Integrated Drilling Services on 40 rigs. We expect continued momentum in this area of the business over the course of 2023, having received a variation order for eight extra Integrated Drilling Services rigs from ADNOC Onshore. Adding to our robust OFS pipeline, we were awarded the Upper Zakum Bundled Services contract for 5 years on April 13, a post-period event. The award had a total value of $412 million and is within the guidance issued in February. Next slide please.

Let's look in more detail at our segmental operational performance. In-line with our broader objectives, efficiency remained a core priority this period, as we pushed to reduce our costs and increase our bottom-line performance. Rig availability remained high across our Onshore, Offshore Jack-up and Offshore Island operations, at 93%, 97% and 100% respectively. Activity in the Onshore segment remained strong during the first quarter. As touched on earlier, we successfully drilled the longest well for ADNOC Onshore utilizing IDS services, an impressive 8 ½" open hole section, at a depth of 21,000 feet. In our Offshore business, we continued to leverage new technologies to optimise our operations while pushing forward with our ESG agenda. We mobilized and integrated a hydraulic workover unit to maximise drilling outcomes on new wells on offshore artificial islands. We also rolled out a pilot battery energy storage system for jack-up rigs to build on our ongoing energy efficiency initiatives. Looking more closely at the Offshore segment, I am pleased to share that of the 19 benchmarked wells delivered in the first quarter, 13 were delivered ahead of schedule and budget, a testament to our commitment to efficient operations. Safety also remained a key priority. The first three months of this year, we remained LTI and TRIR free across all OFS business segments. Next slide please.

Sustainable drilling is at the heart of our business. This slide provides an update on our progress against our ambitious ESG goals. As you know, health, safety and security are of utmost importance to our leadership. This is why we have adopted the highest standards of HSE. Our TRIR, total recordable incident rate, this quarter was at 0.43, well ahead of our target of 0.70, as we continue to record improvements in this area. In line with ADNOC's greenhouse gas emission reduction targets, we have been working to reduce our energy intensity. As a result of our ongoing initiatives, we closed the quarter with an energy intensity of 13.2 per rig, ahead of our target 13.9 per rig. As a responsible driller, we remain committed to protecting the local environment. I am pleased to share that, through our best-in-class environmental management system, we recorded zero spill incidents during the period. Lastly, ADNOC Drilling is committed to workforce diversity. As of the end of March, we have 17 women in leadership roles across the Company and our workforce comprises 79 different nationalities. Next slide please.

Before handing over to Esa, I would like to provide some additional color on some of our most important decarbonization initiatives. Emission abatement is a critical component of our ESG framework, and we have adopted several programs to reduce carbon intensity across our business, from our rigs to our camps. In our base camps, we have projects ongoing to implement grid connectivity across five central camps and have plans for two camps to be connected by the fourth quarter of this year. We are also evaluating solutions to replace diesel engines with solar systems throughout our mobile camps. On our rigs, as you know we have entered into an agreement to build ten newbuild hybrid land rigs, and we are also in the process of implementing a battery energy storage system. We expect 16 new rigs and 11 existing rigs to be equipped with this system in the coming period. Leveraging the UAE's robust network of decarbonization organizations, we signed an MoU with Masdar, as a leading developer and operator of utility-scale renewable energy projects, to jointly explore geothermal opportunities to drive energy transition internationally.

With that, I'll hand it over to Esa to walk you through our financial performance.

Esa Ikaheimonen - *ADNOC Drilling - Chief Financial Officer*

Thank you, Emri.

I'll start with an overview for the period. As you'll find, we had a robust start to 2023 with revenue up 19% year-on-year to $716 million. That was driven by strong performances across all our segments, particularly in Offshore Jack-up and OFS, which grew 28% and 43% respectively. Generally speaking, we are ahead of our plan for the year. Quarter-on-quarter revenue declined marginally from our record fourth quarter. That was due to two fewer days during the period and the impact of lower reimbursements from cost escalation claims in the first quarter of this year. The strong top-line performance translated into EBITDA of $333 million and net profit of $219 million, a year-on-year increase of 19% and 25% respectively, while we maintained our industry leading EBITDA margin of 47% in the first three months of 2023. We reported a decline in cash from operating activity during the period which was driven by the variance in periodic working capital, as the same period in the prior year benefited hugely from collection of long overdue receivables. This is obviously something we cannot repeat every quarter. I'll give you more color on working capital later in the presentation. CapEx in the first quarter of 2023 was $76 million, which was in-line with the payment plans for our rig fleet expansion program. Our CapEx will ramp up significantly during the latter part of the year. We maintained a healthy balance sheet with our Net Debt decreasing moderately to $1.1 billion at the end of March, leading to a Net Debt to EBITDA ratio declining from 1 to 0.8. Now next slide please.

Let's take a closer look at our segments, starting with revenue. Onshore delivered good year-on-year growth of 11% from $319 million to $355 million, driven by growth in drilling activity from the addition of the eight H&P rigs acquired and put into operation over the course of 2022. Sequentially, onshore revenue declined by 6% due to fewer calendar days while the fourth quarter also benefited from higher reimbursements from cost escalation claims, particularly on diesel prices. In the Offshore Jack-up segment we reported robust revenue growth of 28% year-on-year to $184 million. Growth was driven by the full period contribution of five new jack-up rigs that went into operation last year. Despite fewer operating days in the first quarter of 2023, compared to the fourth quarter of 2022, revenue increased by 2% quarter-on-quarter, supported by a full quarter of day rate contribution from two jack-ups that were integrated into operations late last year. Offshore Island revenue increased marginally year-on-year to $51 million, supported by mobilization revenue of an island rig that was re-activated and allocated to the Hail and Ghasha project.

Sequentially, revenue was flat, with lower operating days offset by mobilization revenue. Oilfield Services continues to demonstrate why it is one of our strategic growth priorities and delivered a strong top line performance, with first quarter revenue up an impressive 43% year-on-year from $88 million to $126 million. This was driven by higher activity levels across our entire portfolio as the number of IDS rigs increased from 36 to 40 rigs in the current period. Sequentially, revenue increased by 2%, supported by increased Directional Drilling and Drilling Fluids product line activity levels as a result of higher levels of offshore drilling activity and the launch of Hail and Ghasha project. Now, let's see what this revenue performance means for EBITDA in these same segments. Over to next slide please.

Before I get into the EBITDA performance for each of our segments, I would like to generally note that ADNOC Drilling's allocation of overhead expenses to all our reporting segments was re-assessed and finetuned during the quarter, as per international accounting standards, somewhat impacting the comparisons for the period. Starting again with Onshore, EBITDA for the quarter increased 13% year-on-year to $173 million primarily due to increased revenue during the quarter and our continued focus on cost optimization. Sequentially, EBITDA decreased by 8% as a result of reduced revenue from fewer calendar days and the lower cost escalation reimbursement. In the Offshore Jack-up segment, EBITDA was up 24% year-on-year to $105 million due to increased drilling activity associated with the commencement of operations of five jack-ups added to the fleet in 2022. Even if quarterly revenue was up from the fourth quarter, margins were slightly impacted by costs related to a rig that underwent major maintenance during the period and exceeded its planned maintenance days.

As a result, EBITDA declined slightly versus the fourth quarter due to a small increase in maintenance expenses, along with higher allocation of overheads during the period. The Offshore Island segment delivered 14% year-on-year EBITDA growth to $32 million from $28 million resulting in significant margin improvement from 56% to 63% in the current period. The improvement was supported by a number of cost efficiency measures which we implemented during the quarter including price negotiations on consumables and spare parts. EBITDA increased sequentially by 14% due to cost efficiency measures coupled with a decrease in overhead costs allocated to the segment. Lastly, Oilfield Services yet again delivered stellar year-on-year EBITDA growth of 64% to $23 million, reflecting increased activity volumes across all segments which were partially offset by changes in activity mix. Sequentially, however, EBITDA decreased 21% due to inflationary pressures on various material costs and increased equipment hire in relation to our frac activities. The segment, which historically was not allocated overhead cost, as it was in the early stages of its ramp-up phase, was also negatively impacted by the Company's reassessment of overhead cost allocations in the period. On the next slide, we will look at how these segmental earnings convert into ADNOC Drilling cash flow. Next slide please.

We remain a highly cash generative business, however our Cash from Operating Activities for the period was impacted by an increase in working capital. This was due to a seasonal increase in related party balances and inventories reflecting increased activity. The build-up in inventories was fully in line with expectations and will support the acceleration of growth during the second half of this year. Moreover, let me remind you when comparing this quarter versus the first quarter of last year substantially, that the first quarter of 2022 benefited significantly from the already mentioned collection of long overdue receivables. Consequently, cash from operating activities for the first quarter of 2023 was $226 million, down from $613 million a year-ago. On the balance sheet side, at the end of March 2023, our cash balance stood at $463 million with liquidity totaling nearly $1.7 billion. As a reminder, this liquidity includes our unutilized syndicated term loan and revolving credit facilities in addition to the cash on balance sheet. Net Debt decreased moderately to $1.1 billion at the end of March 2023 from $1.2 billion at the end of December 2022, bringing the Net Debt to EBITDA ratio down from 1 to 0.8. As promised, let's look at working capital and CapEx in more detail. Next slide please.

Our CapEx for the first quarter of 2023 was $76 million, which was fully in-line with the payment plans for our rig fleet expansion program. The sequential decline in CapEx that you are seeing is due to the way rig purchase milestones are established. Payments for rig purchases are usually spread out over at least two milestones with the first payment usually at the signing of the sale and purchase agreement and the final payment made on transfer of the title of the rig to the Company. This leads to a fair amount of quarterly volatility. As CapEx will ramp-up in the next three quarters, the full year guidance of $1.3 billion to $1.75 billion is confirmed. We also continue to expect CapEx to remain elevated through the first half of 2024 given the payment profile of our rig acquisitions to enable delivery of ADNOC's accelerated production capacity target. As mentioned previously, our working capital increased to $442 million during the period as we ramped up inventories in anticipation of accelerated activity in the second half of 2023.

It's also worth noting that, as the Company's growth plans materialize, the product mix will evolve with some product lines requiring more inventory, leading to structural changes in working capital in the OFS segment. Despite this trend, we remain committed to bringing it to the targeted range of 10% to 11% of annualized revenue during this year. I will now end my remarks by recapping our 2023 guidance. Next slide please.

I'd like to start by saying that our first quarter results were in-line with, or even better than our internal targets for the period. Therefore, we are very confident in reiterating our full year 2023 guidance of revenue between $3.0 and $3.2 billion, EBITDA in a range of $1.35 to $1.5 billion and fully anticipate a new record net income of $850 million to $1 billion. As you can see from the chart, which obviously is for illustrative purposes only, we expect a material ramp-up in revenue and EBITDA in the second half of the year with a lot more to come in 2024. This aligns with the expected phasing of rigs entering the fleet and contributing to our financial performance. In the short-term, we are expecting the second quarter to be broadly in-line with the first quarter in terms of both revenue and EBITDA. Next slide please.

On this slide, you can see our FY2023 and our medium-term guidance, which we reiterate, and which remains unchanged. All these metrics underpin our growing dividend policy which entails at least a 5% growth per annum over the next four years. Finally, and before I had back to our CEO for some closing remarks, let me use this opportunity to thank Nicolas for pioneering ADNOC Drilling IR function until this stage. We are pleased to note that he is not going to go far. No further than to the ADNOC HQ to work on the ADNOC Group side. At the same time, it gives me great pleasure to welcome another world-class IR professional and leader to ADNOC Drilling. We are fortunate to have found Massimiliano, who joined us recently from Saipem - one of the leading oil and gas service companies in the world where he held a similar position. He will take our IR function further forward in the next chapter of our development as a leading public company.

With that back to you Mr. Abdulrahman.

Abdulrahman Al Seiari - *ADNOC Drilling - Chief Executive Officer*

Thank you, Esa. To recap, we delivered an excellent set of results in the first quarter, recording a strong year-on-year growth. This was mainly driven by ongoing investments as we continue to expand our fleet and our offering, while enabling ADNOC's accelerated production capacity growth through safe, efficient, sustainable, and responsible operations. I would like to thank ADNOC Drilling team for a strong start to the year that has set up for an excellent 2023. Thank you for joining us today and we are happy to take your questions. I'll hand it over to the operator to open up for the Q&A session. Thank you.

QUESTIONS AND ANSWERS

Operator -

As a reminder, if you'd like to ask a question today, please press star followed by one on your telephone keypad to enter the queue. When preparing to ask your question, please ensure your headset is fully plugged in and unmuted locally. That's star followed by one to ask a question. And our first question today comes from Ricardo Rezende from Morgan Stanley. Ricardo, your line is open. Please go ahead.

Ricardo Rezende - *Morgan Stanley*

Good afternoon, all. Thanks for taking my questions. Nick, congrats on the new role. And thanks for all your help in the previous years, and welcome, Max, and good luck.

So, if I may, on the first question, just looking at the oilfield services on the margin side, and you mention the inflationary pressures and also the overhead allocations that it didn't hedge for? Would it be possible to give us a little bit more color on how much of the impact came from the overhead and how much came from the inflationary pressures? And if you continue to see the inflationary pressures throughout the year?

And then the second question. Its own on the CapEx side. As mentioned, there is a lot of volatility intra quarter on CapEx or in your maintaining your guidance for the year. Should we see a similar test on CapEx for this year as you just mentioned, for net revenues and EBITDA with the higher concentration in the second half? Or should we already see a pickup in the second quarter? Thank you.

Abdulrahman Al Seiari - *ADNOC Drilling - Chief Executive Officer*

Thank you, Ricardo. I think I will just hand over to Esa to answer both, but on the OFS, I think simply I would say whatever you see today, definitely it will be changing as we go through the year. Esa will provide more details.

On the CapEx side is a similar case. I mean, we are getting the fleet expanded and more rigs are coming in which is expected and the second half the majority will be coming in starting in the second half. So, Esa, if you can please provide more details.

Esa Ikaheimonen - *ADNOC Drilling - Chief Financial Officer*

Yeah, thank you. And thanks for thoughtful questions, Ricardo. OFS margins, obviously under a little bit of pressure during the quarter, because of the inflationary pressures that he mentioned, the overhead allocation methodology is now firmly fixed. And as a result of that, you will not see much volatility going forward. You also won't see overheads increasing so as a result of that, you know, you can rest assured that the overhead component is not going to further damage the margins. Margins 18% during the first quarter, those are down from the fourth which was quite high already. Margin target remains between the 22 and 26% as before, and we are quite confident that we will actually reach that level irrespective of the increasing overheads. When we established that midterm guidance, we already knew that we were going to introduce a new dividend, a new overhead allocation policy. So, nothing surprising there. In terms of the splits between overheads and inflationary pressures, I don't have the number in my head, but I'd say it's probably close to about 50/50. Depends on what you compare it with. But, you know, to compare it with the fourth quarter is probably about 50/50, a bit more bias towards the inflationary issues. So, I hope that clarifies that part of the question.

CapEx remains lumpy, and it's a little bit difficult to provide sort of quarterly guidance on CapEx. It's fair to say that we expect to spend more CapEx during the second quarter than we did in the first quarter. But it's also very clear that the CapEx is going to be biased towards the second half of the year. We don't provide quarterly CapEx guidance. So, as a result of that, that's probably as much as I will tell you now at this stage, but guidance unchanged 1.3 to $1.75 billion. So, that gives you an indication of a lot of spending that will take place particularly during the second half of the year.

Ricardo Rezende - *Morgan Stanley*

That's very clear. Thank you.

Operator -

The next question comes from Karen Kostanian from Bank of America. Karen, your line is open, please go ahead.

Karen Kostanian - *Bank of America Merrill Lynch*

Yeah, gentlemen, thank you very much for the presentation. And I wish the best of luck to the IR team in the new roles. I have two questions. My first question in terms of the working capital, you said about this potential stabilization. Could you by any chance, tell us when you expect this the stabilization to occur to achieve this stabilization of the working capital? And second, the acceleration of reimbursable costs? You know, this delay in the reimbursement is this, should we look at this delay as a customer delay or that is going to shorten going into the future?

Abdulrahman Al Seiari - *ADNOC Drilling - Chief Executive Officer*

Can you please repeat the second question? Hello?

Karen Kostanian - *Bank of America Merrill Lynch*

Yeah, you said that -- yes. You said that, you know, there was a delay in some acceleration of reimbursable costs. Or maybe I was mistaken?

Esa Ikaheimonen - *ADNOC Drilling - Chief Financial Officer*

Yeah, okay, I'm happy to take both actually, I think there's a little bit of confusion about the cost of escalations or reimbursement of that. So, but let me say the working capital first, we had actually some issues regarding -- so first of all important to point out that positive developments in terms of our receivables management, we are automating a lot of the invoicing processes, the automation was not completed during the first quarter. And as a result of that we actually had some delays in getting invoicing out during the quarter, which had a negative impact on the working capital. So, I'm quite confident in my expectation that we already see an improvement in working capital performance, particularly when it comes to percentage revenue of net working capital or in during the second quarter.

I should warn you, though, that this is going to be -- our invoicing is really lumpy, actually in and out. So, whether we're looking at payables or receivables it's quite lumpy. And as a result of that, timing plays quite an important role here. And it's possible that certain volatility at any particular point in time will still continue. So, we will see some volatility in our working capital as it comes to quarter end position and balances. But I expect improvement during the second quarter. And I will definitely expect that it is our scorecard target as well of working capital of no more than 10 to 11% of revenue by the end of the year. But it's possible that we might reach that level or very close to it already during the next couple of quarters.

In terms of the reimbursement of cost. There's not really any delay there per se, we do get the reimbursement for cost escalations, cost escalations being basically measured against a certain contractual benchmark, diesel cost as well as some other components, diesel being the overwhelmingly most important part of it. It is simply a fact that diesel pricing was higher in the fourth quarter versus the first quarter. And as a result of that, we received less of that reimbursement. We also had a bit of a catch-up during the next year, that had a specific impact on the fourth quarter. In other words, we actually generated, you know, more than a quarters proportional share of cost escalation revenue in the fourth quarter, because the catch up. And we also benefited from an exceptionally high margin. So, there's an element of non-recurring revenue and margin in 2022 fourth quarter results. And therefore, with the attempt to explain that as part of the reason why you saw revenue and earnings declining from one quarter to another.

So, hope that clarifies. There's no delay per se, the process works alright. The volume of reimbursement is related to, particularly, diesel pricing. And as a result of that, there's going to be a little bit of variance from one quarter to another depending on how diesel pricing works. And quite importantly, we had a sort of an extraordinary non-recurring component in our record quarter, which was the fourth quarter of last year.

So, that was a lengthy explanation to that. It’s a bit technical, this whole thing and for those of you particularly on the analyst side who wants further details about the cost escalations, we're happy to provide that but probably this forum is not a very good one for very detailed explanations.

Karen Kostanian - *Bank of America Merrill Lynch*

Understood, thank you very much.

Operator -

The next question comes from Faisal Azmeh from Goldman Sachs. Faisal, your line is open, please go ahead.

Faisal Azmeh - *Goldman Sachs*

Yeah, thank you for the opportunity to ask questions and echoing Karen's comments for Max and Nicolas, just maybe two questions on my end. And the first is just on some of the efficiency gains that you've been achieving. As we think about that, in the context of the IRRs, do you get to keep the majority of these gains yourself, or did that get revised into the IRR? How do we think about that in the coming years?

Then maybe another question is how do we think about the target that you have in terms of the number of rigs? What is the upside risk, to actually requiring more rigs for your kind of business plan? And any government initiatives that actually might result in more rigs required? If you can shed some color, there that would be quite helpful. Thank you.

Abdulrahman Al Seiari - *ADNOC Drilling - Chief Executive Officer*

Now, I will take the second one on the -- and you can add to it if needed.

Now on the plans that we have on the rigs, I think our plans are clear, which are driven by the ADNOC plan of accelerating the 5 million production. So, we are being the enabler, so all those fleet which is being built and to deliver that. Now beyond that, to sustain those activities, I mean, the production level. Normally being as a driller who worked on both ends, and then probably a few of you remember that I mentioned I've been on the operator side and my history also of experience of our work. So, we need to sustain. Hence, there is more drilling and workover activities also to do that. Now, I think part of the call, I mentioned about the potential work on the unconventional, that we are started already in the phase of exploration, and soon we'll be going into the development phase. So, yes, what we will see most probably, there will be some more demand to come in the near future also on getting beyond 142 that we have guided.

Esa, if you would?

Esa Ikaheimonen - *ADNOC Drilling - Chief Financial Officer*

Yeah, I think summary of that is that we see more upside risks than downside risk. In particular, because of the unconventional development and the acceleration of unconventional development is also underpinned by the national objective of becoming cast self-sufficient. So, definitely drivers that would suggest medium term more upside than downside to our activity and level of rigs required here in Abu Dhabi.

And the first question was about the efficiency gains. It's not entirely straightforward. But the way in principle the thing works is that when we bring a new rig to the country and into operations, we agree a day rate for that rig and that day rate is actually firmed up for a long period. And then we are protected against key cost escalations through the cost escalation methodology, which means that it's very robust over a longer period of time. If we improve our efficiency as we as we continuously drive to do, in principle, we can keep the benefits. There isn't a sharing of the benefits methodology in place in those commercial agreements. But obviously, the more efficient we become, the more likely it is that that efficiency then feeds into the new day rates that we agree with our clients. That's the way it works. So, we're going to benefit from a kind of lagging effect if you like. Agree a day rate today, improve efficiency tomorrow, we benefit.

Faisal Azmeh - *Goldman Sachs*

Thank you.

Operator -

Next question comes from Abdul Alobaikan from Jadwa Investments. Abdul, your line is open. Please go ahead.

Abdul Alobaikan – *Jadwa Investments*

Yes, hi. Congratulations on the great set of results. I just had a few questions. Firstly, on the effective number of rigs that contributed to revenues during the quarter. Can you quantify them?

Esa Ikaheimonen - *ADNOC Drilling - Chief Financial Officer*

It's 115, right?

Nicolas Robert - *ADNOC Drilling – Vice President, Investor Relations*

Yeah, yeah.

Esa Ikaheimonen - *ADNOC Drilling - Chief Financial Officer*

115 is the number of rigs for the quarter. And it was actually flat during the quarter. No change. So, throughout the quarter 115.

Nicolas Robert - *ADNOC Drilling – Vice President, Investor Relations*

74 of those are in our onshore segment, 10 in the offshore island, and the balance jack ups.

Abdul Alobaikan – *Jadwa Investments*

So, all of these 115 were contributing to the revenue for the first quarter?

Esa Ikaheimonen - *ADNOC Drilling - Chief Financial Officer*

Correct. Yeah.

Nicolas Robert - *ADNOC Drilling – Vice President, Investor Relations*

Yeah, those are owned rigs in the fleet.

Abdulrahman Al Seiari - *ADNOC Drilling - Chief Executive Officer*

Owned rigs of the fleet. Those are the owned rigs on the fleet. And definitely, those are the rigs who are contributing to the quarter.

Abdul Alobaikan - *Jadwa Investments*

I see. Thank you. And regarding your debt, we note that the loans are maturing in 2023. And with a large CapEx on the way could you shed some light on your plans regarding your loans?

Esa Ikaheimonen - *ADNOC Drilling - Chief Financial Officer*

Yeah, so we've got the syndicate at $1.5 billion loan fully grown at this moment in time, maturing in November this year. So, work ongoing in terms of refinancing that. And as our CapEx plans mature, we will need to make the rest of our debt stack to work for us as well. So, putting the balance sheet to work and the existing debt capacity to work. As a reminder, as I think I mentioned during my prepared remarks, we've got in $1.7 billion of liquidity. So, that's $463 million of cash on balance sheet, plus about $1.2 - $1.25 billion of unused credit facilities. So, we are basically well resourced to complete the program. And actually, a bit more than that, recognizing also that our operating cash flow is very strong all the time.

Abdul Alobaikan – *Jadwa Investments*

I see, thank you. And regarding the cost reimbursement, could you quantify the actual cost reimbursements in fourth quarter in 22, compared to first quarter of this year?

Esa Ikaheimonen - *ADNOC Drilling - Chief Financial Officer*

Yeah, you can actually work out the numbers, because the delta between Q1 revenue and Q4 revenue is pretty much the delta in cost escalations. So, you get to the number quite easily. We haven't opened it up, and then we try and avoid it, it's going to technically -- try and avoid talking about it too much. But you know, you can work out the delta and its actually kind of staring at you when you look at the numbers because Q1, Q4, very much flat in terms of revenue and EBITDA, excluding that point. And then you may want to take into consideration -- if you really want to be very accurate, you may want to take into consideration the fact that the first quarter had two less calendar days than the fourth quarter. Those really are the drivers between the delta. So, very consistent performance. Q4 was hands down our record quarter ever, and Q1 was equally good.

Abdul Alobaikan – *Jadwa Investments*

Thank you.

Operator -

Next question comes from Guillaume Delaby from Société General. Guillaume, your line is now open. Please go ahead.

Guillaume Delaby - *Société Générale*

Yes, good morning. Congratulations, Nick, for the new role. And I'm very happy to meet my old friend Max again. My question would be on Hail and Ghasha. So, basically, you have been awarded, I think it was last July last August, $2 billion contract. You mentioned during the call that you are working on this contract also. To be honest, I've been quite confused, because there have been some articles in the press saying that some contracts, I think Hail and Ghasha has been put to a hold. So, I would like to know exactly what the status of this contract is, at least from your perspective. Thank you.

Abdulrahman Al Seiari - *ADNOC Drilling - Chief Executive Officer*

Thank you, Guillaume. Thank you. I think now to look at it. Yes, I heard about that also, there are some contract delays or -- but that's all of them are in relation to the EPC contract. And in fact, today, we have moved the first rig on the island, and we started drilling operation and there are plans to move the other rigs onto the island, there is a schedule that will be delivering currently some of those rigs and they're going some overhaul activities before they join into the island. So, yes, for the EPC there have been some delays changes. But drilling continues and normally that's the way happens and then drilling will restart and wells will be available for operators to sort of hook them up, tie them up, and do the production. So, that's the way we see it so far, I mean, to our plants. I hope that clarifies.

Guillaume Delaby - *Société Générale*

So, basically no changes from your perspective.

Abdulrahman Al Seiari - *ADNOC Drilling - Chief Executive Officer*

So, far, no change as much as we're moving forward with the plans. And if there is anything changed, definitely we will be updating as we go in our calls, meetings, you know.

Guillaume Delaby - *Société Générale*

Crystal clear. Thank you very much. I will turn it over.

Abdulrahman Al Seiari - *ADNOC Drilling - Chief Executive Officer*

Thank you.

Operator

The next question comes from Shadab Ashfaq from Al Ramz. Shadab, your line is open please go ahead.

Shadab Ashfaq - *Al Ramz*

Congrats on all and very congratulations on the strong set of results. So, I have three questions. So, do you have any breakup of like, how many new rigs are going to add in the next three quarters?

And the second question is if you see the offshore island performance, so it is like pretty much in the top line remain the same since last quarter and even the last quarter of last year. So, any update on this like any new risks that we add specifically in the Island sector?

And my last question is can you please provide more color to the OFS international explanation? So, anything which we can feel like accretive to the top-line of that segment? Thank you.

Abdulrahman Al Seiari - *ADNOC Drilling - Chief Executive Officer*

Okay. Now, I'll take some of those questions. And Esa, you can add. And, Emri, if you are online, you can add also.

Now on the new rigs, we have a very clear plan and in our target in '24 and '23 actually to add up to 24 rigs. Now, part of them will be new built, part of them will be existing jack ups that we are overhauling today or upgrading. Actually, four of them are in the shipyard anyway and soon they will be joining the operations in the Abu Dhabi waters. Similarly for the land rigs we have more than seven to eight rigs lined up to start operation within the third quarter and followed by in the fourth quarter we'll be getting the newly built rigs coming in.

Now on the offshore island, we started picking up in Hail & Ghasha with the first rig and that is planned to have the other rigs to start also in Hail & Ghasha. But generally speaking, the island activities will remain on the same level kinds of activities, there is no plans I mean, at least at this year to pick up more but definitely in future there is plans that we are working on with our client for potential additional rigs on the island.

Now, OFS international expansion into the region, again, we have plans, I mean, to work in the region where we talked about in the previous call. We are in the process of pre-qualification which is again strongly dependent on the qualifier from the other places, but one thing which is very good also to mention and we talked about in the previous calls, we're targeting to increase our market share in Abu Dhabi. So, we have that also lined up now. So, today we are operating 40 of our rigs into drilling services. And we have an additional eight rigs to pick up also. So, that's something that is going to happen in the coming quarters.

Emri, if you would like to add something on this or?

Emri Zeineldin - *ADNOC Drilling - Senior Vice President, Oilfield Services*

Yeah, I am with you Mr. Abdulrahman and also worth mentioning that we're looking at various options, post the pre-qualification or outside the pre-qualification, plus what Mr. Abdul Rahman mentioned in terms of eight rigs plus also you need to factor in the Upper Zakum Award where we are going to start with another our 49th rig by early Q3. And then there is another possibility of us expanding on three to four offshore rigs. So, we will, as we mentioned earlier, target the 45 to 50% before the year end in terms of the ADNOC Drilling owned rigs.

Shadab Ashfaq - *Al Ramz*

Thanks.

Operator -

Our final question today comes from Aakarsh Tomar from SICO. Aakarsh, your line is open. Please go ahead.

Aakarsh Tomar - SICO

Hello, congratulations on the good results gentlemen. I have a very quick question on your financial costs. So, as we can see the increase in Q1 in line with interest rates, so do you have any mechanism to offset this increase? Or like do you have the fixed day rate so is there any way that you can offset this increase?

Esa Ikaheimonen - *ADNOC Drilling - Chief Financial Officer*

No, the answer is no, we don't really have -- that's not part of the cost escalation protection we've got under our contract. So, that is a corporate cost that we bear ourselves. I think, on the positive side, obviously, our interest expenses and our interest rates are super competitive, given our strong balance sheet and probably a little bit of, you know, because of the association to the larger ADNOC group. And so, competitive advantage, definitely, when it comes to our ability to grow and finance our growth, but we don't have protection against increasing rates. And we've got that exposure.

Abdulrahman Al Seiari - *ADNOC Drilling - Chief Executive Officer*

We built all those kinds of things into our rate setting mechanism. It's not like just we put all those different elements.

Esa Ikaheimonen - *ADNOC Drilling - Chief Financial Officer*

Yeah, no, it's an input into the day rate calculation. Because as you do remember, we do have this guaranteed return model. So, 11 to 13% unlevered IRR and that includes the components that you're asking about, but then subsequently establishing the day rate on that basis, if there is a fluctuation up or down, by the way, so there's an upside and there's a downside associated to interest rates, then we do have that exposure, upside exposure and downside exposure. And more recently, obviously, it's been a downside exposure, given the way the rates have behaved more recently, that may also change.

Aakarsh Tomar - SICO

Thank you.

Operator -

This concludes today's Q&A session. So, I'll hand it back to the management team for any concluding remarks.

Abdulrahman Al Seiari - *ADNOC Drilling - Chief Executive Officer*

Thank you very much for the call. And I think one thing which we are very happy with and for the first quarter results, definitely, I mean, we have strong plans for '23 that we are expecting to deliver in line with the guidance that we have provided. So, hopefully, I mean, we will be meeting more on the next call, and hopefully we'll start some face-to-face meetings in the coming couple of weeks and moving forward to show better outputs in the near future. Thank you very much for being here with us. Thank you for the team here also. Appreciate it.