ADNOC DRILLING COMPANY P.J.S.C.
Third Quarter 2023 Earnings

Webcast & Conference Call Transcript

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PRESENTATION

Massimiliano Cominelli - *ADNOC Drilling - Vice President, Investor Relations*

Ladies and gentlemen, welcome to the ADNOC Drilling third quarter 2023 earnings webcast and conference call. My name is Massimiliano Cominelli, Vice President of Investor Relations. Before handing the floor over to the main speakers, I would like to draw your attention to the disclaimer that you find in the second slide, which I encourage you to read carefully.

The text contains important information. We advise caution on the interpretation and limits of historical data and forward-looking statements. I would like to remind you that this presentation and the recording of this call will be available on our website shortly after the end of the call.

Today's presenters are our Chief Executive Officer, Abdulrahman Al Seiari, our Chief Operating Officer, Christopher McDonald, and our CFO, Youssef Salem. Both Chris and Youssef recently joined the Company, so please join me in welcoming them to the team. As always, after the presentation we will have a Q&A session where we will be happy to answer your questions.

I will now hand over the call to our CEO, Mr. Abdulrahman, who will lead you through the key highlights of the quarter.

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

Thank you, Max and welcome all. It is my pleasure to be here with you today to discuss our results for the third quarter 2023 and also would like to welcome the new members of the management team of ADNOC Drilling.

Chris McDonald is the Chief Operating Officer, who joined us in August 2023 to support our company's accelerated growth and the expansion of our drilling and oilfield services operations. Chris brings with him a wealth of experience spanning more than 30 years working for industry leading companies.

Also, we have along with us here, the new Chief Financial Officer, Youssef Salem, who joined in October 2023 from AIQ, which is a J.V. involving ADNOC. Youssef, in his previous role has had major involvement with ADNOC and ADNOC Drilling deals including ADNOC Drilling IPO and our key strategic partnerships, so he knows us and our business extremely very well. So please join me in welcoming them both Chris and Youssef to ADNOC Drilling.

Now going back to results. Since our IPO 2021, we have constantly delivered strong results, coupled with significant shareholder return, with the outmost attention to Safety and the environment. For the first nine months our total recordable incident rate was 0.45 against a target of 0.7. Our commitment to the highest standards of HSE remains our number one priority. Additionally, we are also on track to reach our GHG emission target. In our previous call I commented on another strong period of growth for ADNOC Drilling, and the third quarter further adds to this positive trajectory.

Our strategy of expanding our drilling fleet and oilfield services continues to pay off, while improving margins through strong cost performance. Nine months revenue grew 14 percent year-on-year to $2.2 billion, with an industry-leading EBITDA margin of 48 percent. We also experienced excellent growth in our net profit which increased 24 percent year-on-year to $704 million.

During the third quarter we have added 4 jack-ups to our fleet, and we have also integrated 4 lease to own land rigs. Now with these 8 additions, the owned fleet at the end of September stood at 124 rigs.

While the 4 jack-ups will start operations in December 2023, the 4 lease-to-own rigs became operational in the third quarter and contributed positively to the quarterly results. As we are close to the year end, we have positively updated full year 2023 guidance, thanks to the increased earnings visibility. More rigs will enter the fleet from the 4th quarter and into next year, so we will see significantly more impact in 2024 with full benefit in 2025. Next slide please.

We continue to execute our strategy and deliver value to our clients, shareholders, and the UAE.

As part of our exceptional fleet expansion, we now have 41 IDS capable rigs, and we expect to add a further 7 shortly to support the growth of our Oilfield Services business. Now, the opportunity presented by the development of unconventionals represents a significant long-term growth opportunity for us. In the third quarter we increased the number of rigs drilling unconventional wells to 4, with scope for more as we become a regional leader in this field.

Next slide please.

Before handing over to Chris, I would like to draw your attention to recent developments underpinning the future growth of our Company. Our recently announced joint venture with Alpha Dhabi, that was announced at the end of last week, will create a dedicated platform to target investments in technology-enabled oilfield and energy services companies. The partnership will underpin ADNOC Drilling's market-leading position as an integrated drilling service provider and support our growth and expansion strategy. In addition, we have mobilized our first rig for integrated drilling program beyond our borders. Bottom line, we are executing on our strategy and paving the way for further successful and profitable growth.

I will now hand over to Chris to provide more details on the operations side.

Christopher McDonald - *ADNOC Drilling – Chief Operating Officer*

Thank you, Mr. Abdulrahman. I'm honoured to be here today to present our operational developments. As our CEO mentioned earlier, we added to the fleet four jack-ups and 4 lease-to-own land rigs in the 3rd quarter, an impressive quarterly growth in terms of units. The four jack-ups will commence operations by December; hence, they will bring full benefit in terms of revenue from Q1 next year. We included the 4 lease-to-own in the owned rig count because these new land rigs are expected to be purchased upon termination of the leasing period. The strategic decision to sign these new leases has allowed us to accelerate rig deployment and operations, allowing us to further expand the fleet, as these rigs will be purchased in the future.

Drilling activity remained robust in the third quarter, as we drilled 159 wells for two quarters in a row. The Offshore segment continued its strong performance, further accelerating sequentially, with a broadly stable drilling duration as measured in days. The Onshore segment maintained its outstanding 42 days of duration, while also performing batch drilling. The OFS business accelerated with a 16 percent improvement in Integrated Drilling Services (IDS) drilling efficiency versus last year's benchmark. Moreover, we added new services to our OFS offering, and performed IDS on 41 rigs, one more versus the previous quarter. As we have started the intake of an additional 7 IDS rigs, we expect to finish the year with a significantly higher number of rigs.

Moving to segmental operational performance on the next slide. Rig availability remained high across our business with Onshore improving sequentially to 95 percent, while both Offshore Jack-up and Island stood at 100 percent. The Onshore segment activity remained strong in Q3. We completed ADNOC Drilling's second successful 5 ½" Frac String cement job utilizing ADNOC Drilling's cementing services.

We also made good progress on unconventional, having delivered a second gas well where we completed the 12-1/4" section in Diyab in 8.4 days, well below our planned duration of 15.5 days.

In Offshore, the rig Al Danat, our newest addition, was accepted by ADNOC Offshore and commenced its drilling activity. The rig Al Lulu, utilizing IDS services, reached a new milestone in the field by delivering a combined drilled and completed footage of 45,563 feet.

Elsewhere, the rig Al Hudairiyat drilled an 8½ inch hole with average Rate of Penetration of 67 feet/hour, with an 8 ½ inch lateral section footage of 15,570 feet. Moving to OFS, 59 wells were delivered in 3Q23. Of the 19 benchmarked wells, 16 were delivered ahead of budget and schedule, confirming not only our focus but a very good delivery in terms of efficiency. And finally, we drilled the longest IDS well in NASR Field offshore Abu Dhabi, drilling 27,500 feet.

These are just a few of the significant achievements we had during the quarter across our operations.

Next slide please.

Sustainability is central to our business and this slide provides an update on our progress against our ESG goals. In terms of Health and Safety, our number one priority, our TRIR in the nine-month period was at 0.45, ahead of our target of 0.70, as we continue to record improvements as highlighted on the top right of the slide. Our ongoing initiatives to reduce energy intensity allowed us to close the nine months with an energy intensity of 40,868 GJ per rig, well ahead of our target 41,708 GJ per rig for the period.

Meanwhile, our best-in-class environmental management system allowed us to record zero spill incidents. And lastly, the Company remains committed to workforce gender diversity and development at all levels. Currently we have 82 nationalities represented in our workforce.

Next slide please.

Before handing over to Youssef, I'd like to update you on our decarbonization initiatives.

Starting with camps emission abatement. There has been good progress in Q3, with our Madinat Zayed camp nearing completion, while our Tarif camp is expected by year-end. Two more camps will follow and will be connected to the grid early next year. Meanwhile, we are installing solar systems for our mobile camps, which will replace diesel gen sets. As you may recall from the first half, we have ordered new hybrid land rigs, while also implementing a Battery Energy Storage System.

With regards to sustainability initiatives, we are optimizing the number of personnel at rig sites and developing a digitally focused workforce utilizing new technologies to unlock new efficiencies across our operations. Finally, with respect to diesel consumption, we continue to work on improving our combustion efficiency. I'll now hand over to Youssef to walk you through our financials as well as our strategic partnership announced last week.

Youssef Salem - *ADNOC Drilling - Chief Financial Officer*

Thank you, Chris and hello everyone, great to be on the call with you all today. It is a real pleasure to have joined the ADNOC Drilling team and thank you to Mr. Abdulrahman and the rest of the team for the warm welcome. I am looking forward to meeting with you all in the near future, and to the exciting months and years that we have ahead of us at ADNOC Drilling.

Before going into the financials of the third quarter, I'd like to elaborate more on the strategic partnership with Alpha Dhabi that we announced last week. The strategic rationale of the partnership, which will be set up as a jointly controlled J.V., is to create a dedicated platform that will target global acquisitions in technology-enabled oilfield and energy services companies. Through the J.V., we will invest with our partner up to $1.5 billion. This step is going to be value enhancing, both growing our integrated commercial proposition over time, but also through the critical mass that the J.V. will develop. We are excited to enter in this partnership, as the J.V. will target returns on investments compatible with the ones we have through our unique contractual framework with our clients, that as you know commends a double-digit unlevered IRR between 10 and 13 percent.

The J.V. will enhance value by leveraging ADNOC Drilling's scalable ecosystem and targeting value-accretive businesses in the OFS and energy value chain, adding depth to our offering, and further expanding our business. To enable this, the J.V. will identify a pipeline of transactions that will benefit both shareholders while being synergistic with ADNOC Drilling's OFS business.

Not least, the partnership will be a strategic collaboration between two leading Abu Dhabi entities with growth and agile execution capabilities. For the UAE, it will enable economic diversification, and support the ongoing decarbonization efforts, benefitting all stakeholders. Finally, and more on the accounting side of things, we expect to account for the J.V. through the equity method.

I'll be covering the financials and will start with an overview for the period. We had another strong quarter with revenue up 16 percent year-on-year to $776 million. That growth was driven by an increase in top-line across all segments. Quarter-on-quarter, revenue increased by 7 percent as we continue integrating new rigs to the fleet.

The strong top-line performance translated into EBITDA of $381 million, growing 27 percent year-on-year. Our cost management initiatives continue to deliver results, evidenced by industry leading EBITDA margin of 49 percent for the third quarter, a 4-percentage points margin expansion year-on-year. Net profit grew 36 percent year-on-year and 13 percent from 2Q to $257 million. Cash flow from operations came in at $337 million, up 6 percent from the prior year. As anticipated, we saw a ramp-up in CapEx as we continue to execute on our rig acquisition program. For the third quarter, CapEx was $592 million, compared to the $181 million in 2Q. We are currently getting some cash flow benefits from later payment for our rig acquisitions and an overall highly efficient and well-managed rig acquisition campaign. We maintained a healthy balance sheet with net debt increasing to about $1.6 billion at the end of September, leading to an increase in our leverage from 0.9 to 1.2 times EBITDA. Now next slide please.

Let’s take a closer look at our segments, starting with revenue. Onshore revenue increased 2 percent year-on-year as the contribution of new rigs integrated to the fleet more than offset the lower year-on-year reimbursement of cost escalation claims. Sequentially, revenue increased by 9 percent due to the full contribution of the addition of the previously mentioned four lease-to-own land rigs. These new rigs becoming operational on time allowed us to deliver a third quarter better than anticipated.

The Offshore Jack-up segment had another tremendous quarter, delivering year-on-year revenue growth of 39 percent to $199 million. Growth was driven by higher activity level and lower major maintenance in third quarter of this year compared to the prior year. Sequentially, revenue was up 4 percent driven by one additional rig integrated into operation, albeit the 4 new jack-ups added to the fleet are expected to contribute meaningful revenues from December, with a full contribution from the first quarter of 2024.

Offshore Island revenue increased 4 percent year-on-year to $54 million, driven by increased activity. Sequentially, revenue was equally also up 4 percent, benefiting from increased activity and an additional operating day in the third quarter. Oilfield Services revenue increased a strong 41 percent year-on-year, again demonstrating why it is one of our key strategic growth priorities. Third quarter revenue increased from $103 million to $145 million. This was driven by increased activity levels as the number of IDS rigs increased from 37 to 41 rigs in the period. This is a tangible sign that the efficiencies generated by IDS are a differentiating factor that clients outside the UAE are also looking for.

Sequentially, revenue increased by 8 percent, driven by one-off sales of certain materials, with lower margins. I will elaborate more on this shortly. Now, let’s see what that revenue performance means for EBITDA in these same segments.

Over to next slide please.

Starting again with Onshore, EBITDA for the quarter increased 7 percent year-on-year to $190 million primarily due to higher revenue and lower operating expenses. The drop in operating expenses was driven by lower diesel costs and realized cost efficiency measures, as we continue to seek out and identify areas to realize efficiencies. Sequentially, EBITDA was up by 20 percent driven by higher revenue for the new lease to own rigs, and stable expenses, further demonstrating our successful cost management performance.

In the Offshore Jack-up segment, EBITDA was up 87 percent year-on-year and 4 percent sequentially to $131 million. The growth was driven by higher revenue from new rigs and less maintenance activity. The combination resulted in a significant improvement in EBITDA margin leading to a best-in-class 66 percent for the third quarter of 2023, a year-on-year expansion of over 17 percentage points. The Offshore Island segment delivered 6 percent year-on-year growth to $37 million on the back of higher revenue and stable operating expenses. Again, our cost efficiency measures offset the costs associated with increased activity. Sequentially, EBITDA was up 16 percent driven by higher revenue and lower operating expenses.

Lastly, Oilfield Services delivered year-on-year EBITDA growth of 35 percent to $23 million, with a lower margin due the planned phasing of certain activities, more workover activity, and the one-off sale of certain materials, with both these activities being characterized by lower margins and diluting the segmental margins versus Q2. Sequentially, EBITDA decreased by 18 percent, due to inflationary pressures and the relatively lower margin activities, just discussed. Important to note, we expect sequential margin improvement in the fourth quarter of this year.

On the next slide, we will look at how these segmental earnings convert into ADNOC Drilling cash flow. Next slide please.

Our cash flow from operations increased by 6 percent year-on-year to $337 million. This was supported by the year-on-year net profit increase. Operating working capital was up by 18 percent year-on-year, due to increased net balance with clients as activity increases. On the balance sheet side, our Net Debt / EBITDA ratio was slightly up sequentially from 0.9 times to 1.2 times, as we continue executing our CapEx program. The increase in lease liabilities from $33 million to $198 million was driven by the addition of the four lease-to-own land rigs.

At the end of September our cash balance stood at $551 million, a sequential increase fueled by the draw-down of the $500 million syndicated term loan, to support the fleet expansion. Liquidity was around $1.3 billion at the end of September, including the unutilized revolving facilities, in addition to the cash on balance sheet.

On the debt side it's worth mentioning that on October 27 we announced a new 1.5 billion $ syndicated loan and a new Emirati dirham revolving credit facility of 1.84 billion dirhams. The term loan facility will be used to repay the existing syndicated term loan for an equal amount expiring in November, while the new dirham denominated revolving credit facility will fund the Company's growth and the associated working capital. Next slide please.

Our CapEx for the third quarter was $592 million, up from $181 million in the second quarter and in line with the expected ramp-up in rig acquisitions. We now expect CapEx to be around $1.3 billion for the full year 2023, as a result of phasing in the payments for rig acquisitions and the continued delivery of an efficient acquisition programme. Nonetheless, CapEx is expected to remain elevated through the first half of 2024, given the payment profile of our rig acquisitions. For this reason, we still target between 2 and 2.5 billion $ in 2023 and 2024 cumulative.

As mentioned previously, our working capital increased year-on-year by 18 percent to $454 million driven by the increased net balance with clients, as activity increases. Net working capital as a percentage of revenue had a blip to 15 percent at the end of Q3. This was on the back of increasing rig activity and related receivables as well as inventories, the latter also impacted by inflationary pressures. Since significant part of the receivables is due for collection in the fourth quarter of this year, we expect to reach a level around the upper end of the 10 percent to 11 percent of revenue at the end of the year.

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As Mr. Abdulrahman mentioned, we have positively updated our full year 2023 guidance on EBITDA, Net Profit, with related margins, and CapEx, on the back of increased visibility on earnings and profitability. The guidance on other metrics remains unchanged. We expect total revenue trending towards the bottom end of the 3 to 3.2 billion $ as the additional jack-ups start to delivery meaningful revenues in December and hence the full quarter impact will be in Q1 2024. As we are delivering on efficiencies, we are narrowing the EBITDA guidance and we now expect EBITDA of 1.4-to-1.5 billion $ (previously 1.35-to-1.5 billion $), with an improved margin range of 47 percent-to-49 percent (previously between 45 percent and 47 percent). Net Profit is now expected between 0.9 and 1 billion $ (previously 0.85-to-1 billion $), with Net Profit margin range of 29 percent-to-32 percent (up from the previous target between 28 percent and 31 percent).

As I said earlier, the third quarter had a very good acceleration versus Q2. In previous call the Company mentioned slightly stronger, but I would say it's been definitely stronger as we integrated the 4 lease-to-own onshore rigs. The updated guidance is underpinned by a fourth quarter that we foresee growing sequentially versus Q3 both in terms of revenue and EBITDA, with sequential growth rates for these metrics close to the ones we delivered in Q3 versus Q2. And this directional indication is based on higher visibility on the timing of rigs joining the fleet and becoming operational towards year-end. Finally, our medium-term guidance remains unchanged.

That concludes my remarks, thank you everyone, and now I will hand over back to Mr. Abdulrahman for his closing remarks.

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

Thank you, Youssef and the team. To recap, we have delivered another excellent set of results. Fleet expansion, growth across the key lines of our P&L, supported by strong cost performance across the organization. This has resulted in us continuing to deliver industry-leading margins. Moreover, the increased visibility on operations and earnings has allowed us to update our guidance.

We are delivering on the growth strategy with the creation of joint venture with Alpha Dhabi, as well as our commitment to develop business beyond our borders. Our objective to enabling our client's capacity growth through safe, efficient, and sustainable operations has supported the delivery of our ESG agenda.

I would like to thank the ADNOC Drilling team again for this strong performance. Thank you for joining us today. I will now hand over to the moderator to open the Q&A session. Thank you!

QUESTIONS AND ANSWERS

Operator -

Thank you. If you would like to ask a question, you may do so by pressing star followed by one on your telephone keypad now. If you would like to withdraw your question, you may do so by pressing star followed by two. When preparing to ask your question please ensure that your line is unmuted locally. Our first question today comes from Ricardo Rezende from Morgan Stanley. Please go ahead, Ricardo Rezende. Your line is now open.

Ricardo Rezende - *Morgan Stanley*

Hello. Good afternoon and thanks for taking my question. Youssef, welcome and good luck on the new position. We've met a few weeks ago, but good luck to you. So a couple of questions on my side.

The first one, it's on the JV. If you could provide a little bit more visibility on the disbursement of your share on the $1.5 billion. I would imagine that it might take a while to fully disburse this amount of -- but just if you could comment a little bit on that.

And the second one, I guess it's more towards Chris. We've been talking about the potential on unconventional in Abu Dhabi and that we could have some more visibility on that front next year. Just if we assume that there might be some incremental rigs coming to be deployed on unconventional, how do you see the market for rigs at this moment? Would you be able to get the rigs and same terms that you're able to get during this current plan or you're seeing more of a tighter market for land rigs? Thank you.

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

Thank you, Ricardo. I think, we've covered a few subjects during the call but definitely on the JV, more details will be provided by Youssef. And similarly, as you are wishing him all the best, definitely Youssef is an asset to us, and we wish him all the best.

Definitely, this JV with Alpha as an add-on, a value creation kind of JV, that we will be working together to sort of reduce the gap that we have in IDS. Now with that thing I will ask Youssef if he can add some more color into this. So hopefully he will address your question.

Youssef Salem - *ADNOC Drilling - Chief Financial Officer*

Thank you very much Mr. Abdulrahman. And thank you so much Ricardo. I'm looking forward to engaging together. So, we actually do expect that our 51% share of the $1.5 billion total will be deployed in a timely manner. We do already have a very actionable and tangible pipeline of transactions under the joint venture. Alpha Dhabi, our partner, is actually an experienced partner in oilfield services. They've already done a couple of recent acquisitions in the space. As you can imagine also on our side, we have been looking into the space and hence have our own pipeline and hence our combined pipeline of transactions is very kind of immediately actionable.

We are also very keen around that. As you know, having these additional technologies will one, allow us to have incremental margins from our existing operations as we vertically integrate into IP ownership. Two, will allow us to offer a broader suite of services on the IDS rigs where we are present. Three, would allow us to ramp up our IDS market share given the broader service offering. And fourth, would further accelerate our regional expansion. As you've seen with our first rig in Jordan, the client requirements was for integrated drilling services with a quite comprehensive scope. So, for all of these reasons, we see it as very strategic and we are keen to initiate this deployment in very quick order.

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

Now, with regard to the unconventional piece. Yeah, definitely, I mean, today as we are ramping up on that area today, we have four in operation and soon it will be increased to another one or two during a very short time. On the longer term, I think there is a good plan that we have how we can address. Chris if you would like to add more to this.

Christopher McDonald - *ADNOC Drilling – Chief Operating Officer*

Yes. Hi, Ricardo. Yes. As the CEO mentioned, we've got four rigs currently working on a well program that will take us over the next couple of years, maybe a little shorter, in which, you know, we're gathering a lot of data, cost data, performance data. And, you know, I think at the end of that, we'll be able to provide you a little bit more color in terms of the extent of the program in phase two.

Now, in terms of your question with regards to the rig market, the supply of rigs, it's tightened a little bit, but we've got good relationships on a number of suppliers. And so we've, you know, we're confident that, you know, as the unconventional grows, we'll be able to secure the rigs necessary in order to meet our client's requirements.

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

But one thing to add to what Chris mentioned, I mean, previously, I think Chris and the team did mention again that the land market of the rigs is not as much as the jack-ups, and the land is more quite open and competitive. And we believe, whatever we do, we plan it out. And with time, enough time, if we have, we will be able to get what we are getting today or even better than what we are getting in terms of rates, prices and what have you. So hopefully Ricardo, those answers the two questions that you have.

Ricardo Rezende - *Morgan Stanley*

That was great. Thank you very much.

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

Thank you.

Operator -

Thank you. The next question comes from Faisal Azmeh from Goldman Sachs. Please go ahead. Your line is now open.

Faisal Al Azmeh - *Goldman Sachs*

Yes, hi and thank you for the opportunity to ask questions. Three questions from my end. Just been thinking about the, you know, the CapEx guidance or the updated CapEx guidance, does that mean by coming at the lower end of that range that also from a revenue perspective, we should think about revenue potentially coming in the lower end of the range while margins maybe, you know, now if you've upgraded your margins guidance, the margins -- and the EBITDA, is likely to remain unchanged? So lower revenue, but higher EBITDA potential. That's my first question.

And my second question relates to the tax, I'm sorry if you mentioned this because I got cut off for a short period while you were presenting earlier, but is this going to be -- how sure are you in terms of your ability to pass that on to ADNOC group? Is this something that you're going to advance in terms of the talks, or do you feel that this is kind of still early stage, and we might effectively miss out on the repricing for 24? That's my second question.

And then just thirdly, just on the on the JV that you've signed, how does that impact the relationship that you have with Baker Hughes. How does Baker Hughes think about ADNOC Drilling effectively being involved with another OFS asset provider? And maybe if you can shed some color on the relationship there and why that JV wasn't formed with Baker Hughes themselves. Thank you.

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

Thank you, Faisal, thank you, Faisal. I think definitely will be passing to Youssef all these questions. But quickly on the CapEx. They know were lower mainly, we managed to get very attractive pricing on the acquisitions that we have done for the rigs. And that's one of the reasons where we did not spend all what we were planning, whether it is the jack-ups or even the land rigs. And that's why I was saying on the previous question, and once we have the plans, we can negotiate a good pricing. And then because we understand what is the market and know what we require. So that's on that part.

I mean, on tax. Also we have good plans. Yes, there is some announcements. We have clauses. We have started working with our clients and definitely we will work it out very soon and we will be advising on that. And on the last part and then JV, now what we are addressing on Alpha is different from what we are talking about on Baker. Baker is more of a services enabler, which is successfully happening and we are progressing. On the Alpha is more of JV to focus on technology that we can introduce. As mentioned earlier by Youssef. And I will have Youssef again to probably address those three matters in one go also.

Youssef Salem – *ADNOC Drilling – Chief Financial Officer*

Thank you for that Mr. Abdulrahman. Thank you for Faisal, so expanding on the points that Abdulrahman mentioned. So on the CapEx, yes. The lower CapEx is a function of us having a very disciplined capital investment program benefiting from the lower prices that were available in the market and utilizing the market conditions to both negotiate the lowest price available for these rigs as well as the most advantageous CapEx and payments and cash flow phasing for these rigs and hence coming towards the bottom end of the range.

The revenue is de-linked from CapEx even with our CapEx efficiencies, our revenue outlook remains very solid. The reason we have mentioned we are trending towards the lower end of the revenue range is purely a function of the exact timing and logistics around the rigs deployment. So as we mentioned, we expect the jack-ups to be back ended for this quarter and that's why we are coming towards the low end of the revenue guidance for this year. But this has no implications on the revenue going forward. So, we do not expect that revenue will be lower going forward, given the lower -- given that the CapEx towards the bottom end. These are completely -- these are completely separate.

In terms of the EBITDA coming towards the top end of the range and hence the updated margin guidance being higher even than the higher end of the previous profitability guidance range. This is a function of the continued cost optimization initiatives that we have across the board, including the crew, the maintenance, the services, etc. And hence again this is unlinked from revenue. This is a function of our cost optimization. And as the revenue continues to grow, we will continue to kind of experience these high margins.

In terms of the second point around, the updated tax guidance from the Department of Finance, announced a 9% income tax applying to ADNOC Drilling from 2024. To answer first your last question, we are very confident in our mid-term guidance and this --and this kind of updated tax guidance definitely does not warrant any change in our mid-term guidance for two reasons. One is on the tax specifically. We do have contractual provisions with our clients that we expect to utilize to recover the financial impact. And these discussions with the client around the implementation of these contractual provisions is already ongoing. And secondly, regardless of, and independent, of that kind of recovery of the financial impact of the taxes, we remain very confident in our forecasts on margin level regardless of the impacts of the of the tax issues.

On the third point, in terms of Baker Hughes, as you mentioned, we do have the existing strategic partnership with Baker Hughes, which is continuing their existing anchor shareholder as well as a partner. As Mr. Abdulrahman mentioned, the idea of this JV is to further expand the scope of the services that we that we offered to build further IP so we can basically increase the share of the well cost, the share of wallet, that we obtain from the clients. So in terms of why is this specific partnership not with Baker Hughes, again, we do have a partnership with Baker Hughes where they are the strongest in the market, in the specific kind of proprietary equipment and IP. This JV means that we can also partner and back other best players in the market in other parts of the oilfield services value chain. And hence when we look at these JV plus Baker Hughes partnership holistically, that we make sure that we have the best IP and equipment and enablement across the entire value chain and hence again increasing our margins, increasing our share of wallet, increasing our market share and increasing our geographic footprint to which these services are applied.

Faisal Al Azmeh - *Goldman Sachs*

Maybe, sorry, if you don't mind me just kind of clarifying few points. Just on the CapEx front, because our understanding is effectively you acquire a rig, and depending on the cost of the rig, a certain dayrate. So if you spend less on a certain rig, that means the actual dayrate per rig would be lower, given that the required return might not be as -- it would not require high dayrate. So, in the sense if you do incur lower CapEx over time, does that also imply that revenues would be lower over time? Just to kind of maybe clarify this point.

And then the second -- and maybe the second point just on the tax recovery. How do -- how should we kind of think about this from a modelling perspective? Is that something that you would realize through higher dayrates or just a repayment mechanism that comes in as part of other income? So, I guess because you mentioned that the medium-term guidance does not change, but if you are to start paying 9% to the government in taxes, will that mean the mechanism at which you're compensated by that would be higher day rates or another mechanism? Thank you.

Youssef Salem – *ADNOC Drilling – Chief Financial Officer*

Thank you Faisal, for the follow up. So on the first point, I think while what you described is broadly correct, we do have multiple levels that allow us at ADNOC Drilling to achieve a higher return as we optimize our CapEx. First of all, as you know, in the framework agreement, our IRR are ranges rather than single numbers. Hence, the more we are able to optimize the CapEx and optimize our spending cycle, the more we are able to negotiate with our clients being towards the top end of the IRR range because we have optimized the cost. Two, also our base term of 10 to 15 years in our framework agreement is, again, a range which allows us to recover that IRR either slightly faster or slightly slower. And again, as we do a better job in securing these rigs for lower rates in the market, we are able to recover that IRR in a shorter period of time within that base term range, again resulting in higher returns for us.

And finally, as you can imagine, the more we optimize the level of cost that we are charging the client, the more that incentivizes even further drilling activities and hence increases the overall volumes. And hence, while we do have that very significant downside protection from the contractual IRR, we still do have significant upside potential. To give you an example, our integrated drilling services, right, as we have effectively provided these to the clients, even though this does not come at a specific guaranteed level, the client has very rapidly ramped up the market share awarded to us. As we talked today, we talked about going from 41 rigs to adding additional seven rigs, and that is because the efficiencies we are getting. So the more we're able to operate efficiently as a business that has significant upside that we captured.

In terms of your point around the tax, the exact mechanism is currently being finalized because as you can appreciate, we do have existing rigs which are already operating on specific day rates, but we also have new rigs which are coming to the market imminently as we speak. And hence we do expect to have a combination where for certain new rigs coming to the market, this can be embedded in the day rate from the beginning, for existing rigs which are already operating on a fixed day rate, then effectively that can be compensated for in an alternative mechanism.

But for us, the key is that we do have this contractual mechanism that allows us to adjust the rates to kind of capture that financial impact and hence the exact way in which we do it, may ultimately slightly impacts specific accounting lines. But overall, financially and commercially for the company we'll be preserving the overall value of these contracts. And you have already seen examples of this before that we have discussed around escalations. We've discussed in the previous earnings call the escalations around the diesel, the fuel prices. We've discussed before, also escalations that we've passed through to the clients around certain manpower positions on the rigs. And hence in addition to the specific contractual protection on the tax, we do have a track record of implementing the other contractual protections and escalations we have in the contracts.

Faisal Al Azmeh – *Goldman Sachs*

Very good. Thank you.

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

I hope that clears, Faisal.

Faisal Al Azmeh – *Goldman Sachs*

Very clear. Thanks.

Operator -

Thank you. The next question comes from Oliver Connor from Citi. Please go ahead, Oliver. Your line is now open.

Oliver Connor - *Citi Group*

Hi. Thanks for taking my question. Congratulations again on the strong set of results. Just one for me now, actually. You know, just looking at, you know, the margin profile, I mean, you've shown strong progress, particularly in the drilling front in terms of boosting margins. And I'm just thinking ahead, you know, your medium-term guidance is around 50% plus. I mean, what's the sort of, you know, I guess, ceiling to that? I mean, it feels like you've got scope to push margins higher, particularly across the drilling business. So just wondered how you think about that target evolving, particularly as you reach the 142 plateau. Thank you.

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

Thank you, Oliver. I think I will pass it directly to Youssef.

Youssef Salem – *ADNOC Drilling – Chief Financial Officer*

Thank you so much, Oliver, for the question. So, you are absolutely right that on the drilling segment, both onshore and offshore, we are continuing to see very kind of favorable margin increases. Having said that, what we are also seeing is the oilfield services share of the business significantly increasing as it continues to grow very rapidly and to grow disproportionately faster than the drilling, partially because of starting from a lower base and partially because of the very strong efficiencies we have been able to demonstrate, and we continue to demonstrate. And as we expect with also the investments we are making, the joint venture with taking our IDS services outside, this segment will continue to expand rapidly, and hence we continue to be comfortable that the blended margin profile that we have guided towards in the mid-term guidance remains valid because as the individual segment margin improves, the overall weighted average mix of the business will change and hence the overall blended margin would remain in that area.

Oliver Connor - *Citi Group*

Thank you.

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

Thank you.

Operator –

Thank you. The next question comes from Alex Comer from J.P. Morgan. Please go ahead. Alex, your line is now open.

Alex Comer - *J.P. Morgan*

Hi. Thanks for taking my question. Again, I got another question on this on this JV. Could you just drill down just in terms of $1.5 billion? You know, how much of that is going to be spent in the next sort of, say, three years and how much is a sort of long-term investment? I'm also sort of kind of struggling to see, you know, what Alpha Dhabi are bringing to the party here. I mean, you know, why are you not just doing this yourself? What are you getting from them that you needed? And hence, why is it a JV? And then also, when do you expect to receive dividends from this JV?

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

Thank you, Alex. Again, and now for sure this JV is strategic and we can capitalize on the JV. Now to start with, they have already -- and then if you remember, last year they had acquired almost 25% of a certain technology, which we feel those are things we need. And there is a number of other elements in the pipeline that they are working on. And similarly, we've been working on other technologies that we can get. The whole idea for us and then to join forces and get something that would help the company more. Youssef, if you can add a few more points to this.

Youssef Salem - *ADNOC Drilling - Chief Financial Officer*

For sure, thanks Mr. Abdulrahman. Thank you, Alex. On your first question, in terms of if you want splitting them into within three years, post three years, we do expect to see the vast bulk in the three years, even though the investment period is longer because of the very actionable and attractive pipeline we already have in place, we do see the vast bulk of in the first three years.

In terms of your second question on Alpha Dhabi and why partners. So as Mr. Abdulrahman mentioned, Alpha Dhabi is actually quite experienced in international investment in oilfield services. They have done a couple, the one that Mr. Abdulrahman mentioned and another one recently a few weeks ago. They do also have a very effective pipeline and the joint venture also has an investment advisor unit, Lunate which is a $50 billion, kind of AUM asset managing, which again has a lot of experience and pipeline. And hence we do think the collective experience or collective deal flow, is additive. We as a company have partnerships in our DNA. Our partnership with Baker Hughes has been extremely successful and that's how we have built the oilfield services business from scratch into what it is today. Our partnership with H&P, which allows us to also have rigs at a very attractive proposition in our fleet. And we do expect this partnership with Alpha Dhabi to follow along the same line.

In terms of your point around dividends. So all the investments that the JV will make, one from an overall return profile perspective and IRR perspective will be in line or higher with our existing IRR framework. So, we do expect all of these companies to be return accretive. We also expect them to have a strong financial profile. So, we don’t expect any of these transactions with JV to be a drag on, neither from a return perspective nor from a dividend perspective. We obviously have a lot of financial flexibility with where we stand today in terms of cash on balance sheet, in terms of free cash flow generation, in terms of debt capacity, and hence we do expect this to become accretive on every level, including kind of cash flow generation from the joint venture and hence supporting our overall distributions profile at a corporate level.

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

Hopefully Alex, the questions have been addressed.

Alex Comer - *J.P. Morgan*

I just wondered. Well, okay, it's okay talking about returns and things, but if you don't get dividends out of the JV, you haven't got any money to distribute to your shareholders. So just again, when do you think you will receive actual cash dividends from this J.V.?

Youssef Salem - *ADNOC Drilling - Chief Financial Officer*

So, I think if you think about the sequence of events that will happen. One is we need to get the JV to official closing now that we find it. Second is we will start transacting on the actual pipeline that we that we have, which we expect to get to kind of get done in short order. And hence, within the course of next year, we will then have a much better view because at that point in time we will have the actual underlying companies in the JV. And then at that point in time, we're able to kind of map a distribution profile using the profiles of these companies. But what we can tell you is from the pipeline we are looking at, these are companies, these include companies which are currently already paying dividends to their shareholders off the back of a very strong free cash flow profile. And hence we expect that shortly after the closing of the joint venture and the closing of the first deal, we will start to receive dividends given some of these pipeline are already paying it to the existing shareholders as we speak.

Alex Comer - *J.P. Morgan*

Okay. Thank you.

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

Thank you, Alex.

Operator -

Thank you. The next question comes from Nour Sherif from Arqaam Capital. Please go ahead. Your line is now open.

Nour Sherif - *Arqaam Capital*

Yes, thank you for the call and for the opportunity to ask questions. Just a couple of questions for me, if I may. My first one on if you can share more colour on the redeployment plans for 2024. If you can guide us on the number of operating rigs for next year.

And my second question is on the expansion outside of the UAE, the timeline or where we should see the expansion and the potential M&A pipeline.

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

I think Nour, those three questions you had on the delivery, on the expansion, and also the M&A plans. On the delivery, I think we are on schedule, and I will have Chris to update, please.

Christopher McDonald - *ADNOC Drilling – Chief Operating Officer*

Thank you. Hi, Nour. Yeah, so we've got, at the end of Q3, 124 rigs. You know, that's going to go to approximately 140, 142 rigs throughout 2024. We hope to get most of them, our plans are to get most of them in service by the middle of next year. There might be one or two stragglers, but most of them will be deployed by the end of second quarter or early third quarter next year.

With respect to the outside –

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

The expansion, I think we have, again, today whatever we are doing, as mentioned by Youssef, the international expansion, I mean especially in the region, there is this prequalification process which we have talked about in our previous calls; that stands the same. And there are those requirements of international experience. And we believe what we are doing today and the work that we are doing in Jordan will give us support to our client. And also going with the total solution concept with efficiencies, hopefully that will be showing to the industry, will help us to expedite our programs for the expansions.

And the third thing was the M&A. If you can update –

Youssef Salem - *ADNOC Drilling - Chief Financial Officer*

For sure, Thank you Mr Abdulrahman and thank you, Nour. I think the M&A follows from the strategy that Mr. Abdulrahman outlined. Ultimately, our objective is to build technology, continue to expand our service offering, and then take that integrated service offering outside Abu Dhabi as well. And M&A will always follow in that path parallel to the organic. So the M&A, on the JV, on the services side, we talked about it. It's about technology building, margin expansion, and kind of a service offering expansion to the extent that there are also M&A opportunities on the drilling side. That also helps support the strategic objective of being, one in attractive market in the wider GCC and potentially beyond, and be there in short order, as you have seen from Jordan. One of the reasons we are taking this step is to accelerate that international experience and track record that would allow us to accelerate the pre-qualification and some of the core expansion markets we want to go to. And hence, if there's an accretive M&A transaction that allows us to either one, continue to build the integrated drilling services offering and technology footprint to increase that what is already today a unique competitive advantage, being the only kind of regional driller able to offer this kind of integrated services bundle and/or it is an M&A that allows us to have a wider rig fleet and geographic footprint in the region and beyond to which to apply these services. Then we will embark on that. So we continue to, kind of, to evaluate. We don't want to do a transaction for the sake of doing a transaction. We want to continue to compare a viable for every opportunity and see which is the more accretive path to ultimately reach our North Star, which is that more efficient offering for our clients inside and outside of Abu Dhabi.

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

Thank you, Nour.

Nour Eldin - *Arqaam Capital*

Thank you.

Operator -

Thank you. Our final question today comes from Afaq Nathani from International Securities. Please go ahead, Afaq. Your line is now open.

Afaq Nathani - *International Securities*

Hi. Thank you so much for taking my questions. This is Afaq from International Securities. Most of my questions have been answered, so just a small one from my end. We saw the restatement that you guys have done in this quarter, but even after the restatement, the last year's general and admin expenses were $41 million, which are now currently 21, almost $21 million, despite a much higher number of rigs. How should we be looking at and what is driving this decline? What is the more sustainable number? If you could guide us on that, that would be very helpful. Thank you.

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

Thank you, Afaq. I think, Youssef, if you can add and I will add to it also.

Youssef Salem – *ADNOC Drilling – Chief Financial Officer*

For sure. Thank you Mr. Abdulrahman. And thank you, Afaq. So Afaq, as you mentioned, the continuous reduction in the in the G&A expenses is part of our ongoing cost optimization, where we are continuing to use our existing resources in terms of people, maintenance, equipment, etcetera, more efficiency across a wider range of fleet, and hence, been able to continue to drive these efficiencies.

In terms of what is the more sustainable number to use, we would recommend using the H1 2023 as closer to the run rate because in Q3 2023, some of the further optimization that you see in that quarter are partially one off at further cost optimization. But the H1 2023 is more representative of what is already occurring at cost optimization, which we will continue to focus on as we continue focusing on our overall margin expansion profile.

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

I think part of it is the programs that we have for cost performance and especially introducing new practices, change practices, that we can sustain. If all that, again, probably I will link it back to what Youssef explained earlier. I mean, given the example of IDS, I mean, those are the tools, which is normally any client, especially in the drilling business. We would like to see optimum well cost eventually that would lead into the optimum cost per barrel, that's the whole drive from different areas. And for us to continue with the same kind of agendas with our clients, attracting them. And really, again, this will help us into also what we talk about the expansions, not only providing the total solution at one stop, also, we are a cost-effective solution provider.

So all that comes together, I mean those are different things that we are introducing as we go. Well, everything is progressing well, and I think as explained by Youssef, there will be certain adjustments and things are going into the right track. I hope that answers your question, Afaq.

Afaq Nathani– International Securities

That does. Thank you so much, Youssef and Abdulrahman. Thank you so much, and good luck for the rest of the year and the next one. Thank you.

Youssef Salem – *ADNOC Drilling – Chief Financial Officer*

Thanks, Afaq.

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

Thank you.

Operator -

Thank you. That does conclude our Q&A session for today. So I'll hand back to the CEO, Abdulrahman Al Seiari for closing remarks.

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

Thank you, all. I appreciate that. And a very interactive session. I think quite a big number of attendees to the call. And I hope we have answered all questions and are looking forward for a successful and strong closing year and meeting your expectations and your clients expectations. Thank you very much, all. Thank you for listening here. Appreciate it.