ADNOC DRILLING COMPANY P.J.S.C.

First Quarter 2024 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 first quarter 2024 earnings webcast and conference call.

My name is Max 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, and our CFO, Youssef Salem.

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 strategic developments and the key highlights of the quarter.

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

As-salamu alaykum, thank you Max and welcome all, good day.

I'm really pleased to be here today to discuss the company's first quarter 2024 results, along with the value-added strategic developments.

As a strategic partner at the heart of ADNOC Upstream, we continue to execute our strategy, delivering long-term value to our clients, shareholders, and the UAE, with the utmost attention to Safety and the Environment.

For the first quarter 2024 our total recordable incident rate was 0.63, which is in line with our target. The strong commitment to the highest HSE standards remains our number one priority. Additionally, we are also on track on our emissions targets.

On the financial side, Q1 2024 revenue grew 24% year-on-year to $886 million, with EBITDA rising even faster, an impressive 31% year-on-year, allowing us to keep delivering an industry-leading margin of 49%.

We also experienced excellent growth in our net profit, which increased 26% year-on-year to $275 million, reiterating our continued growth.

Our journey to become one of the world's largest owned and operated drilling fleets continues. During the quarter, we added 8 rigs. All of those rigs are hybrid land rigs, which supports our EGS agenda.

With these additions, the owned fleet at the end of March 2024 stood at 137 rigs, including four lease-to-own land rigs.

We remain committed to our future proofing strategy, after successfully completing our first investment in Gordon Technologies under our JV, Enersol.

Reflecting our results and continued significant growth, the Board of Directors is recommending an enhanced progressive dividend policy that will see dividends grow by at least 10% per annum for the next five years, setting a higher minimum growth rate.

Also, today we announced a transformative step in our Company, with the award of a contract for $1.7 billion for the development of the unconventional energy resources in the UAE.

Next slide please…

The contract is set to be serviced by a newly established Company, Turnwell Industries, that we expect to effectively consolidate. We are partnering in Turnwell with strategic players and have signed a term sheet with both SLB and Patterson.

By establishing Turnwell, we aim to focus on the execution and exploration of unconventional resources. The first phase is for 144 oil & gas wells over the next 2-plus years.

Abu Dhabi today holds an estimated 220 billion barrels of unconventional oil and 460 TCF of unconventional gas in place. The opportunity in the unconventional energy presents outstanding scale with the production potential comparable to some of the most relevant unconventional energy resources in the United States.

This huge potential brings to us a transformational opportunity, as the UAE's unconventional energy resources will require many thousands more wells to be drilled, and ADNOC Drilling is in the prime position to deliver them.

I will now hand it over to Youssef, our CFO.

Youssef Salem - *ADNOC Drilling - Chief Financial Officer*

Thank you, Mr. Abdulrahman and good day from me as well.

As you know, we operate one of the world's largest integrated drilling services companies by rig fleet size.

Over the first quarter, we added to the fleet a total of 8 hybrid land rigs, bringing our total rig count to 137 rigs, up 19% year-on-year, an impressive annual growth.

We are very proud of the progress achieved, supporting ADNOC in reaching a production capacity of 4.85 million barrels per day, and on track to successfully achieve 5 million barrels per day capacity by 2027 with 142 rigs.

The eight hybrid rigs are gradually beginning operations, with the majority of them expected to commence in the middle-to-end of the second quarter.

Drilling activity remained robust, as we drilled 139 wells in the first quarter, broadly in line year-on-year.

Rig availability increased to 97% versus 96% in Q1 last year.

The OFS business continued its strong performance with 13% overall improvement in Q1 2024 Integrated Drilling Services drilling efficiency versus last year's benchmark. Moreover, we performed IDS on 49 rigs in the quarter, 9 more compared to Q1 last year and one more versus Q4 2023.

Moving on to our decarbonization initiatives…next slide, please.

Starting with camps emission abatement. There has been good progress in Q1, with our Madinat Zayed camp having been connected to the grid since February, while our Tarif camp is scheduled for connection by the second quarter of 2024 followed by our Habshan & Bu Hasa camps in the second half of the year.

Moreover, we completed the installation of our first solar panels to power a mobile camp.

As you know, we ordered new hybrid land rigs, most of which are already in the rig count, while also implementing a Battery Energy Storage System which will be installed on new-build rigs and select existing rigs.

Also, some of the 16 hybrid rigs ordered in full year 2023 already commenced operations, while the remaining will be deployed throughout the rest of 2024.

With regards to sustainability initiatives, we are monitoring consumption to identify gaps and areas of improvement, optimizing diesel consumption to meet reduction targets while further electrification initiatives remain under evaluation.

In addition to our current initiatives and efforts, we expect our Joint Venture, Enersol, to play a key role in supporting our decarbonization agenda.

Moving now on to the financials…next slide please.

I'm happy to say that we had a record first quarter, kicking off 2024 on a very positive note. We delivered our highest ever quarterly revenue of $886 million, up 24% year-on-year. This then translated into EBITDA growth of 31% year-on-year to $437 million with a margin of 49%, while net profit grew 26% to $275 million.

Sequentially, revenue increased 5% and EBITDA grew 3%.

Before heading into net income, I would like to highlight two new line items in our income statement for the quarter.

Firstly, starting from this quarter, Enersol's financial results have been accounted for by ADNOC Drilling through the equity method in the "Share of profit of joint venture" line of the income statement. It's still a small contribution, as we closed the first deal only in January, but it will grow significantly over time.

Secondly, as you know, this was our first quarter since the Abu Dhabi taxes were applicable to ADNOC Drilling. The Company accrued $27 million in taxes in Q1, on the back of the introduction of a 9% income tax from the 1st of January, 2024. We have invoiced our clients for the reimbursement of these taxes.

On the bottom line, excluding the one-off full-year impacts in Q4 depreciation, discussed during our last earnings call, net profit was down 4% sequentially, mainly driven by higher interest expenses.

Cash from operations stood at around $347 million at the end of the first quarter, up from $226 million in the same period last year. This was driven by higher profits and positive working capital evolution, driven by continued focus on collections from clients. Net working capital as a percentage of revenue stood at 11% at the end of the first quarter of 2024, a significant improvement year-on-year, driven by collections.

The normalized ratio at the end of Q1 was 12% and stable versus Q4, once adjusted for the impact from phasing of capital expenditure related payments at quarter-end.

Cash CapEx for the quarter, excluding prepayments and accruals, stood at $110 million as we continue to deliver on the rig acquisition program. We expect CapEx to be in a range between $750 and $950 million for 2024.

The balance sheet remains healthy with net debt of around $2.1 billion at the end of March, leading to a leverage ratio at 1.3 times EBITDA.

Let's look at revenue for the different segments…next slide please.

In Onshore, first quarter revenue increased 16% year-on-year to $411 million from $355 million, driven by increased onshore activity on the back of new rigs commencing operations. Sequentially, revenue in the first quarter decreased 1% due to less operating days in the quarter. Moreover, as you may recall, fourth quarter 2023 benefited from the positive impact from long-range rig moves, excluding which segment revenue would have increased sequentially by 3%.

Offshore Jack-up had another remarkable quarter with first quarter revenue increasing 51% year-on-year to $278 million from $184 million. This was mainly driven by higher activity from the additional jack-up rigs. The contribution from the jack-ups that started in December 2023 led to a sequential revenue growth of 24% versus the fourth quarter of 2023.

Moving on to Offshore Island, first quarter revenue amounted to $51 million, in line with first quarter of 2023, as activity was broadly stable year-on-year. Sequentially, first quarter revenue decreased 2%, driven by less operating days in the quarter.

In Oilfield Services, first quarter revenue increased 16% year-on-year to $146 million from $126 million, driven by increased activity in drilling fluids and directional drilling. Sequentially, first quarter revenue decreased 1%, mainly due to activity phasing - for example lower frac activity in first quarter. We expect the overall volume of activity of the segment to increase throughout the year, in-line with planned phasing and driven by IDS rigs ramp-up and unconventionals.

Now, let's see in the next slide what revenue performance meant for EBITDA.

Over to next slide please.

Starting with Onshore, EBITDA for the first quarter increased 10% year-on-year to $190 million with a margin of 46% supported by realized cost efficiencies. Sequentially, EBITDA decreased 6% to $190 million from $203 million on account of higher operating expenses, driven by incremental manpower costs, mobilization costs incurred for our operations in Jordan, along with the associated costs for rigs which commenced operation in the quarter. This was partly offset by cost efficiency measures.

Offshore Jack-up EBITDA in the first quarter grew 73% year-on-year to $182 million, with an industry leading margin of 65%, representing an expansion of around 8 percentage points. Sequentially, EBITDA increased 23% driven by strong revenue growth.

In Offshore Island, the first-quarter EBITDA decreased slightly to $31 million in the quarter from $32 million in the prior year with a margin of 61% due to stable revenue and slightly higher Opex. Sequentially, EBITDA decreased 6% due to a moderate increase in maintenance costs related to three rigs gradually restarting operations later in the year, starting from the second quarter. I would like to highlight that given the contractual framework with the client, the restart of operations of these rigs is not expected to substantially contribute to an increase in revenue.

Lastly, OFS EBITDA increased 48% year-on-year to $34 million, with margin improvement of four percentage points to 23%. This was supported by a $2 million share of net profit from Enersol joint venture. Sequentially, EBITDA decreased 15%, driven by lower margin activity mix, with more directional drilling and lower frac activity.

Next slide please.

Following another record first quarter, we can say that we are on track with our full-year 2024 and medium-term guidance.

Our guidance includes only the contribution of the initial phase of unconventional, while it does not cater for the second phase, which could unlock significant contribution from the potential delivery of thousands of wells, as mentioned by Mr. Abdulrahman.

We will effectively consolidate the unconventional operations financials. Exact details will be shared upon signing of the definitive documents with the partners in Turnwell.

In the near term, we currently expect a second quarter sequential growth trending towards the mid-single digit versus Q1 for revenue and EBITDA, with a trend similar to that we saw in first quarter versus fourth quarter 2023.

As a general trend, for the remaining quarters this year, we project broadly similar sequential growth between quarters, as we deliver on the rig fleet program.

For this reason, we expect a second half with revenue and EBITDA higher than the first half.

This slide is a summary of where we are on two key developments that are not captured by our guidance.

Starting from Enersol.

After completing the first transaction acquiring the stake in Gordon Technologies, the US based leading player in "measurement while drilling", we are in final stages on 3 further transactions in segments fully complementary to our business, such as drilling and precision manufacturing, completion, and intervention.

To give you a sense of the potential size, we expect from Gordon Technologies and the three transactions an annual pro-forma net income up to $50 million for ADNOC Drilling, upon completion.

Signing of those is expected in 2024.

Furthermore, we have 6-plus transactions in advanced stages…

Based on current visibility, Enersol is expected on a fully-invested basis to contribute to ADNOC Drilling an annual pro-forma net income up to $100 million, subject to closing of all transactions.

On another strategic front, the regional expansion into the GCC region, we are progressing and targeting selected markets with accretive potential upside.

As we speak, we are in advanced stages for prequalification on drilling and services with regional NOCs, particularly in Oman and Kuwait.

Our goal is to build a presence in these adjacent markets through our integrated offering, unparalleled experience and proven track record.

Before handing back to Mr. Abdulrahman, I would like to touch on our new dividend policy which focuses on optimizing capital allocation through sustainable and progressive distributions.

Under the new dividend policy, we aim to grow dividends by at least 10% per annum on a DPS basis over next five years between 2024 and 2028.

The Board of Directors, at its discretion, may consider additional dividends over and above the progressive dividend policy after considering growth opportunities while maintaining a net debt to EBITDA ratio of up to 2x, excluding transformative M&A.

The policy will be subject to shareholder approval at an upcoming General Shareholder Meeting.

I'd like to highlight that the total dividend for 2024 is expected to be at least $788 million, representing a 10% year-on-year increase.

As per the policy, dividends are expected to be paid semi-annually with a final dividend distributed to shareholders in the first half and the payment of the interim in the second half of each fiscal year.

That concludes my remarks, thank you everyone, and now I will hand over 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 strong quarter: fleet expansion, exceptional growth, supported by strong cost performance across the organization, and resulting in leading margins in the industry.

This growth, financially and operationally, is reflected in our new progressive dividend policy which aims to enhance distributions and overall shareholder returns.

We are also delivering on the growth strategy with the creation of Enersol, which has completed its first transaction, while also starting a transformative journey in the unconventional energy development via Turnwell.

Our objective is to enable our client's capacity growth through safe, efficient, and sustainable operations that support our ESG agenda.

I would like to thank the ADNOC Drilling team again for this strong performance.

Thank you for joining us today, and I will now hand over to the moderator to open the Q&A session…thank you!

QUESTIONS AND ANSWERS

Operator -

Thank you. Of course, if you'd like to ask a question via the telephone lines, you can do so by pressing star followed by one on your telephone keypad. If you choose to withdraw your question, please press star followed by two. When preparing to ask your question, please ensure your phone is unmuted locally. As a reminder, that's star followed by one on your telephone keypad now.

Our first question comes from Ricardo Rezende of Morgan Stanley. Ricardo, your line is open. Please go ahead.

Ricardo Rezende - *Morgan Stanley*

Hello. Good afternoon and thanks for taking my question.

My first question is related to the unconventional announcement. When you discuss that there might be many more thousands of wells to be drilled on unconventional, would you have any indications on how many incremental rigs could that require compared to the 142 rigs that are in the guidance by the end of this year?

Then the second question is related to the regional expansion. We've seen some jack-ups being suspended in Saudi. Would your regional expansion be more on the offshore or onshore? I guess what I'm trying to think is would you be a potential buyer for some of those assets that have been idled because of the developments in Saudi? Thank you.

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

Thank you, Ricardo. This is Abdulrahman speaking.

Now on the first part on the number of wells or number of rigs, the unconventional, it's a journey that we are starting. Unconventional, from technical point of view, the life of the wells normally is totally different from what we do on the conventional activity. The number of wells definitely will be thousands because of the demand, what kind of capacity is targeted to produce. That definitely will be the operator call for in terms of how much growth he would like to go into the unconventional, having in mind the conventional is there also. But definitely those are unconventional resources which is available to be recovered. As we are talking, the number is 220 billion of crude oil, 460 TCF of gas. Now huge numbers. If we assume certain percentage - let it be 10% - again there's big recovery that has to be done.

Now in terms of number of wells or number of rigs, from experience, we would expect - because of the amount of activities that were required - probably it will go to only the intermediate phase. Probably it will go from 20 to 30 rigs, but again it depends how much of the program will be there.

Now on the other part on the jack-ups which is available, we had the program for the growth plan in the offshore. As we have mentioned in the past, all our plans or planned jack-ups that we wanted to purchase, it's already ordered. Actually the last two are expected to come hopefully within the next couple of months to Abu Dhabi to start operation hopefully between July, August hopefully. That's the plan.

Now is there anything else to come? We will be looking at opportunities. If there is any opportunity that we can work through, we will think about it as a piecemeal. But definitely land rigs is totally different, because the unconventional is mainly on the land or is only on land now.

I hope that answers unless, Youssef, you would like to add.

Youssef Salem - *ADNOC Drilling - Chief Financial Officer*

No, no, fully agreed, Bu Mohamed. I think Bu Mohamed has provided an estimate of 20 to 30 rigs on the unconventional. Assuming a kind of illustrative 10 wells per rig, that's 200 to 300 wells. ADNOC has communicated that they would like one billion cubic feet of gas per day from the unconventional by 2030. Extending that 200 to 300 wells per year towards 2030 will probably give you an estimate that this is, let's say, in the low end of the call it thousands of wells range, so potential upside even above that.

As Bu Mohamed said on the expansion side, we are looking at opportunities. We have mentioned in the presentation that we are very close to pre-qualification imminently in Oman and Kuwait, which is the organic route we are pursuing and, in parallel to it, continue to evaluate the inorganic route. These two markets are by definition predominantly onshore markets and hence this is where the onshore opportunity is the closer opportunity from a regional perspective.

Ricardo Rezende - *Morgan Stanley*

That was very clear. Thank you.

Operator -

Thank you. Our next question comes from Waleed Jimma of Goldman Sachs. Waleed, your line is open. Please go ahead.

Waleed Jimma - *Goldman Sachs*

Hello. Good afternoon. Thank you for taking my questions. Two questions from my front.

First one is on the unconventional front. Just wanted to ask if you could please confirm if the $1.7 billion is part of your current guidance?

Second of all, in terms of the phase out of the onshore rigs, you expect to commence operations in Q2. Have these rigs started operations or are they expected to begin towards the end of Q2?

Thank you.

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

Thank you, Waleed. I will take the second part and you can take the first part, Youssef.

On the rigs that are planned, definitely we started receiving whatever we were planning in Q1. Actually we had eight rigs in Q1. There is another six to eight rigs to come in Q2. As we talk, most of the rigs are in Abu Dhabi, are getting worked out, rigged up kind of thing and getting ready for integration. Hopefully in the coming couple of months, those rigs will be also active and will start operation, apart from the other two jack-ups that I mentioned also.

The first part was on the $1.7 billion...

Youssef Salem - *ADNOC Drilling - Chief Financial Officer*

Yes. Yes, the $1.7 billion is part of the guidance but only the $1.7 billion. Hence everything after that is a substantial upside to the guidance.

Also on the first point, on the guidance, also the three additional onshore rigs starting, also joining the fleet in Q2 is also part of the guidance. That's why we're very confident now with these rigs here that we're going to be hitting the mid-single-digit growth guidance in Q2 as well as basically taking our fleet by the end of Q2 to the 140 rigs, which puts us again well on track for finishing the year with 142 rigs plus and hitting the overall year guidance.

Waleed Jimma - *Goldman Sachs*

Very clear. Thank you very much.

Operator -

Thank you. Our next question comes from Afaq Nathani of International Securities. Afaq, your line is open. Please go ahead.

Afaq Nathani - *International Securities*

Hello. Thank you for taking my question. Congratulations on a great set of numbers.

Just a little bit on the unconventional side, if you could elaborate how should we be looking at the potential financial contribution from this front? Do the rigs have the same contractual set-up over the fixed IRR as to the conventional rigs? What is the potential? How big is the potential for this segment if you could put a number to it for Abu Dhabi as a whole and for ADNOC Drilling's part to play in that? That's one.

The second part is this is the first quarter with the tax expense. I just wanted to get some idea on how the experience has been in terms of passing on the impact of the tax expense to the clients. Have you guys been able to fully pass on the impact or are you taking some hit of it as well?

Thank you.

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

Thank you. Youssef, if you can.

Youssef Salem - *ADNOC Drilling - Chief Financial Officer*

Yes. Maybe starting with the tax piece, we are not taking any impact. We are able to fully pass it through to the clients. We have already invoiced our clients already for the tax impact and hence it is a fully pass through.

Then on the unconventional side, so basically what's happening is we've set up Turnwell. We're going to be retaining at least a 55% stake in Turnwell. We are onboarding SLB and Patterson with up to a 45% stake in the first phase. We will effectively consolidate the financial results of the unconventional, either by consolidating Turnwell as subsidiary and/or by consolidating the contract itself because the contract is awarded to ADNOC Drilling first and then effectively there is an award from ADNOC Drilling to Turnwell.

As we get into the next phase of the unconventional, there will be a re-evaluation of the stakes and hence potentially we may end up with a higher stake than the 55% or effectively capturing the value of that stake upfront in the form of a consideration. The margin profile of that contract will be closer to our Oilfield Services business margin given the very high intensity of services, specifically within the unconventional given the addition of the fracking, which results in the services forming the majority of the overall contract value.

Afaq Nathani - *International Securities*

Okay. If I understand right, the margins on unconventional will be closer to the OFS margins. That's what you said, right?

Youssef Salem - *ADNOC Drilling - Chief Financial Officer*

Correct.

Afaq Nathani - *International Securities*

Okay, got it. Thank you so much.

Operator -

Thank you. Our next question comes from Alex Comer of J.P. Morgan. Alex, your line is open. Please proceed.

Alex Comer - *J.P. Morgan*

Hi, guys. Couple of quick questions from me.

Just to clarify here, in terms of the unconventional rigs, you said 20 to 30, so that is on the top of the 144. Just to confirm on that.

Then also there's some debate about how much oil and gas we'll need going forward. Obviously you've got OPEC in play as well. Just within this opportunity, how much do you think will come from gas versus oil? Then also with regard to the $50 million and the $100 million that you talk about as contributing from the JV, when might we see that in terms of which year?

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

Thank you, Alex. Now for the unconventional rigs, yes, one would say the 20, 30 rigs that's potential to come, hopefully for the next phase, would be over and above the 142. Now the other part on the oil and gas...

Youssef Salem - *ADNOC Drilling - Chief Financial Officer*

We see it as fairly balanced between the two. Obviously on the gas side, this is driven by the one billion cubic feet of gas per day incremental production from the unconventional, which ADNOC is seeking by 2030. Hence, that is a primary strategic driver of the program. Having said that, these same unconventional fields do have massive reserves of unconventional oil, which exceeds 200 billion barrels. Obviously these barrels, even though they have a higher cost of production than the conventional, are still highly economic from a production perspective and improve the overall economics of the project when you look at oil and gas combined. Hence we see a fairly balanced well count between the two programs.

In terms of the timing of impact, so we start to see from this year itself in '24 effectively impact on bottom line, because effectively we're going to be starting - we already have six rigs and one frac fleet working on the unconventional as we speak. These are being migrated as we speak into Turnwell and hence it's a continuation and acceleration of work already being done. Hence the bottom line from the unconventional will already appear partially in this year and then 2025 is where we have the full-year impact of Turnwell. Very similar story to Enersol as well, our JV with Alpha Dhabi where this year we already start to see the initial impact on bottom line from the acquisition. Then next year is where we have the full impact which can potentially be up to $100 million net income impact for ADNOC Drilling share from Enersol.

The unconventional is not far off from these numbers as well, that $100 million number. If you look at the unconventional contract, the $1.7 billion contract, the also contribution to ADNOC Drilling from that contract will also not be far off. Looking at both together, we're looking at a couple-of-hundred-million-dollar impact as we look at partially in '24 and then fully in '25 from these contracts.

Alex Comer - *J.P. Morgan*

Can I just confirm? When you said the $100 million from the unconventional, is that your 55% or is that the 100%?

Youssef Salem - *ADNOC Drilling - Chief Financial Officer*

That is our share. That is our share which is partially linked to our economics in Turnwell as well with the 55% as well as our overall economics, including the fact that this contract has first been awarded to ADNOC Drilling and therefore ADNOC Drilling gave a contract award to Turnwell.

Alex Comer - *J.P. Morgan*

Okay. Thank you very much.

Operator -

Thank you. Our next question comes from Guillaume of Bernstein. Guillaume, your line is open. Please go ahead.

Guillaume Delaby - *Bernstein*

Yes. Good morning. Two questions.

First, maybe again - I'm sorry to come back. But within the ADNOC five-year CapEx plan of $150 billion which targets self-sufficient in gas, could you remind us - I know that you said it, but what is going to be the proportion of unconventional? In other way, which part of unconventional development is already factored in in the ADNOC Group five-year CapEx plan? This is my first question.

My second question is more specific. What are the specific technologies which you expect SLB and Patterson to bring to the table which are not already brought by Baker Hughes or Helmerich & Payne? Thank you very much.

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

Thank you, Guillaume. I think the first part of the question is more of, I would say, ADNOC to answer actually. It would be very difficult for me to put a number, which will not be right thing to do. But definitely, from our side, you may mention something about our CapEx investments.

Now on the technologies available for the unconventional, whether it is SLB or Patterson, can bring into this joint venture that we are going to have, definitely there is a lot of practices also that will be part of this whole program. Unconventional is highly dependent on efficiencies, whether it is on practices or deliveries or the completions and cost, so all those combinations. Those partners have been working, US, or more specifically Patterson and Schlumberger in the region and also worldwide in other activities, Oilfield Services.

Will it be able, Baker, to bring it or not? It would have been, but again we've gone through the very structured process. It will select the best partners that can serve us into the unconventional. With that, we are expecting a lot of technologies to come in. Now whether it is directly from this partnership or we will use the other arm that we have, the Enersol - today, part of the Enersol, we have Gordon Technologies. This is one of the technology extensively used in the unconventional activities in US. Today we have an equity to that and part of the Enersol. It will be part of our program in the unconventional. Similarly we are working on other technologies that we are identifying, part of the Enersol. Again they will be also introduced, part of the unconventional.

Now if you would like to add in...

Youssef Salem - *ADNOC Drilling - Chief Financial Officer*

Yes, for sure. I think on the CapEx piece, I think if we break it down (1) on the self-sufficiency, yes, this is definitely something that ADNOC has publicly announced, committed to, that additional one billion cubic feet of gas per day by 2030. Hence that's well embedded into ADNOC's plans and obviously well embedded into our plans as well.

On the oil front, what ADNOC has clearly publicly communicated and reiterated is the five million barrels per day, which was originally meant to be by 2030. We accelerated this to 2027. As we stand today already in May '24, we're already at 4.85 million barrels per day capacity. Hence, at ADNOC Drilling, we have been able to significantly accelerate ADNOC's journey towards the five million barrels per day and hence enabling ADNOC to continue to create upsides in terms of building further capacity and then obviously us benefiting from that in terms of again further awards and programs on our side.

In terms of our own CapEx to fund that, the combination of having $1.3 billion of available debt capacity and liquidity, whether from a multiples perspective as we target back towards a 2x net debt to EBITDA or from an actual availability perspective in terms of cash from balance sheet plus effectively committed undrawn banking facilities, we have more than enough liquidity to both fund the CapEx for these 20 to 30 required land rigs, at least on the unconventional side, as well as our investment in

Enersol and still have effectively all the excess free cash flow we are generating. Hence, we felt very confident that we're going to be able to deliver that at least 10% increase on dividend year on year for at least five years and potentially even going significantly above that.

I think on the other point you mentioned, as Bu Mohamed said, we do have capabilities. We are building today. We have six unconventional rigs already in play. We have one frac fleet already in play. But as Bu Mohamed said, it's about acceleration of the program and getting even more capabilities and allowing us to pre-embed the learning curves which took place in the US and other parts of the world by bringing in as partners the players who have already delivered these learnings and efficiencies in the US and other parts of the world and hence being able to start from where they already ended and further derisk the unconventional economics for ourself and for ADNOC.

Guillaume Delaby - *Bernstein*

Thank you very much.

Operator -

Thank you. Our next question comes from Nafez Alabbas of Ajeej Capital. Nafez, your line is open. Please go ahead.

Nafez Abbas - *Ajeej Capital*

Thank you, gentlemen. No, actually my question has been answered, so I don't have anything to add. Thank you.

Youssef Salem - *ADNOC Drilling - Chief Financial Officer*

Great to hear your voice though. Thank you for asking**.**

Operator -

Perfect. Our next question comes from Oliver Connor of Citigroup. Oliver, your line is open. Please go ahead.

Oliver Connor - *Citigroup*

Hello. Thank you for taking my questions. Two, please.

Just circling back on the unconventional point, so you mentioned around targeting 10 wells a year per rig. Just looking at the headline numbers of 144 and nine rigs, that's implying eight wells per rig a year so a little bit below that. Just trying to get a sense of your expectations around productivity gains as you ramp up this unconventional program.

The second point on the oil and gas split, I know you're saying roughly balanced and some liquids coming of the unconventional gas fields. It's my understanding that some of the fields that ADNOC were targeting were dry gas, so I thought you were looking at two distinct regions in UAE for oil and gas. Just wanted to get a sense if that's the case or whether this drilling is all within one play, getting both liquids and gas out.

Thank you.

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

Thank you, Oliver. On the number of wells, it's something that we are building up as we go, the unconventionals. Some of it is part of derisking. There is some still appraisal activities happening or there is some development phase also into that. I think we are doing about, as we talked today, six to seven wells. With the plan that we have, we'll be improving those deliveries in terms of well timing, basically making it towards 10. But definitely going into the next phase, we'll not be talking about 10 wells per annum as much as probably we'll be talking about 15 wells and more. All those different things will be coming up as we are going into this 144 program, phase 1, basically going into phase 2, full development kind of activities.

Now both oil and gas is planned for the work. Now in terms of - what was on the gas?

Youssef Salem - *ADNOC Drilling - Chief Financial Officer*

Are they separate or they're comingled? Are they separate fields or comingled?

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

No, they are all separate fields. When we talk about oil activities are in separate area and the gas is in a separate area. Yes, it is dry gas which is being produced. Now still there is some more appraisal activities happening. The amount of field that we are talking about, unconventional, is huge field whether it is gas or oil. We are expecting to see some very positive outputs from this whole program, huge reserves that have to be unlocked and will happen inshallah.

Youssef Salem - *ADNOC Drilling - Chief Financial Officer*

Also, Oliver, to note that the nine rigs is after the ramp-up. Currently we are with six rigs. Also, as you calculate the 144 over the number, it is six ramping up to nine over time as opposed to nine from day 1.

Oliver Connor - *Citigroup*

Excellent. Thank you.

Operator -

Thank you. Our next question comes from Jonathan Lamb of Wood & Co. Jonathan, your line is open. Please go ahead.

Jonathan Lamb - *Wood & Company*

My question's already been asked. Thank you very much.

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

Thank you, Jonathan.

Operator -

Thank you. Our next question is from Aakarsh Tomar of Sico. Aakarsh, your line is open. Please proceed.

Aakarsh Tomar - *Sico*

Hi. Thank you for giving the opportunity to ask a question and congratulations on the good result that you had. I have two questions.

I know there's been a lot of questions on JV, so I just want to go back on that. In this, I just want to understand. When you say - if you can give more color on this. It's $1.7 billion contract, but you say that 50% ownership will be for the JV. Does that mean you'll get around $1 billion from this or is it the entire amount? The second question on that when you say that you will be moving six rigs to this, which are already operational, so does that mean there is a cannibalization of revenue in this? You already had those contracts and now you're moving the rigs to someplace else. These are regarding the JV.

Just one question on the ADNOC Group maybe if you can answer. You already have a 4.85 million barrels per day capacity. Then when we talk about additional, it's 150,000 in three years. I'm coming from a place - is there a case of an oversupply of rigs? Because you were able to reach 4.85 million just by 129 rigs and now you're adding more.

So these questions. Thank you.

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

Thank you, Aakarsh. Now on the financial, you can pick it up.

But in the six rigs, when we talk about, we are not cannibalizing any numbers from returns, because they are built into our whole program. Now additional rigs that they will come, that would be something more specific for unconventional. But today as we talk, all that rig count is picked up part of the 142. Probably we are expecting one or two extra probably this year also, but that's something we'll have to work out through that.

Now on the 4.8 - what was 4.8?

Youssef Salem - *ADNOC Drilling - Chief Financial Officer*

The 4.85 million, only 150,000 barrels left over three years, so do we still need all the rigs given it's only 150,000 for three years? That's incremental capacity.

Maybe just closing off quickly on the six rigs point as well, if anything, it's actually increasing the economics per rig, because these six rigs - historically we were predominantly providing the rig and then we had a frac fleet. But this contract with Turnwell is a lump sum turnkey, so effectively we're getting the full scope of the well. Actually our economics per rig will increase once these rigs are part of Turnwell, because the ancillary revenue spend we're getting from the services, which are much more asset light, increases. Hence our overall revenue per well, EBITDA per well, goes up, so it's a positive from that perspective.

I think going back to your first question, what are we going to get out of the $1.7 billion, so we're going to be consolidating the full revenue of the contract. Yes, we will have a minority interest for a portion of the profit of this contract, but on a consolidated basis, you'll be able to see the full revenue of it. Actually our bottom line will be more than 55%, because also we have certain economics in ADNOC Drilling and then we have the award from ADNOC Drilling to Turnwell. Hence overall we expect to end up with more than $100 million of net income for ADNOC Drilling itself from the contract between the ADNOC Drilling and the Turnwell economics.

Your last question, in terms of the oversupply of rigs, by definition there's no oversupply, because effectively ADNOC has these rig and drilling plans pursuant to which they order the rig. They only put this 15-year commitment on the rigs because effectively they know what that drilling plan looks like. Obviously ADNOC has accelerated the plan. If you talk about the five million barrels per day by 2027, originally actually that was by 2030, right, and then it was brought forward to '27. Now we're at 4.85 million by 2024. The unconventional was not part of the plan. Now the unconventional is in. There is the full gas ramp-up. Hence we don't have an oversupply of rigs. What we have is we have a constant acceleration of plans by ADNOC. Then on top of it, that opens up the ability for them to pursue additional growth initiatives which actually result in additional supply.

The more efficient we are and the more we're able to bring them forward to target, that does not create excess rigs. To the contrary, it enables them to use that capacity to drive incremental projects, which then drives on. The fact that we are able to allocate six rigs to do unconventional work because of our efficiency opens us to effectively be able to get the 20 to 30 rigs award and so on and so forth.

Aakarsh Tomar - *Sico*

Thank you. That's really helpful. All the best for the future. Thank you.

Youssef Salem - *ADNOC Drilling - Chief Financial Officer*

Thank you.

Operator -

Thank you. At this time, we have no further questions registered on the conference call, so I'll hand back over to the management team for any further or final remarks.

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

Thank you very much and appreciate a very, very busy session. A lot of questions. I hope they were responded to your expectations. We are looking forward with the plans that we have for future for sure. Now we look toward the year of '24. It's a delivery year. It's a year where a major shift, transformation into the Company is happening. Inshallah we'll have more positive news as we go forward in the next quarters. Thank you very much for being with us.