ADNOC Drilling

ADNOC DRILLING COMPANY P.J.S.C.

Second Quarter 2024 Earnings

Webcast & Conference Call Transcript

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CORPORATE PARTICIPANTS

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

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

Youssef Salem - *ADNOC Drilling - Chief Financial Officer*

CONFERENCE CALL PARTICIPANTS

Ricardo Rezende - *Morgan Stanley*

Dalal Darwich - *Goldman Sachs*

Aakarsh Tomar - *Sico*

Oliver Connor - *Citigroup*

Ahmed Kamal - *Azimut*

Sashank Lanka - *Bank of America*

Abdulelah Hakami - *Hassana*

PRESENTATION

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

Ladies and gentlemen,

Welcome to the ADNOC Drilling second quarter 2024 earnings webcast and conference call.

My name is Max Cominelli, Vice President of Investor Relations.

Before handing the floor over to our main speakers, I would like to draw your attention to the disclaimer that you will 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 Chief Financial Officer, 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, and good day.

I am really very happy to announce that we delivered record-breaking results in the first half of 2024. Sustainability and safety remain fundamental in ADNOC Drilling's growth story.

For the first half of the year our total recordable incident rate stood at 0.49 versus a target of 0.63 reflecting our continued commitment to the highest HSE standards.

ADNOC Drilling added 11 hybrid rigs in the first half of the year, three of which were added in the second quarter. These hybrid land rigs reduce emissions and improve efficiency allowing us to further strengthen our sustainability and our operations.

Additionally, the inclusion of these three new rigs has seen our total owned rig fleet reach 140 at the end of June. This brings us closer to delivering our new target of 148 by the end of 2026.

Financially, we have delivered exceptional results for the period, we had strong revenue growth of 26% year-on-year to $1.8 billion in the first half. EBITDA grew more than revenue and increased by 34% year-on-year to $909 million. For the first half, we had an industry leading EBITDA margin of 50%.

Our efforts to improve profitability were visible, with net profit growing by 28% year-on-year to $570 million in the first half. We achieved a healthy net income margin of 31%, reflecting our efforts to ensure the operational efficiency as we maintain our growth trajectory.

Our dividend policy with annual growth of at least 10% over the next five years, was approved by shareholders in the quarter. Under the new policy, no less than $4.8 billion will be distributed to our shareholders between 2024 and 2028.

In this regard, the Board of Directors has approved an interim dividend payment of $394 million, translated into 9.05 fils per share, for the first half of 2024. This represents a 10% year-on-year increase, in-line with the new progressive dividend policy.

Driven by increased visibility and the strong first half results, we have updated full year 2024 and medium-term guidance on key financial metrics, which our CFO will discuss further later during the call.

Our business continues to grow significantly. Not just by building capacity for our clients and delivering the wells required, but maintaining that capacity also requires significant work that ADNOC Drilling is delivering on.

The strength and resilience of our business is driven by these two elements coupled with additional avenues for growth.

As we look ahead, we have unlocked additional avenues for growth, further accelerating the momentum towards accomplishing our future-proofing strategy.

These include Enersol's acquisitions to date, Turnwell and the expansion into unconventionals, along with the regional expansion prospects. We have secured pre-qualifications in Kuwait, and building the most advanced island rigs in the world through our newly awarded contract of $733 million. These three will have features of AI and smart automation.

Let's look at these new growth venues in the next slide please…

Since establishment, Enersol has delivered on a successful acquisition pipeline as it aims to become a diversified tech-centric investment platform. As of today, Enersol has already signed acquisitions of leading companies, with a cumulative amount of half-a-billion US dollars – a third of the JV's committed amount.

The acquisition of a majority stake in Gordon Technologies LLC has strengthened our position in advanced measurement-while-drilling, which are crucial for optimizing drilling performance and efficiency in the unconventional reservoirs.

Similarly, Enersol recently acquired a 51% stake in NTS AMEGA which will expand our capabilities into advanced manufacturing and complex tool repairs, which are essential to support the growing demand for high-spec oilfield services.

In addition, Enersol signed an agreement to acquire 100% of EV, a leading global provider of vision-based diagnostics and analytical services in the oil and gas sector, for approximately $45 million.

We also made progress on the unconventionals front, with Turnwell starting operations and drilling its first well in Abu Dhabi's Al Dhafra region. This comes on the back of the transformational $1.7 billion contract ADNOC Drilling was awarded to unlock the UAE's world class unconventional resources.

The mandate of this initial contract is to drill 144 oil and gas wells by 2026. Currently 6 land rigs are drilling for unconventionals, noting that the fully-fledged program, once approved by the client, will need thousands of wells to be delivered.

Finally, we continue to progress across our regional expansion plans, as we expand our drilling and Oilfield services activities footprint beyond the UAE.

We have achieved a contract extension for our operations in Jordan which will see ADNOC Drilling deliver more wells until at least the end of 2024.

I am also very pleased to announce that ADNOC Drilling has been prequalified by the Kuwait Oil Company to be included as an approved contractor for the provision of drilling and services.

As we continue to expand our capabilities and geographical footprint, ADNOC Drilling remains committed to leveraging these strategic advancements to drive long-term growth and value creation, integrating cutting-edge technologies to strengthen our unique positions.

I will now hand over to our CFO, Youssef, who will provide more details on our operational and financial performance for the period.

Youssef Salem - *ADNOC Drilling - Chief Financial Officer*

Thank you, Mr. Abdulrahman and good day everyone.

I'll take you through some of the key operational and financial highlights.

In the second quarter, we continued to deliver on our ambitious rig acquisition program, adding three land rigs. This brought the total owned fleet count to 140, up 24 rigs from the same period last year or a 21% year-on-year increase.

Overall, for the first half, eleven hybrid land rigs entered the rig fleet count, five of which were operational at the end of the second quarter, while the remaining six rigs are expected to gradually begin operations during the third quarter.

The impressive growth in owned rigs puts us on track to reaching our target of at least 148 rigs by 2026, and our goal of supporting ADNOC in achieving a production capacity of 5 million barrels per day by 2027.

With regards to drilling activity, we drilled 148 wells in 2Q24, an increase from 139 wells drilled in the first quarter. Moreover, our IDS rigs have seen a 15% overall improvement in 2Q24 compared to the 2023 benchmark, reflecting an operational efficiency strategy that has resulted in cumulative savings of $359 million to ADNOC since its inception in 2019.

Moreover, we performed IDS on 50 rigs in 2Q24 compared to 40 in 2Q23. Looking ahead, OFS activity volume is expected to increase during the year, which is in line with the planned phasing on the back of IDS rigs ramp-up and continued progress on unconventionals.

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

We have made substantial progress in reducing emissions from our camps. As mentioned back in May, the Madinat Zayed camp has been connected to the grid since February, and we are on track to connect the Tarif camp and Habshan by the third quarter of this year followed by the Bu Hasa camp in the fourth quarter. These connections are pivotal in reducing our reliance on diesel generators and cutting emissions.

Moreover, we successfully installed our first solar panels to power a mobile camp, marking a significant step towards integrating renewable energy into our operations.

Our commitment to energy optimization continues with the deployment of hybrid land rigs—nine out of 16 already operational. These rigs are equipped with Battery Energy Storage Systems, which enhance efficiency by storing energy for peak usage times, thereby reducing overall fuel consumption and emissions.

Additionally, we are closely monitoring our diesel consumption and exploring further electrification initiatives across our operations to meet our reduction targets. This includes implementing a fuel additive to improve combustion efficiency, for which the trial phase is under preparation.

Lastly on ESG, our joint venture, Enersol is also expected to play a crucial role in supporting these decarbonization efforts, especially through its focus on acquiring tech-driven companies that provide solutions and technologies that can support us reaching our sustainability goals.

Overall, these initiatives reflect our commitment to reducing our carbon footprint and enhancing operational efficiency. We believe that integrating these sustainable practices will not only contribute to our ESG goals but also improve our competitive positioning in the market.

Moving on to the financials…next slide please.

I am very happy to say ADNOC Drilling achieved another record quarter as we continue to deliver on our strategy. The Company's strong performance in the quarter was mainly driven by the full operational impact of the land and jack-up rigs commissioned in stages over the course of 2023 and the first half of 2024.

We achieved record revenue of $935 million in the second quarter, up 29% year-on-year. This translated into an EBITDA of $472 million, increasing 37% year-on-year and with an industry leading margin of 50%. Moreover, net profit grew 29% year-on-year to $295 million in 2Q24 with a margin of 32%.

Sequentially, ADNOC Drilling's revenue grew 6%, EBITDA increased 8%, and net profit was up 7% in 2Q24.

Moreover, I would like to highlight that the Company has accrued $29 million in taxes, and the corresponding reimbursement from clients, in the second quarter, which reflects the introduction of a 9% income tax last January.

Additionally, our share of profit from joint venture, which corresponds to the recognition of Enersol's results through the equity method, has booked $1 million in 2Q24, pretty much in line with Q1, the difference is predominantly rounding.

As you've seen, we signed our third Enersol investment, EV, similar to our other investments, it's a leading company with accretive margins and the transaction was completed at a highly attractive multiple. In this regard, we highlight our optimism over the JV's forward-looking potential considering its recent successful transactions and attractive pipeline ahead.

Cash from operations stood at $518 million in the second quarter, up from $395 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.

Moreover, net working capital decreased 27% sequentially, mainly driven by improved collections and the mentioned phasing related to capital expenditures. As the Company's growth plans materialize, we expect to maintain a net working capital to revenue ratio of around 12% in the medium term.

Cash CapEx including prepayments and excluding accruals, amounted to $234 million for the second quarter as we welcomed the addition of three land rigs, which are expected to gradually begin operations during the third quarter of 2024. Looking ahead, we expect CapEx to be in a range of $750 million - $950 million for 2024, as we keep on delivering on our rig acquisition program.

Balance sheet remains extremely healthy with net debt of around $1.8 billion at the end of June, or 1 time the Last Twelve Months EBITDA.

Let's take a look at segmental revenue in the next slide.

In the Onshore segment, we saw strong performance in Q2, with revenue increasing 27% year-on-year to $441 million, up from $346 million in Q2 2023. This growth was primarily driven by new rigs commencing operations. Sequentially, onshore revenue rose 7% in the second quarter of 2024 due to new rigs, further supported by our international operations in Jordan upon completion of the drilling phase of the project. This contributed circa1% towards our sequential growth.

In the Offshore Jack-up segment, revenue grew an impressive 48% year-on-year, reaching $284 million in 2Q24 compared to $192 million in 2Q23. This increase was largely due to the deployment of additional jack-up rigs, which bolstered our operational capacity. Sequentially, revenue grew 2%, mainly driven by a jack-up that began contributing to revenue from the middle of the first quarter.

The Offshore Island segment revenue grew 2% year-on-year and 4% sequentially, reaching $53 million. This was mainly driven by the re-activation of one rig during the period. In light of our contractual framework with the client, the restart of operations of island rigs is not expected to significantly contribute to an increase in revenue.

Oilfield Services revenue rose 17% year-on-year to $157 million in the quarter, on the back of increased activity in drilling fluids and wireline services. Sequentially, this segment experienced an 8% increase in revenue in 2Q24, driven by increased activity in drilling fluids and higher IDS activity. As previously mentioned, the overall volume of activity of the segment is expected 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 the next slide please.

Starting with Onshore, EBITDA surged 34% year-on-year and 11% sequentially, reaching $211 million in Q2 24, with an improved margin of 48%. This impressive growth was underpinned by strong revenue and successful cost management initiatives.

The Offshore Jack-up segment continued its remarkable performance, with EBITDA up 52% year-on-year and 5% sequentially to $191 million, with a robust margin of 67%. This margin expansion was on the back of significant revenue growth and higher operational efficiency.

For the Offshore Island segment, EBITDA increased 3% year-on-year and 6% sequentially to $33 million in 2Q24 with a margin of 62%. This was driven by revenue growth and stable operating expenses.

In the Oilfield Services segment, EBITDA grew by 32% year-on-year and 9% sequentially to $37 million in 2Q24, with a margin of 24%. This increase was driven by a favorable mix of high-margin services, along with the positive contribution from Enersol.

Next slide please.

Building on our exceptional performance in the first half of 2024 and increased visibility, we are pleased to announce an upward revision of our full-year and medium-term guidance, reflecting the robust growth observed in recent periods. This revision underscores our confidence in the sustained demand for our services and the successful execution of our strategic initiatives.

Our updated guidance now projects full-year 2024 revenue in the range of $3.7 to $3.85 billion, up from the previous range of $3.6 to $3.8 billion. Similarly, our EBITDA guidance has been raised to between $1.8 and $1.95 billion, reflecting an increase from the earlier range of $1.7 billion to $1.9 billion.

This enhancement in guidance includes the contribution from the initial phase of our unconventional operations, a future significant growth driver.

However, it is important to note that this guidance does not yet fully account for the potential expansion in our unconventional segment, which could involve the delivery of thousands of wells, as highlighted by Mr. Abdulrahman. The financial impact of these expanded operations will be consolidated once definitive agreements with our partners in Turnwell are finalized.

Looking ahead to the second half of the year, we expect to see revenue and EBITDA higher than first-half, as we deliver on our ambitious rig fleet expansion program. In the near term, we expect Q3 revenue and EBITDA sequential growth trending towards the mid-single-digit, and please remember that Q2 sequential growth was slightly better than anticipated mainly due to the impact from completing the drilling phase of the project in Jordan.

On the medium-term guidance, we have increased by 2 percentage points the revenue CAGR range from 12/16 to now 14/18%, on the back of increased visibility on the contribution from new rigs, the expected growth of OFS, and the impact of the initial phase of unconventional.

Next slide please.

Now, let's discuss our new dividend policy, a key component of our commitment to providing value to our shareholders.

During the General Shareholder Meeting held on 24 June 2024, ADNOC Drilling's shareholders approved a progressive dividend policy that will see dividends grow by at least 10% per annum on a dividend per share over the next five years between 2024 and 2028. This policy translates to a projected distribution of at least $4.8 billion to shareholders over the next five years.

Worth noting that the Board of Directors, at its discretion, may approve additional dividends over and above the policy after considering free cash flow and accretive growth opportunities.

This policy is now live and implemented, as the Board of Directors approved an interim dividend of $394 million, 9.05 fils per share, for the first half of 2024. This represents a 10% year-on-year increase, in-line with the new progressive dividend policy. Distribution of these dividends is expected for the last week of August to all shareholders on record on 12 August, which is just a week from now.

We believe our dividend policy underscores a commitment to growing and attractive returns, increasing the appeal of our investment case. By the way, our equity story has been recently enhanced by another great achievement…

Next slide please.

As you may be aware, ADNOC successfully completed a $935 million institutional placement of ADNOC Drilling shares back in May.

This significant transaction involved the sale of 880 million shares, representing 5.5% of our total share capital. The strong investor demand resulted in this being the largest-ever accelerated bookbuild for a publicly listed company in the UAE.

The very good news for ADNOC Drilling and its investors, existing and potential, is that the placement has increased our free float by 50%, enhancing liquidity and broadening our shareholder base. The expanded free float not only allows greater access for investors but also positions us well for potential inclusion in major indices, such as MSCI. This could further diversify our investor base and increase our future market visibility.

Overall, the successful completion of this placement reflects strong confidence in our growth trajectory and strategic initiatives, which have the objective to maximize shareholder value and total return. Handing back to Mr. Abdulrahman for closing remarks.

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

Thank you, Youssef, and the team.

ADNOC Drilling has delivered another very strong quarter, highlighted by our fleet expansion, the delivery of exceptional growth, and our robust financial performance with industry-leading margins.

Our new dividend policy reflects this success, promising significant increases in shareholder returns.

The recent share placement by our main shareholder has increased our free float, improving liquidity and our shareholder base.

We are advancing our growth strategy organically as we continue to maintain and grow our client's production capacity, as well as through the key acquisitions of Enersol.

The unconventional with the establishment of Turnwell, offers a substantial additional growth opportunity.

The recent transformational $1.7 billion contract is just the beginning of the unconventional journey. Going forward we expect thousands more wells will be needed to unlock the UAE's world-class unconventional energy resources.

I would like to thank the ADNOC Drilling team again for the strong performance in the second quarter and first half of 2024.

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, if you would like to ask a question, please press star followed by one on your telephone keypad. If you would like to remove your question, please press star followed by two.

When preparing to ask your question please ensure your phone is unmuted locally. Our first question goes to Ricardo Rezende of Morgan Stanley. Ricardo, please go ahead.

Ricardo Rezende - *Morgan Stanley*

Hello, good afternoon. Thanks for taking my question. The first question that I have is a follow-up on something that Youssef mentioned during his presentation on the medium-term guidance on the three sectors driving this higher guidance for revenues. Youssef, would you be able to at least give us some indication on what's the most important driver for this new guidance, or if it's rather the three components should be of a similar relevance?

Then the second question on your regional plans now with the prequalification in Kuwait, some advancing plans in Oman as well. How relevant could those markets be for ADNOC Drilling and how do you see the potential returns there compared to what you have in the UAE? Thank you.

Youssef Salem - *ADNOC Drilling - Chief Financial Officer*

Thank you, Ricardo. I think on the first point in terms of the improvement in the outlook, I think first it's important to reiterate that this is not the full extent. So the midterm outlook remains exclusive of the results from the region expansion, the results from Enersol, because by definition we're talking about top line growth, so does not include the Enersol bottom line impact. It does not include any potential acceleration of the second phase of the unconventional into what would be the medium term.

This remains very much a low end and basically a conservative case.

The reason we've increased it by 2% is basically (1) is that islands, new islands rigs, which will start to kick in in 2026, which is part of our medium-term outlook, as well as basically more of the firming up of the unconventional. So that phase one which was already included in the outlook but now we also have a signed contract, we have Turnwell already live, we have the partners here and we've already drilled a couple of wells and extremely successful in these first wells, achieving efficiency of up to 30%. Hence it gives us more confidence to – even if it was already in there, but firming it up more.

In terms of your second question around the regional markets, we see them as being very, very relevant and very meaningful in terms of size. We don't yet have specific guidance but if you look at how when we were guiding towards Enersol, we were talking about the ability to add $100 million of net income to our bottom line. That's the type of thing that we see meaningful to ADNOC Drilling. As we look at regional expansion, even though we don't have specific numbers to guide to yet, but we're looking for it to be meaningful in the same way that we consider what's being meaningful. Obviously this will happen over a number of years, but that's where we're heading, we're moving very quickly. The prequalification is something we've secured, but in addition to the prequalification we're very active in terms of securing the rigs that we need to put to work in Kuwait and in Oman, so we definitely see it as relevant.

Now from a returns perspective, yes, granted the margins will be lower initially because we don't have the same scale of operations that we have in the UAE, where we have 140 rigs in one geography. So granted these massive economies of scale we're able to achieve which gives us best in class margins would not be available for us in Kuwait and Oman when we start from a smaller number of rigs initially. However, from a returns perspective we would still be able to secure attractive returns. A reminder that currently because the market is considered an upcycle and because of guaranteed IRR range, our rates in the UAE are lower in the market.

As we effectively go outside we're going to be getting higher rates than what we're getting in the UAE and would be optimizing the rigs CapEx accordingly as well to take into account that this is a market that has volatility over time. So even though the margins will initially be lower as it takes us time to scale, but from a returns perspective it won't be diluted. So basically our kind of 20% plus ROIC and our 30% plus ROE these will be maintained on a blended basis, even with the launch of the international operation.

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

I think for us - this is Abdulrahman here - the most important part is the pre-qualification. It's something that we promised that we will be working on and it took us time, but today the important part now we are pre-qualified and we will be assessing the different aspects, whether which assets we can take or when we'll have free assets that we can take also. We will not be targeting to build and take there as much as if we can free, like what we have done in Jordan, we fixed up one of the rigs which has been active for more than seven or eight years. Similarly, we're looking, assessing the situations and based on that the most important part I think for the Company now, it is prequalified and there is the potential for future inshallah.

Ricardo Rezende - *Morgan Stanley*

Perfect, thank you.

Operator -

Thank you, the next question goes to Dalal Darwich of Goldman Sachs. Dalal, please go ahead.

Dalal Darwich - *Goldman Sachs*

Yes, thank you very much for the opportunity to ask questions and congrats on a second strong quarter. Maybe just on the unconventional opportunity, can you talk us just a little bit through how many wells could the Company be drilling as part of its plans this year and let's say into the medium term? If you can provide us with a range to size basically the opportunity. On that same point, what level of CapEx could be associated with that range? That would be very helpful.

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

Thank you, Dalal. In terms of UC there is a very clear plan, at least into phase one or the medium term, I would say, the next couple of years, now we have 144 wells. That is clearly planned and all that would be - some of them would be appraisal exploration and also development. Now there is plans also probably also to expedite. Now if it's expedited and to the next phase, we are talking about probably thousands of wells. That's I think early, but today as we talk we are progressing very well. As mentioned by Youssef, we started 10 well activities. The initial wells which have been drilled already achieving 30% efficiency, so that gives the appetite also to go forward more aggressively.

Now on the other part, CapEx of the unconventional, today for the 144 wells we were awarded $1.7 billion. Now it's an average of $12 million per well, so if we are talking about thousands of wells to come then we are probably looking at billions of dollars contracts. Definitely unconventional is one of the major growth areas happening for the Company inshallah because it's the resources where stakeholders are planning to recover. I hope that answers, or Youssef, if you could like to add.

Youssef Salem - *ADNOC Drilling - Chief Financial Officer*

Yes, absolutely. I think from a modelling perspective on the 144 wells, what you can do for now is if you're spreading them over two and a half years from the middle of this year until the end of 2026, then basically with an input, a slight increasing in wells per year in each period because of the increased efficiency over time.

In terms of the CapEx to deliver these wells, we will be predominantly using the existing strategy that we have in place, as well as the existing rigs that we have in place, with a potential addition of three new land rigs to reach the total number required by 2026 to complete these wells, which you can estimate as a maximum for up to $90 million in aggregate for us to add three land rigs.

Which together with $210 million that we guided to for the three new island rigs by 2026 you would have in aggregate $300 million of additional growth expansion CapEx between now and 2026, on top of the maintenance or sustained CapEx per year which is already in our guidance, which covers the maintenance for the rigs as well as the OFS general yearly CapEx.

Dalal Darwich - *Goldman Sachs*

Very clear. Thank you very much.

Operator -

Thank you and the next question goes to Sashank Lanka of Bank of America. Sashank, please go ahead. Thank you, your line is open. Okay, moving on to the next question from Aakarsh Tomar of SICO. Aakarsh, please go ahead.

Aakarsh Tomar - *Sico*

Hi, thank you for the opportunity and congratulations on a great set of results. I have a question on your financials. Can you elaborate more on the income tax change which has happened? For example, you already incurred roughly $56 million of tax this year and we have the assumption that you'll get a return for it. So how will you account for it? Will you get a positive reversal in the next coming quarters? Or is it already accounted for by higher earnings? Any color on that?

Youssef Salem - *ADNOC Drilling - Chief Financial Officer*

Absolutely, so it's already accounted for. Basically every month we have in our revenues around $10 million roughly of reimbursements from the clients for the tax. Then in the tax line you see effectively an equivalent, around $10 million per month accrual for the payment out to the government. We've already been paying the government on a monthly basis for that tax and we've already had the corresponding reimbursement from the client, so there will be no future change or reversal, et cetera. Then as that activity continues to grow, that will continue to grow 9% per annum as a tax and then reimbursed dollar for dollar in our top line.

Aakarsh Tomar - *Sico*

That's very helpful, thank you and all the best for the future.

Operator -

Thank you, the next question goes to Oliver Connor of Citigroup. Oliver, please go ahead.

Oliver Connor - *Citigroup*

Hi all, thank you for taking my questions. Just a couple again on the unconventional program, so obviously one well's been drilled now by the JV. Any sort of indications on how that went in terms of their expectations? Was it better than expected and how that changes your thinking going forward for the well plan?

Second one is just a clarification. Was that an oil or gas well that was drilled? I appreciate you said before that the venture was going to look 50/50 between oil and gas, but just curious as to know whether either of those are being prioritised as the wells are being drilled, thank you.

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

Thank you, Oliver. Definitely, as we explained, the progress of the first wells that is happening today on the unconventional is very promising. From the first start it has been a demonstration of better efficiencies and the team which has been set together in planning, designing the wells is putting very well together. That's the whole idea of us setting up an independent company to work on this, to start changing practices and delivering efficient operations, which is really working good so far. The first part it's only one well we are talking about, it's something which is of a repeat kind of thing you can see in every well that has been happening on the same part. Because we have a technique of batch drilling, we're calling it, so it's really promising and a lot of learnings are happening, learning on the spot. So it's progressing well.

As mentioned by Youssef, we have allocated up to six rigs now with the unconventional. Hopefully towards the end of this year it will be between eight and nine rigs. Now whether it is oil or gas, actually in both areas definitely there are more rigs engaged into the oil wells while the gas will have also a couple of rigs working there. I hope that answers, Oliver.

Oliver Connor - *Citigroup*

Thank you.

Operator -

Thank you, the next question goes to Ahmed Kamal of Azimut.DIFC Ahmed, please go ahead.

Ahmed Kamal - *Azimut DIFC*

Hello, good afternoon. Thank you for taking the call, I have two questions. First, can you please remind us on the medium-term target for the IDS rigs for the OFS business?

Second question, when should we hear something new on the phase two of unconventional? If you have a timeline, should we wait like two years to know about the phase two, or you will announce something for the market very soon? Thank you.

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

I will start on something and Youssef, you will add also. On the IDS target, we are targeting to achieve 50% of our fleet number. Today we are almost 35 to plus per cent as we have 50 rigs where we are delivering the integrated drilling services.

Definitely our target to ramp up that one between 2024 to 2025 towards the 50% hopefully. That's progressing well and then the rig count is adding. Last year we were talking about 40-plus, 47 and we ramped up to 50 rigs and very soon we will be going additional rigs.

Unconventional phase two, I think the important part is there is progress happening. At least today we have a clear plan for 144 wells that we have to deliver. As we talked about, we are delivering efficiently. That will definitely have chances to expedite. The more rigs will be engaged, the higher the chances we'll get expedition into the next phase. But it's quite difficult to say now and today whether phase 2 will be here or there. The way things are progressing, I think it's very promising and there will be some expedition to happen there. In due time definitely we'll be talking to the market like what we are doing today, but we are talking about guidance. We are amending, we are advising, keeping a very transparent feed to the market to what's happening. Youssef, you would like to…

Youssef Salem - *ADNOC Drilling - Chief Financial Officer*

Absolutely, in terms of something Mr. Abdulrahman mentioned, the IDS rigs you will see going up immediately from the second half of this year. It will be crossing the 50 number we currently have. As Mr. Abdulrahman said, the target of 50%, which means effectively 74 out of the 148 rigs we expect to reach by 2026 will obviously ramp up from the 50 to 74 over a number of years. We've been averaging out eight rigs additional per year, so on average it will take us three years to ramp up to that level.

On unconventional, as Mr. Abdulrahman said, the maximum is potentially two years, which is the FID for the phase two becoming 2026. But as Mr. Abdulrahman mentioned, the first few wells are extremely promising so there is definitely potential to bring this forward. Too early to tell how much forward we can bring it from the two years, whether it's brought forward to 18 months from now, five months from now, it's too early to tell. But definitely if the results continue to get promising as they are now, then there's definitely significant potential for acceleration of for the communication of phase 2 to be under the two years mark.

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

There's still the plan of gas self-sufficiency by 2030 remains a focus and afterwards we have in the unconventional gas also.

Youssef Salem - *ADNOC Drilling - Chief Financial Officer*

Additional LNG expansion ADNOC is undertaking on top of the self-sufficiency to have a major exporting facilities as well, which will again require incremental capacity.

Ahmed Kamal - *Azimut DIFC*

Thank you so much, clear enough.

Operator -

Thank you and as a reminder, if you would like to ask a question please press star followed by one on your telephone keypad. The next question goes to Sashank Lanka of Bank of America. Sashank, please go ahead.

Sashank Lanka - *Bank of America*

Yes, thank you very much for the presentation and apologies for the first time, where I had an issue with my line. I have two questions, the first one is again on the phase two of the non-conventional plan. I think when we look at the phase one, you do have a 55% equity ownership in the Turnwell in JV, so wondering if you would go for the similar arrangements for phase two as well, where you would have some international partners involved. That's the first question.

The second question is could you just remind us when do you expect closing of the three transactions that have been announced for the Enersol JV? Thank you.

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

Okay, Sashank. Now on the equity percentage on the phase one to establish Turnwell, ADNOC Drilling 55%, SLB 30% and Patterson being 15%. Now definitely the whole thing will be reassessed, it's not something we are targeting to change major or reduce, change the whole program. I think it will remain but it depends who will have the appetite and who will continue with being more aggressive with us. But definitely something to assess at 144 wells, kind of thing, or before that. We will be just doing it very transparently, as we've done the first part where we had tens of companies involved into the whole process, until we landed to the two partners. So we'll come to that in due time and Youssef, you may add to that on the second part.

Youssef Salem - *ADNOC Drilling - Chief Financial Officer*

I think ramping up on the first piece also just financially, as you're modelling this 100% of the value is to us right now, whether we decide to monetize some of that value upfront by bringing in the same and/or different partners in the second phase, or whether we keep 100%. But in all cases 100% of the value is attributable to ADNOC Drilling, it is our contract which we then decide what to do with.

In terms of the three transactions, so Gordon, the first 25% stake has legally closed. The remaining 42% stake then the 51% on NTS and 100% on EV, all of these are undergoing merger control filings as we're seeing. Some of these have already been approved in certain jurisdictions and still being finalized in other jurisdictions, so all three subject to regulatory clearances are expected to close over the next few months within the second half of the year, as well as having additional signings for additional deals as well coming in at the second half of the year.

So it will be both closing existing deals, as well as continuing to sign up new deals. The new deals we sign up will follow pretty much the same kind of roadmap, 4-5x EBITDA, having their own patent and IP, about 10% free cash flow yield, global kind of blue chip oil service company or IOC / NOC as clients, applicable technologies we can bring back to Abu Dhabi, controlling stakes and I believe integrate all of these products together into our integrated link service offerings.

All of them being complementary products that can help us at the end put our act together, technology centric and enabled oilfield services platform, giving us significant accretion potential given where these technologies would trade compared to where we trade. I think that all of these multiples are based on the EBITDA of the existing businesses as they are in their operations, so we get basically the growth in the geographies, we get the multiple accretion and we get all the incremental business in Abu Dhabi and the wider region.

Sashank Lanka - *Bank of America*

Okay, great, thank you. If I can just follow-up on the transactions for Enersol this year. I think you said you have executed about $0.5 billion so far with the JV, so by the end of the year any guidance you can give us? Is that going to reach $1 billion, is it $750 million, any guidance there?

Youssef Salem - *ADNOC Drilling - Chief Financial Officer*

Yes, so currently we're at $550 million. By the end of the year at an absolute minimum we would have signed half of the JV, so at least $750 million in total out of the $1.5 billion. Then we'll be looking to kind of accelerate the rest of the amount, but obviously want to do this while making sure we're doing the right deals and we're being very prudent on diligence and valuation. At least another couple of hundred million before the end of the year, potentially more and we'll update you as the deals progress.

Sashank Lanka - *Bank of America*

Great, thank you so much.

Operator -

Thank you, the next question goes to Abdulelah Hakami of Hassana Investment Company. Abdulelah, please go ahead.

Abdulelah Hakami - *Hassana Investment Company*

First of all, congratulations on the very strong set of results. I just have a question regarding the unconventional. If phase two is successful and you manage to grow in that space, could you give us some color if your fleet will be able to - can you reroute your fleet there and exit the IRR model into these unconventional rigs, i.e. growing with maintaining CapEx controlled?

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

Thank you, Abdulelah. Now the model that we have for the conventional is totally different when we're talking about the approach for the unconventional going into the total solution kind of approach. When we are providing A to Z lump sum approach, which looks at the overall financials, not only just the rig return and IRR because there are services that are still the element together that we are plugging in. But the whole idea will be for us in that we use our fleet, existing fleet, into the Turnwell. Financially I think all those returns will be looked at differently. Youssef, if you would like to add.

Youssef Salem - *ADNOC Drilling - Chief Financial Officer*

Yes, definitely. In terms of the CapEx side with a few advantages on the unconventional side. (1) it's all onshore which means by definition the CapEx is much more optimized relative to offshore. Second, the majority of all of the 100% of the wells are being done on integrated - based on a lump sum turnkey basis, which means that our market share is 100% on the unconventional services, as opposed to 35% like Mr. Abdulrahman mentioned on the conventional. Oilfield services is by definition lighter CapEx than the rigs and hence having a higher market share of the services is accretive from a CapEx perspective.

Third, the well mix itself, the majority of the spend on each well is majority services and minority drilling. So not only do we have 100% market share of the services and the drilling component is onshore, not onshore and offshore. The services component that we have 100% of is also the majority of the spend, which means again we need less CapEx. All of that in the end will transition to numbers.

What it means is we are making on average $12 million revenue per well, as opposed to if you looked at our total conventional revenue and divide them by the well count you see us in the area of $5 million to $6 million per well, so effectively we are making more than twice the revenue per well. On a lower per CapEx based, because it's all onshore plus the frack fleet as opposed to onshore/offshore, so higher revenue on lower CapEx, so definitely it's going to be a very CapEx controlled expansion with a potential for very accretive returns.

Abdulelah Hakami - *Hassana Investment Company*

Great, thank you very much.

Operator -

Thank you, we have no further questions. I'll hand back to Abdulrahman, CEO, for any closing comments.

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

Thank you very much, I think it's been a very interactive session and a lot of questions. I hope we addressed all what you had in your mind and definitely what we look forward for the second half of the year inshallah a more promising with better outputs to go inshallah. Thank you very much and appreciate it.