ADNOC Drilling

ADNOC DRILLING COMPANY P.J.S.C.

Second Quarter 2025 Earnings

Webcast & Conference Call Transcript

July 30, 2025

ADNOC Drilling

CORPORATE PARTICIPANTS

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

Abdulla Al Messabi - *ADNOC Drilling - Chief Executive Officer*

Youssef Salem - *ADNOC Drilling - Chief Financial Officer*

CONFERENCE CALL PARTICIPANTS

Faisal Azmeh - *Goldman Sachs*

Ricardo Rezende - *Morgan Stanley*

Anna Kishmeriya - *UBS*

Abhishek Kumar - *Bank of America*

Mick Pickup - *Barclays*

Ruben Dewa - *Jefferies*

Ahmed Kamal - *Azimut (DIFC) Limited*

PRESENTATION

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

Ladies and gentlemen, welcome to ADNOC Drilling second quarter 2025 earnings webcasting conference call. My name is Max Cominelli, Vice President of Investor Relations. As always, before handing the floor over to our main speakers, I would like to draw your attention to the disclaimer that you will find on the second slide which I encourage you to read carefully. The text contains important information. We advise caution on the interpretation 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 Abdulla Al Messabi and our Chief Financial Officer Youssef Salem. 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. Abdulla, please go ahead.

Abdulla Al Messabi - *ADNOC Drilling - Chief Executive Officer*

Thank you, Max, and good day everyone. I'm Abdulla Al Messabi and it's a privilege to speak to you today for the first time as a CEO of ADNOC Drilling. Stepping into this role, I do so with a deep respect for what has been built, with a solid commitment to deliver a performance and transparency you expect, and you deserve. My first priority has been listening to our customers, our people and many of you. One thing is very clear to me, ADNOC Drilling has strong fundamentals, great business model and significant opportunities ahead.

We have delivered the strongest financial performance in the history of the Company. In the first half of 2025, we have delivered a revenue growth by 30% year-on-year. EBITDA and net income rose by around 20% year-on-year. Free cash flow increased by 67% year-on-year. But we are not here to settle. We are here to build value, sustainability and predictability. Over the coming months, I will be very focused on sharpening my execution plan, aligning the capital with our highest retained opportunities, driving the culture of accountability and innovation across every part of our organization. I look forward to engage with you in the coming quarters, not just with numbers, but with clear sense of direction and discipline.

I will now hand over to Youssef to walk you through the presentation. Thank you.

Youssef Salem - *ADNOC Drilling - Chief Financial Officer*

Thank you, Mr. Abdulla, and a good day to all. I'm happy to share that ADNOC Drilling delivered record performance for the first half of 2025. Our revenue increased by 30% year-on-year to $2.37 billion, driven by rig fleet expansion, significant growth in OFS, and higher activity in unconventional operations.

The strong top-line growth led to industry-leading profitability. EBITDA was up 19% year-on-year to over $1 billion, and net profit increased by 21% to $692 million. Our Oilfield Services segment continues to be a powerful growth engine, with revenue expanding by 127% year-on-year. This growth was driven by higher IDS and discrete services, and the unconventional program which started in the second half of last year.

After a strong first-half contribution from unconventional accelerated in the second quarter with $192 million revenue, we anticipate a second half with lower phasing, leading to a full-year total revenue contribution from Phase 1 at around $0.6 billion. Most of the $1.7 billion contract will generate revenue in 2026, with some extending into 2027, matching our current plans and client demand. I will provide further details in the guidance slide.

Looking at our fleet, we ended the period with a fleet of 149 rigs, including eight land rigs secured through our partnership with SLB in Oman and Kuwait. The transaction is subject to closing. During the quarter, we secured over $4.8 billion in new contract awards, increasing our visibility on the long term, up to 2040 and beyond.

Finally, I'm happy to share that after a record first half, we positively upgraded our full year 2025 guidance, driven by increased visibility and our resilient business and financial profiles. Also, the Board has approved the distribution of a second quarterly dividend of around five fils per share for a total of $217 million to shareholders of the record as of 8 August 2025, less than 10 days from now. Payment is expected in the second half of August.

Next slide, please. This quarter, we made material progress across our strategic growth pillars, which are advancing our long term objective of becoming the region's most relevant and technologically enabled integrated drilling and oilfield services company. A particularly significant milestone was the agreement to acquire a 70% equity stake in SLB's land rig operations in Oman and Kuwait. This transaction marks our first regional expansion of scale and includes eight fully contracted rigs. The acquisition is structured to be immediately earnings accretive and has been executed at a highly attractive entry multiple of below four times EV/EBITDA.

Regarding the unconventional, 58 out of the 144 wells have already been drilled, with over 20 of these having been fractured. Overall, our JV Turnwell successfully delivered high efficiency wells while implementing new drilling techniques, including autonomous drilling that have reduced cycle times and improved safety metrics. This progress sets the stage for potential future expansion, subject to client's final investment decision as we continue to unlock new growth frontiers.

Meanwhile, Enersol has an advanced pipeline of additional transactions on top of the four acquisitions already completed. As a reminder, since inception, Enersol has deployed approximately $800 million across four acquisitions. Each of these additions allows us to embed in our business advanced technologies, analytics, and AI-driven capabilities across the operations.

Moving on to operations in the next slide, please. We ended Q2 with 149 rigs, pro forma including Oman and Kuwait, which will be fully consolidated upon closing of the transaction. During the quarter, there's been a minor reshuffle in the rig fleet. One onshore rig was converted to operate on an artificial island for the Hail and Ghasha project. Additionally, the Company sold a non-operating jack-up which was not generating revenue and had been booked as held for sale since the second half of 2024, having reached the end of its life. The rig will be converted by the buyer into a production platform. As a result, we ended the quarter with 102 land rigs and 47 offshore rigs.

Our operating fleet availability remained outstanding at 96%, reflecting our rigorous focus on uptime and asset efficiency. In parallel, we continue to expand our footprint in the Oilfield Services. In fact, integrated drilling services are now available on 58 rigs compared to 50 last year, a significant progress. Discrete services were delivered across 51 rigs, bringing total OFS coverage to 109 rigs. This means that over 70% of our drilling fleet is supported by ADNOC Drilling's own OFS solutions, a critical element of our value proposition to clients. With this strong operational base, we are well placed to further elevate our integrated operational performance in the future.

Moving on to the financials. As you can see from the charts, the second quarter performance shows continued top-line growth, industry leading margins, disciplined investments and strong cash generation. Revenue stood at $1.197 billion for the quarter, representing a 28% year-on-year increase. This growth was driven by broad-based strength across different segments, as well as the increasing contribution from unconventional. EBITDA reached $545 million, up 15% year-on-year, supported by scale efficiencies and cost discipline.

Net income rose more than EBITDA, with a 19% year-on-year growth, supported by lower interest expense. Operational cash flow stood at $649 million, reflecting a 25% increase versus the prior year, and underscoring the strength of our earnings, conversion and working capital efficiency. This performance enabled us to maintain a healthy balance sheet, with net debt to

EBITDA trailing 12-month EBITDA at 0.9x, well below our long-term leverage target.

Capital expenditure for the quarter totaled $244 million. This investment was consistent with our fleet growth trajectory and supported by rig mobilizations, ongoing digital transformation initiatives and OFS equipment enhancements. Importantly, this disciplined deployment of capital continues to support our long-term plans, while preserving flexibility to fund both growth and growing dividends to shareholders. Overall, our financial performance in the quarter reinforces the strength of our integrated model and highlights our ability to generate consistent value through cycle-resilient execution.

Now, let's look at revenue for the various segments. Next slide please. Our second quarter revenue performance showcased solid execution and growth across our business segments. Starting with the Onshore segment, revenue increased by 16% year-on-year, reflecting the ramp-up of our newly deployed rigs and sustained unconventional activity.

The contribution from unconventional drilling activity for onshore was $49 million for the quarter, up from $30 million in the first quarter, highlighting its growing strategic and financial relevance. In the offshore segment, revenue was stable on a yearly basis and slightly up sequentially, as the two new jack-ups which entered the fleet at the end of December 2024 will fully contribute to revenue starting from the third quarter. For the second half of the year, we expect the lower unconventional revenue due to phasing in line of plans to be offset by the positive contribution from the two jack-ups starting revenues contribution from Q3.

The Oilfield Services segment delivered an outstanding performance, with revenue growing 121% year-on-year to reach $347 million. This increase was driven by higher IDS rig coverage, increased volumes of discrete services and a significant boost from our unconventional program. In total, unconventional operations contributed $192 million in the quarter, split as $143 million in OFS and $49 million in Onshore. As a reminder, unconventional contribution to OFS revenue in Q1 2025 was $122 million. Hence Q2 saw a very strong sequential acceleration.

Next slide please. Moving on to EBITDA. In the Onshore segment, we delivered an EBITDA of $260 million, increasing 23% on a yearly basis to $260 million with a margin expansion to 51%. This was supported by higher revenue, with operating expenses increasing less proportionately due to cost optimization. Offshore operations contributed $233 million in EBITDA, increasing 4% year-on-year with an industry-leading margin of 69%. Sequentially, EBITDA was slightly down due to increased major maintenance activity.

OFS delivered an EBITDA of $52 million in the quarter, up 41% on a yearly basis and 2% sequential, with a margin of 15%. This increase was driven by higher activity across both conventional OFS and unconventional, which typically carry a more service-intensive cost structure.

Next slide please. I'm pleased to confirm that our Board of Directors has approved a second quarterly dividend payment of $217 million, equivalent to five fils per share. This is planned to be paid in the second half of August to shareholders of record as of 8 August.

With the upcoming dividend, our cash dividends paid in the first eight months of 2025 will amount to around $830 million, including the Q1 2025 dividend paid in May, and the final 2024 dividend paid in April of this year. I'd also like to highlight that the Company expects to generate an upgraded $1.4 billion to $1.6 billion of free cash flow this year, excluding M&A, and at least $1 billion of free cash flow after the Enersol and Oman and Kuwait investments.

As per our dividend policy, the Board of Directors, at any time and at its discretion, may approve additional dividends over and above the progressive dividend floor, currently $867 million for this year. This creates a pathway for upside in dividend distributions, reaffirming the Board's commitment to sustainable growth in shareholder value.

Moving on to guidance. I'm very happy to share that notwithstanding the recent market dynamics and driven by the resilient strength of our first half performance, we have upgraded our full year 2025 guidance to reflect both positive momentum and increased visibility. We have upsized the bottom end of our total revenue guidance and now expect a range of $4.65 billion to $4.8 billion. This upgrade is supported by improved OFS, whose revenue range is now $1.2 billion to $1.3 billion, driven by IDS, discrete services and unconventional.

Looking at the revenue breakdown, we expect OFS to land towards mid-to-top end of the enhanced revenue guidance, while offshore in the low-to-mid end, reflecting the phasing of planned maintenance. Onshore revenue is expected towards the low-to-mid end of the range due to second half phasing of unconventional, which I mentioned earlier.

Net profit is now expected between $1.375 billion to $1.45 billion, upgraded from the previous range of $1.35 billion to $1.45 billion. Two main drivers here. First, working capital improvement benefits cash flows and net financial position. Hence, we expect slightly lower finance costs. Moreover, we are positive on the outcome of refinancing of facilities expiring later this year. The second driver of net income upgrade is slightly lower DNA in the second half, reflecting the regular and refreshed granular analysis on our asset base, including reviewing the residual life of the assets.

Looking at the full year free cash flow, we updated our free cash flow guidance to between $1.4 billion and $1.6 billion. For the remainder of 2025, we expect the second half to be broadly in line with the first half for the key lines of the P&L, as the lower unconventional revenue due to phasing, in line with plans, will be offset by the positive contribution from the two jack-ups, starting full revenue generation from Q3. As a result, for the upcoming third quarter, we expect revenue, EBITDA and net income in line with Q2.

Looking into next year, we expect in full year 2026 unconventional revenue at around $0.6 billion, broadly in line with 2025, with the final residual portion of contract revenue anticipated to be realized in 2027. For this reason, our current visibility keeps pointing to 2026 revenue of around $5 billion. Moreover, as our fleet is at around 149 rigs, including regional rigs, we've already exceeded the intermediate fleet target for 2026 of 148 rigs, a year ahead, and reaffirming our pathway to over 151 rigs by 2028.

Moving on to the final slide. I think this slide wraps up all the key messages, record results, second quarter dividend and continuous development on the growth front while delivering on our sustainability agenda. With this, I thank you all for joining today. I'll hand over to the operator to start the Q&A session.

QUESTIONS AND ANSWERS

Faisal Azmeh - *Goldman Sachs*

Yes, hi. Congratulations on the strong set of numbers, and thank you for the opportunity to ask questions. Maybe I'll start off with just in terms of your M&A targets. I mean, obviously, you've executed on one this year and a few over the past two years. So, I think as we think about the pipeline of potential deals, should we expect a slowdown in your interest in non-UAE M&A? Or are you looking to add more rigs and expand the GCC footprint over the coming years via M&A as well? That's the first question.

My second question relates to the working capital improvements that you've managed to achieve. Maybe if you could talk a bit about that and how sustainable are these and how to think about that from a modelling perspective over the next few years. Then maybe finally, just in terms of the dividends, obviously, you've talked a lot about the free cash flow generation and the range that you expect for the full year. But also, you've mentioned the free cash flow post M&A or net of M&A spending. How should we think about the upside risk to dividends in that context? Is it on a net basis or on a pre-inorganic spending basis? Thank you.

Youssef Salem - *ADNOC Drilling - Chief Financial Officer*

Perfect. Thank you so much, Faisal. So, starting from the latest, yes, I think the immediate way to think about dividend upside in the short term is to look at more what the net numbers are. So, I think if you take our free cash flow guidance of $1.4 billion to $1.6 billion and then post M&A, that would get you around $1 billion of free cash flow post M&A. That would be the right framework to think about dividend upside in the short term.

When you think about dividend upside in the medium to long term, then that would be more of pre-M&A because effectively we have available leverage capacity on the balance sheet to be able to fund medium to long term continued growth with debt in order to ramp up and optimize the capital structure. So, short term upside from the net number, which is closer to $1 billion and then medium to long term upside towards the top – towards the long term sustainable free cash flow, which is the $1.4 billion to $1.6 billion.

In terms of the question about working capital, so the working capital is driven by record collection. We've collected $2.4 billion in the first half, including $1.4 billion in the second quarter. In terms of managing expectations, we continue to model this longer term, closer to a 12% working capital from the 8% we have now. Obviously, we'd want to kind of unwind this over a relatively extended period of time to make sure we don't have a one-time shock to the cash flow, because that shock won't happen because obviously, our target is not to have that unwind to 12%.

But I think for the sake of more conservative modelling, it would be good to unwind this over time back to 12%, but over an extended period of time, not to hurt the cash flows. Obviously, from our side, we'll continue to work very hard on keeping that as close as possible to the kind of 8% to 9% level you are currently seeing on the working capital.

On the pipeline piece, so the pipeline is extremely strong. We have multiple opportunities in the pipeline. What we are trying to work backwards from is to optimize that pipeline, taking into account two things. One is our strategy. So, obviously, we want to expand where it makes sense for us to expand, and we can add value to the client. So, for example, for the SLB acquisition, this is an asset where [a company that’s been operating with PDO] Oman for over 55 years has built rigs which are fit for purpose for Kuwait Oil Company in Kuwait. It's a key partner of theirs.

With coming in, we're able to use it as a stepping stone to then also add oilfield services which we're the only player in the Middle East who can combine drilling and services. We're engaging at the highest level with both clients. We were in Oman last week, we're in Kuwait this week, we're engaging up to CEO level. So, we have a very clear competitive advantage linked very clearly to our differentiator.

The second thing is to make sure, obviously, we continue to get the financial accretion that we're looking for. So, the SLB deal was at very specific numbers, which is around 3.2x EBITDA. It was done at kind of high teens free cash flow yield and obviously, finding, continuing to optimize the pipeline for opportunities like this, and obviously, continuing to look at the overall mix of the business and ensuring it remains significant majority Abu Dhabi long term contracted exclusive, and only minority outside to maintain the overall risk profile of the business.

So, the pipeline is very healthy, but we are managing the execution of that pipeline within these parameters. We do expect additional rigs to be put into work, whether organically or inorganically in these countries in the next few months. So, you will see continued expansion, but it will continue to be very measured and disciplined against kind of these very clear criteria that we have.

Faisal Azmeh - *Goldman Sachs*

Maybe just if I can sneak one last question, just in terms of the phase 2 of the unconventional drilling potential, when should we expect more news to come out on this? Is it this year? Is it early next year? So, how to quantify it?

Youssef Salem - *ADNOC Drilling - Chief Financial Officer*

Yes, so definitely by the time we release the full year guidance for next year, which will take place with the full year results in February, by then we would definitely have the clarity on kind of the way forward in terms of kind of what we include there. We will try as much as possible as also as part of our Q3 numbers in November, because we'll be closer to that year end and hence closer to the potential way forward from ADNOC on their final investment decision on the size, the focus of the way forward. So, we'll try to kind of provide more clarity in November, but definitely the more definitive clarity will come in December.

Like we've always discussed, it's split into two parts, the drilling and then the completion of production. On the drilling side, we have done everything we have needed to do in terms of bringing drilling days down, bringing drilling costs down, etc. So, we've achieved all of that. Now it's really about the completion and the production on the client side in terms of them building the required facilities and being ready to produce from these wells which we are drilling. That's something that ADNOC is working on now in real time, the production testing, the facilities build up, etc.

So, as we get towards the end, we'll have more clarity and then definitive clarity would come in February.

Faisal Azmeh - *Goldman Sachs*

Thank you very much.

Ricardo Rezende - *Morgan Stanley*

Hello, good afternoon. Thanks for taking my question. If I may follow up on what Faisal just asked about unconventional. If we assume that there's going to be a second phase of unconventional and looking at your current schedule for the first phase in 2026 and maybe a bit in 2027, could we actually see an overlap for phase 1, phase 2 impact in ADNOC Drilling?

Then the second question that I have is just on the OFS guidance that you said you mentioned some of the drivers for increased guidance for 2025. Would you mind just giving a bit more color on one of those three items that you mentioned, which one's more important and if it could even more upside to the current levels? Thank you.

Youssef Salem - *ADNOC Drilling - Chief Financial Officer*

Perfect. So, starting again with your last question. So, the main reason behind the update in guidance for the Company overall in 2025 on revenue was the OFS and that's where you see the OFS increased segment guidance. That is because on the drilling side, because most of the drilling side is mostly these long-term contracts, we know very well from the beginning of the year what the numbers are. When it comes to the OFS, because we continue to win new market share, we only guide based on what's committed. Then over the course of the year, as we win more work, we include that in the guidance.

So, during the course of this year, we have put additional OFS that we've won last year to work, plus got awarded four more integrated drilling services rigs. So, now we're ramping up from the 58 we have now to closer to 62 by year end. That is contributing towards the OFS ramp up, plus some of the discrete services work. You would've seen, for example, the award of the $800 million contract on the fracking on the conventional side, even though that's still going to go through a gradual ramp up. So, the contribution this year is smaller, but these additional wins on the OFS is what's mainly driving the upgrade to the guidance in the OFS and then the Company overall this year.

That will also continue to contribute towards the growth next year. So, as we ramp up from $4.7 billion mid-revenue guidance this year to $5 billion guidance for next year, $100 million of that growth would also come from incremental growth again in the OFS. Next year, we are targeting to go from 62 integrated drilling services rigs to closer to 70 by year end and that will drive around $100 million increase in OFS revenue. That alongside the continuous ramp up of the OFS contracts on the discrete services that we have won this year.

With the remaining $200 million of growth next year, $100 million coming from the offshore, that's split between the partial impact of the three island rigs joining in ‘26 and also having the two jack-ups which started operating in June of this year, having their full year impact in 2026. The combination of these two would add around $100 million of revenue to the offshore segment. Then the last $100 million would come from our Oman and Kuwait expansion. So, the business with SLB generated last year $125 million of revenue. With closing in Q1, we will have a partial but majority impact from that. That should be around $100 million. So, the three of them together would take us from $4.7 billion to $5 billion by next year.

Obviously, that would also require us to continue to invest in that growth. We expect to continue to invest in our region expansion and setting up our operations there and continue to expand our pre-qualification. Also, our oilfield services ramp up. Adding these four rigs this year and eight rigs next year would effectively mean that we have to also continue to pre-invest in the pre-OpEx and the ramp up of the business.

That's why when we guide towards next year, even though we expect $4.7 billion mid-revenue to go to $5 billion by next year, when it comes, for example, to EBITDA, [where current] closer to mid guidance this year, is $2.2 billion, and the net income mid-guidance now is around $1.4 billion to $1.425 billion. We expect these numbers to be, as of now, relatively stable into next year as some of the margins that we achieve from that $300 million revenue get reinvested in continuing to grow the business.

Now when it comes to the point around the unconventional, the overlap that we would potentially see is an overlap in the decision making in that any FID for further expansion would not need to wait for the phase 1 to be completed because obviously that FID is not only an FID on us drilling more wells, it's also an FID on ADNOC building the production facilities which are required to enable the production. That would have a lead time and hence the FID and hence the certainty and the visibility over phase 2 can happen in parallel.

But in terms of the actual financial impact of the growth of that beyond that, then that's likely to happen after the end of phase 1 because of the phasing and the timing required for the client to build the EPC. So, I think when it comes to the estimates, that's why we're keeping the estimates for next year at $600 million roughly coming from the unconventional in line with this year. Then in 2027 is where we can have ramp up above that, both from the completion of the smaller remaining amount of phase 1 as well as kicking off of phase 2.

But you would see that when we guide to the growth from ‘25 to ‘26, from the $4.7 billion to the $5 billion, that is not coming from the unconventional, that is coming from region expansion, offshore and OFS ramp up.

Ricardo Rezende - *Morgan Stanley*

That is very clear. Thank you.

Anna Kishmeriya - *UBS*

Hi, thank you. Thank you for taking my question. I have several. First starting with Turnwell. Initially, I think it was expected that the contract will be delivered by year end 2026. Why do you see the delay now? The second question will be around offshore segment. The EBITDA margin in third quarter, I think in MD&A, you're flagging that there could be a bit of a pressure on the cost for maintenance. So, what level of EBITDA margin should we expect in third quarter?

Final question from my side is the cost to convert land rig to now complete operations offshore. You mentioned that there is one rig which moved from land fleet to offshore, like were there any costs associated with that? Thank you very much.

Youssef Salem - *ADNOC Drilling - Chief Financial Officer*

Perfect. So, I think when it comes to the offshore segment, what we're expecting is by year end, we should be ending around the $1.4 billion revenue for the offshore segment. On the EBITDA side, we will be ending just under $1 billion of EBITDA to come from the offshore segment and around $600 million net income to come from the Offshore segment. These numbers effectively are the numbers which kind of lead us at mid guidance of the Company overall around $4.7 billion revenue, $2.2 billion EBITDA and $1.4 billion net income.

Then effectively the distribution between these, between Q3 and Q4 would be relatively flattish. Q4 just on the net income side typically benefits a little bit from the end of year reimbursement and reassessment but generally is relatively flattish. So, I think if you remove the first half numbers from that, then you probably be able to see exact numbers for Q3 and Q4.

In terms of the movement of the rigs between onshore and offshore. So, you will not see a pressure on the margins from doing that. We will be able to maintain our margins because we do have mobilization and we do have various kind of mechanisms in the contract that always allows us to effectively manage our – all other costs associated with the different rig moves, mobilizations, and other ancillary costs that we incur.

When it comes to Turnwell, so originally the contract was awarded to us as a three-year contract from mid-‘24 to mid-‘27. We have significantly accelerated the drilling on our side and hence we today are able to complete even before the end of 2026 from our perspective, because of the speed at which we're drilling these wells, as demonstrated by already finishing more than 40% of the wells that we have.

Having said that from ADNOC Onshore’s perspective as the client, in order for them to really benefit from these wells, they need to be able to tie these wells to production facilities and be able to provide us with the sand and the water required for us to complete the fracking of these wells. That is something that they're managing in real time in terms of awarding the EPC between permanent production and temporary production facilities, between effectively bringing sand from the country, from outside, between trucking water in and drilling water wells, etc.

So, as they manage that infrastructure and as effectively, they manage that EPC side of the business, which is outside our control, that is where they update in real time their expectation around the phasing of when exactly that happens. For us, really, the key is the growth that effectively that provides into the next phase and hence effectively the fact that we've de-risked that with delivery and that also you see demonstrated in EOG coming in and taking an unconventional oil concession, same with Petronas. You also see it with Total being part of ADNOC on the gas side as well.

All of that effectively is that we're effectively able to de-risk the program for them to go ahead with that approval. So, in the short term there can be minor movements in when the revenue gets realized, but the key thing is we're de-risking the long-term potential of the program by effectively being able to deliver on our targets in terms of time per well and cost per well.

Anna Kishmeriya - *UBS*

Understood, thank you very much.

Abhishek Kumar - *Bank of America*

Thank you very much and congratulations on a good quarter. Most of my questions have been answered already. I just have one question on OFS margins. Our current margins are 15% which is lower than the medium term guidance of [22%] margins. So, what exactly is causing margins to stay at current levels and how should we think about the trajectory to take us to the guided margin range of 22.6% in the medium term?

Youssef Salem - *ADNOC Drilling - Chief Financial Officer*

Thank you. So, this year we expect from the OFS to have total revenues of around $1.3 billion. Out of that effectively around two-thirds is coming from the conventional business and around one-third is coming from the unconventional business. The conventional business is running at a margin of around 22%. The unconventional is running at a margin of around 9% and hence that's what gives us the blended margin of around 15% for the oil field services.

The reason the unconventional is running at 9% is because effectively as part of this phase 1 we are effectively relying on a model where we are bringing in a lot of third-party equipment, we're renting on a shorter term basis, etc., until we have the long term commitment from the client with five plus year contracts similar to what we have on our conventional billing and OFS which would allow us to internalize and purchase more of that equipment and hence effectively allow us to boost our EBITDA margin as you see on the rest of the business. Today our net income in the OFS is around 9%.

So, on the conventional you do have a significant delta between the EBITDA and the net income as a result of our own CapEx and our own equipment whereas on the unconventional you see very close EBITDA and net income levels as a result of reliance mostly on rented equipment. So, the conventional would continue to remain within its medium-term guidance target. The business overall would ramp up to that medium term level over time as the unconventional becomes a longer-term program.

The key thing though is that our returns continue to be at or close to all-time high which you can see with a 35% plus return on equity because effectively and that for us is always what we are optimizing for is the margin at the end is a weighted average of the different segments and the different business models we have but everything we bring in has to be returned accretive that's the same way we think about our region expansion.

Our region expansion is coming in at a 38% to 40% EBITDA margin which is slightly lower than our onshore conventional margin in Abu Dhabi. However, because of the transaction considerations we are paying regionally that will come in as a further boost to our returns.

Abhishek Kumar - *Bank of America*

That's helpful. So, longish term, what should be the composition between conventional, unconventional and OFS business? Any targets that you have internally? Any scenarios that you have?

Youssef Salem - *ADNOC Drilling - Chief Financial Officer*

So, the long-term composition on the OFS would remain two-thirds, one-third. The reason behind that is obviously the unconventional is ramping up as we are moving into phase 2 but the conventional is also ramping up because multiple things are happening. One is we are continuing to grab market share. Today even with all the growth we've achieved in the OFS conventional side we're only 35% of the dollar spend of ADNOC on the Oilfield Service conventional market. That has a substantial potential to go up.

Second is as effectively these wells and these fields mature, the amount of oilfield services work required for them including in production services to stimulate and activate more production are high. Third, as we're able to bring new capabilities and technologies we are creating a new market for ourselves. For example, you would have seen after we delivered the fracking on the unconventional side, we got awarded an $800 million contract for integrated fracking and stimulation on the conventional side where basically ADNOC is now utilizing some of these required techniques for the unconventional saying they can also bring even more production, a lot more production on the tight oil as part of the convention.

So, because the OFS will continue to grow on both the conventional and unconventional that effectively mix of two-thirds, one-third between both is expected to continue and hence you would see growth on both sides.

Mick Pickup - *Barclays*

Good afternoon, everybody. Just a very quick one from me. Can I just check what surprised positively in OFS? Obviously, I think back end of last quarter you were saying that 2Q was going to be lower than 1Q and it's turned out even better and then obviously phasing. So, what's changed on that phasing? Secondly just a very quick one on your subsequent events in your financial statement. You're selling one onshore rig it looks like. What's the rationale behind that?

Youssef Salem - *ADNOC Drilling - Chief Financial Officer*

Definitely. So, on the first point on the OFS, it is the additional awards. On the OFS we always guide. It's only on contracts we have because unlike the drilling it is an open competitive market in the UAE where we have to effectively tender for business. So, we've had multiple awards in the second quarter whether on the renewal of all of the offshore OFS, the award of the fracking on the conventional side, basically the award of four more rigs which are starting to ramp up from 58 to 62. So, the starting trickling of the revenue from the OFS that started to happen in Q2 and that will continue into the rest of the year and hence upgrading the guidance for the OFS. So, the OFS surprised on the positive as we continue to tender and win more work.

On the Jordan side, basically our client there was the Ministry in Jordan, the government, and they have basically elected to proceed with a model where they want to build an in-house capability where they would own and operate a rig. So, a bit similar to what we have in Abu Dhabi. Obviously ADNOC has a national drilling company in ADNOC Drilling that is operating.

The client in Jordan will set up their own drilling operation owning the rig and operating it and hence effectively that rig, as per the client's request, will be effectively sold to them. That will have a significant gain that we will show in our net income in the second half of around $10 million as a result of that gain which is also partially contributing to why we're tightening our guidance. So, in the short term it would have a non-recurring positive impact but basically obviously that's not the reason we're doing it. The reason we're doing it is ultimately a client request.

Mick Pickup - *Barclays*

Thank you.

Ruben Dewa - *Jefferies*

Hi, good afternoon, everyone and thank you for taking my question. I just had one clarification, one on the Enersol that you have. You mentioned that there's some targets Enersol are looking to still acquire. I was wondering are these acquisition targets already identified or they're in the pipeline or are they ready to pull the trigger on and how should we think about Enersol spend in 2026 and 2027? I'm just trying to understand how that competes for capital versus your dividend. Thank you.

Youssef Salem - *ADNOC Drilling - Chief Financial Officer*

I think on the first part already identified and for multiple of them already placed bids as well. So, it is a very advanced pipeline. In terms of capital deployments, we would assume deploying the remaining $750 million at the JV level which is $380 million at the ADNOC Drilling level, that the remaining of this amount the vast majority of it will be deployed in 2026 because some of it will be signed this year, some of it will be signed early next year but given closing timelines with antitrust approval, the majority of this spend is likely to be physically spent during the course of next year.

In terms of the interplay with the dividend, so obviously, more fundamentally given the debt capacity we have, we don't see a fundamental interplay with the dividend because we can significantly increase both the growth and the dividend. However, in the short term, we'll go back to the framework we discussed with Faisal. So, in the short term, we would size any potential dividend upside based on the net amount taking into account the M&A which leaves us around $1 billion of free cash per year and then as we think about longer term dividends, that would look more at sustainable free cash flow of the $1.4 billion to $1.6 billion pre-M&A because any M&A to the extent it takes place can be funded with debt.

Ruben Dewa - *Jefferies*

Thank you very much. That's very clear. I'll pass it on.

Ahmed Kamal - *Azimut (DIFC) Limited*

Hello, thank you for taking my question and congratulations on the numbers. Actually, most of my questions were answered as well maybe if you can provide the guidance for the contribution of the Oman Kuwait acquisition for 2026 numbers. So, the $5 billion revenue figures is including the acquisition of Oman Kuwait or it's not yet?

Youssef Salem - *ADNOC Drilling - Chief Financial Officer*

That's correct. So, it includes $100 million of revenue from effectively that first acquisition which is the SLB acquisition. It makes $125 million revenue. We're assuming that we get around 80% of the year impact in. Obviously, we're working on adding further additional rigs [potential second transaction] to be signed or deployed this year which, again, will take time to close. So, depending on the signing and closing timeline there can be potential upside to that $100 million and in turn, potential upside to the $5 billion. That effectively will firm up as we put more rigs. I think currently what we have full visibility on is the $100 million leading to the overall $5 billion with potential upside to potentially come in if and when we do that later in the year.

Ahmed Kamal - *Azimut (DIFC) Limited*

Perfect, thank you.

Operator

As we have no further questions in the queue, this does conclude today's call. Thank you everyone for joining today's ADNOC Drilling Q2 2025 earnings call. Have a great day and you may now disconnect.