

ADNOC Drilling



ADNOC DRILLING COMPANY P.J.S.C.

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PRESENTATION

Massimiliano Cominelli - ADNOC Drilling - Vice President, Investor Relations

Ladies and gentlemen, welcome to the ADNOC Drilling third 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 on 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 strategic developments and the key highlights of the quarter.

Abdulrahman Al Seiari - ADNOC Drilling - Chief Executive Officer

As-salamu alaykum, good afternoon. I am pleased to share that we have delivered record-breaking results in the first nine months of the year, while advancing our ESG strategy. Sustainability continues to be a driving force in ADNOC Drilling's growth, as we stay committed to maximizing value of our clients and shareholders.

In the third quarter, we outperformed our energy intensity targets and stayed on track with our greenhouse gases reduction goals. This success is due to our new hybrid rigs that we have introduced and efforts to improve our camps' grid connectivity.

Additionally, ADNOC Drilling exceeded the target of total recordable incident rate, achieving frequency of 0.55 compared to our target of 0.63, showing our focus on maintaining high HSE standards.

At the end of September our fleet was 140 rigs, up from 124 a year ago, bringing us closer to our target of 142 rigs by year-end.

Financially, we have delivered outstanding results with third quarter revenue growth of 32% year-on-year, surpassing 1 billion dollars. EBITDA grew faster than revenue, achieving an industry-leading margin of 50%.

Our focus on profitability led to a 30% increase in the net profit year-on-year. In August we distributed an interim dividend of \$394 million for the first half of 2024, a 10% increase year-on-year, in line with our new progressive dividend policy.



During the third quarter, ADNOC Drilling was included in the MSCI indexes. Our increased free float of 16.5% offers greater liquidity and accessibility for more investors.

Thanks to the increased visibility of a strong nine-month results, we have updated our 2024 guidance on key metrics. Our CFO will provide more details later. We have also explored new growth opportunities, including Enersol's three acquisitions, which brought in over 120 patented technologies. Additionally, our joint-venture Turnwell has made significant progress by accelerating its 144 unconventional oil and gas well program after successfully delivering the first wells. Next slide please...

Since the joint venture's started, Enersol has successfully announced three acquisitions, for a total investment of over half billion dollar. These transactions enhance ADNOC Drilling's technological capabilities and strengthen the Company's position in advanced technology and intellectual property.

In the third quarter, Enersol completed the acquisition of the majority in Gordon Technologies, increasing its stake to 67.2%, which boosts our capabilities in advanced measurement-while-drilling technologies.

Enersol's also announced the acquisition of 51% in NTS AMEGA, expanding our advanced manufacturing and tool repair capabilities, and a 100% stake in EV Global, a leader in vision-based diagnostics and analytical services for the oil and gas sector.

Enersol now holds a suite of patented technologies across various markets, with more to come inshallah.

Moving on to Turnwell, the Company has made significant progress. The efficient startup of its operations has led the client to accelerate the timeline of the Phase 1.

Now, this is a great opportunity to further position us as the partner of choice for delivering transformational projects and unlocking the UAE's world-class unconventional resources.

Finally, we are making progress in expanding our regional presence and growing our drilling and oilfield services activities beyond the UAE with the contract extension in Jordan and the prequalification processes in both Kuwait and Oman.

We believe that our focus on unconventional resources, regional expansion, and developing a strong, technology-driven service portfolio will support our future growth.

With these initiatives underway, I am optimistic about ADNOC Drilling's future as we continue to advance the UAE's energy ambitions.

I will now hand it 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. Good day everyone and thank you for joining today's earnings call. In the third quarter, we continued to deliver on our ambitions to become the largest integrated drilling services company by rig fleet size in the world.

We ended the quarter with a fleet of 140 rigs – consisting of 95 land rigs, 35 offshore jack-ups and 10 island rigs. We expect to add two jack-ups by year-end to close the year with a fleet of 142 rigs.

Moreover, among the eleven hybrid land rigs that entered the rig fleet count in the first half of 2024, five were operational at the end of the second quarter, while the remaining six rigs started operations during the first part of the third quarter of 2024.

The impressive fleet growth we had in the last few years leaves us strongly optimistic on our goal of supporting ADNOC in achieving a production capacity of 5 million barrels per day.

With regards to drilling activity, we drilled 175 wells in Q3 24, an increase from 148 in Q2 24, driven by new rigs commencing operations. Moreover, our Integrated Drilling Services rigs have seen a 19% overall improvement in Q3 compared to the 2023 benchmark. Our operational efficiency strategy through IDS has resulted in cumulative savings of close to \$400 million to ADNOC since its inception in 2019.

OFS performed IDS on 50 rigs in Q324, compared to 41 rigs in Q323, and the segment offered at least one discrete service to 48 rigs between onshore and offshore in the third quarter. All in all, oilfield services are offered to around 70% of the rigs, and this coverage is expected to increase over time as we further increase the number of IDS and discrete on account of enhanced efficiency.

Bottom line, we continue to look towards an uptick in the volume of OFS activity during the year, in line with the planned phasing



of IDS rigs ramp-up and the continued progress on unconventional. Moving on to our decarbonization initiatives...next slide, please.

We continue to make substantial progress in reducing emissions from our camps. As you know, the Madinat Zayed camp has been connected to the grid since February, and we are on track to connect the Tarif Habshan and Bu Hasa camps.

Moreover, we are happy to say that the 16 newbuild hybrid rigs are now all operational. These rigs will support us in monitoring and optimizing energy intensity, and they are equipped with Battery Energy Storage Systems, enhancing efficiency by storing energy for peak usage times, thereby reducing overall fuel consumption and emissions.

We also successfully installed solar mobile power on AD-51, taking a significant step towards integrating renewable energy into our operations.

Overall, we are pursuing highly ambitious decarbonization initiatives with the aim of reducing the carbon footprint and enhancing operational efficiencies.

And we believe that Enersol will play a key role in driving these efforts, as we continue to acquire best-in-class tech-enabled OFS companies that provide solutions and technologies aligned with our goals. Moving on to financials on the next slide, please.

I'm pleased to say that ADNOC Drilling delivered yet another record quarter, with the company achieving its highest quarterly revenue, EBITDA and net profit.

Our strong performance in the quarter was mainly driven by the full operational impact of land and jack-up rigs commissioned in stages from the third quarter of last year until the third quarter of 2024.

ADNOC Drilling revenue reached over \$1 billion, and EBITDA was \$510 million in Q3, marking growth of 32% and 34% year-on-year, respectively, with an industry-leading EBITDA margin of 50% in the third quarter. Moreover, net profit grew 30% year-on-year to \$335 million in Q3 with a margin of 33%.

Sequentially, revenue grew 10%, EBITDA 8%, and net profit increased 14% in 3Q24.

The Company accrued \$28 million in taxes in the third quarter, which reflects the introduction of a 9% income tax last January. In this regard, we continue to invoice our clients for the reimbursements.

I want to point out the "share of profit from joint ventures" in our P&L. This includes ADNOC Drilling's 51% of Enersol's net profit in the OFS segment, and since the third quarter, also 55% of Turnwell's net profit from unconventional business, mainly in OFS segment and a bit in the Onshore segment.

For Enersol, we account for our "share of profit from the joint venture" in the OFS segment EBITDA using the equity method. In the first nine months of 2024, Enersol contributed \$4 million through that line to ADNOC Drilling, thanks to the investment in Gordon Technologies.

Gordon is now 67% owned by Enersol, following a two-step investment totaling \$205 million for ADNOC Drilling, with \$117 million invested in the third quarter when the transaction to reach 67% was completed.

Turnwell, our unconventional business, made its first contribution to our P&L in the third quarter, with about \$33 million in revenue. This was split between \$27 million in the OFS segment and \$6 million in the Onshore segment. Starting from Q3 2024, we account for Turnwell's profit through an effective consolidation, which I will discuss later.

At the end of the third quarter, Cash from operations was about \$315 million, slightly down from \$337 million in the same period last year, due to changes in working capital from increasing activity levels.

Cash Capex for the third quarter - including prepayments and excluding accruals - was \$197 million, totaling \$544 million for the first nine-months.

For full year 2024, we expect CapEx to be between \$800 million and \$900 million, as the Company continues its rig acquisition program.

The balance sheet is healthy, with a net debt of around \$2.2 billion at the end of September, resulting in a leverage ratio of 1.2 times EBITDA.

Now, let's look at revenue for the various segments...next slide please.



Starting with the Onshore segment, revenue increased by a strong 29% year-on-year to \$487 million in the third quarter, thanks to new rigs starting operations. Sequentially, onshore revenue rose 10% due to higher rig activity from new rigs commencing operations since the beginning of the quarter and the positive impact from unconventional business related to land drilling.

The Offshore Jack-up segment had a very strong quarter, with revenue growing 46% year-on-year to \$290 million due to higher activity from jack-ups. Sequentially, revenue grew 2% driven by an additional calendar day in Q3, marginally offset by some maintenance in the third quarter.

The Offshore Island segment saw a slight revenue decrease of 4% year-on-year and 2% sequentially to \$52 million, due to a one-off demobilization revenue from an island rig for the Hail and Ghasha project last year.

In the Oilfield Services segment, revenue rose 36% year-on-year to \$197 million, mainly driven by increased activity in directional drilling and drilling fluids. Sequentially, revenue increased 25% due to increased activity in drilling fluids and the contribution of the unconventional business. As already mentioned, the overall volume of activity of this segment is expected to increase, this is in line with planned phasing and driven by the IDS rigs ramp-up and the unconventional business.

Over to the next slide please.

Now, let's see how revenue performance impacted EBITDA.

For the Onshore segment, EBITDA increased 27% year-on-year and 14% quarter-on-quarter, reaching \$241 million with a margin of 49%. This impressive growth was underpinned by growth in operations and operational efficiencies.

In the Offshore Jack-up segment EBITDA saw a remarkable 51% year-on-year increase to \$198 million, with a margin expansion to 68%. This margin expansion shows how the growth leads to improved operational efficiency. Sequentially, EBITDA rose 4% thanks to higher revenue and margin increased on higher operational efficiency.

The Offshore Island segment experienced a reduction of EBITDA to \$32 million from \$37 million in Q3 2023, with a margin of 62%, due to reactivation costs for island rigs assigned to the Hail and Ghasha Project. Sequentially, EBITDA declined by 3%.

In the Oilfield Services segment, EBITDA increased 70% year-on-year to \$39 million, with an EBITDA margin improvement of almost 4 percentage points to 20%, driven by higher revenue. Sequentially, EBITDA rose by 5% due to higher revenue and contributions from Enersol and Turnwell and was partially offset by the activity mix.

Additionally, the unconventional business contributed around \$33 million to revenue in the third quarter 2024, with \$27 million in the OFS segment and \$6 million in the onshore segment.

Next slide please...

For the second consecutive quarter, we are pleased to upgrade our 2024 guidance driven by increased operational visibility and strong performances across our business segments. This shows our ability to execute strategic initiatives effectively.

For full-year 2024, we now project revenue between \$3.8 billion to \$3.9 billion, up from the previous range of \$3.7 billion to \$3.85 billion, driven by an increase in our Onshore segment revenue guidance to \$1.7 billion to \$1.8 billion. Similarly, we increased EBITDA guidance to \$1.85 billion to \$1.95 billion and net income guidance to \$1.2 billion to \$1.3 billion.

For the medium-term guidance, we've added "conventional" to the EBITDA margin target, to be more granular in-light of the effective consolidation of Turnwell for phase 1 of the unconventional. For more details, please refer to the first slide in the appendix which provides an illustrative view of how Turnwell accounting should reflect in our P&L.

In essence, ADNOC Drilling expects from unconventional phase 1 to generate cumulative net income margins of 9-10%, broadly in-line with the OFS segment.

Moving on to the CapEx front, we expect it to gradually decrease in 2025, primarily composed of the bulk of the \$210 million CapEx for the 3 new island rigs arriving in 2026. Additional rig and OFS equipment, driven by the accelerated unconventional program. OFS equipment for growth in OFS IDS and discrete services market share.

This CapEx is expected to drive growth towards the top-end of the medium-term revenue growth guidance.

Moreover, we expect to have additional inorganic growth investments in our JV Enersol up to \$560 million in the rest of 2024 and 2025, as \$205 million have been invested in the first nine months of 2024.

Overall, the positive adjustment in guidance reflects the increased visibility into our operations, especially with the new land rigs starting in the third quarter and contributions from the initial phase of our unconventional operations. Looking ahead to the fourth



quarter, we expect sequential growth around mid-single digits as we continue to ramp up our operations. This is implicit in our updated guidance and is based on the expectation that the two new jack-ups will join our fleet in November and will start operations and contributing to revenue towards the end of the year.

Thank you – I now hand over to Mr. Abdulrahman for closing remarks.

Abdulrahman Al Seiri - ADNOC Drilling - Chief Executive Officer

Thank you, Youssef, and the team.

To recap, ADNOC Drilling had a record-breaking quarter with strong financial results and updated guidance. Our inclusion in the MSCI indexes helps broaden our investor base, improving market visibility and liquidity.

We are making significant progress with Enersol's acquisitions and accelerating our entry into the unconventional segment. These developments, along with our regional expansion goal, position ADNOC Drilling for new opportunities and future growth.

We remain committed to our ESG agenda by pursuing ambitious sustainability goals.

These achievements pave the way for further growth, ensuring ADNOC Drilling continues to lead in the operational excellence, innovation, and value creation.

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

Thank you very much, as-salamu alaykum.

QUESTIONS AND ANSWERS

Sashank Lanka - Bank of America

Yes. Thank you very much for the presentation and congratulations on another strong set of results. I have two questions, both related to the unconventional growth strategy. The first one is you do guide for around \$1.7 billion revenue from phase 1. You also did announce recently about an accelerated phase 1 program. You've realized about \$33 million revenues in Q3, so just wondering what the trajectory of revenue realization will be over the next four, five quarters. The assumption from my end would be it will be quite a steep increase given the \$1.7 billion is being accelerated. That's the first question.

The second question is related to page 18 of the presentation where you've shown an illustration of how the mechanism of Turnwell JV works and it seems like that Turnwell is - basically, it's a contract that you have given Turnwell from ADNOC Drilling perspective. Can we assume that in phase 2 probably there would be a situation where there's no Turnwell involved, and you get the whole contract and work accordingly instead of giving it to Turnwell? Just trying to understand the mechanism here. Thank you.

Abdulrahman Al Seiri - ADNOC Drilling - Chief Executive Officer

Thank you, Sashank and thank you for all being here also, and definitely two important questions on the unconventional. There is the plan to accelerate the unconventional, since we had a good start, and then one of the key successes for that is having a Turnwell establishment and really putting all those experiences together to deliver a world-class service to our client. Now, definitely Youssef will pick up on the financial side, but the companies started working and delivering these objectives and definitely we'll have more probably discussion here. Okay, Youssef, if you can.

Youssef Salem - ADNOC Drilling - Chief Financial Officer

Absolutely. Maybe starting with the second point. Yes, it is a fair assumption that 100% of the economics for phase 2 as a starting point will be for ADNOC Drilling. Now, whether that takes the form of that point in time Turnwell or any other vehicle executing on this contract is owned 100% by ADNOC Drilling or that there is a partner being brought onboard, but then there's an upfront consideration being paid by these partners for their share of the economics and hence either way ADNOC Drilling would ultimately get 100% of the economics either over time or partially over time and partially in the form of an upfront consideration.

In terms of phase 1, the \$1.7 billion revenue work-up originally anticipated to be gradually over just 2.5 years until the end of



2026 with a potential acceleration depending on the continued upward performance as Bu Mohamed indicated, which has been substantiated so far in the first few wells in terms of delivery on well plan. That can potentially be brought forward. In all cases, we have our medium-term guidance which runs until end of 2026 and hence the balance of the unconventional will be during this overall period in line with that CAGR that we've outlined which incorporates the \$1.7 billion.

Sashank Lanka - *Bank of America*

Okay. Thank you, Youssef. If I can just follow up, in terms of winning the phase 2 on track, are there any KPIs that we should be looking at or you will as a company focused on to win the contract from ADNOC for phase 2?

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

No, definitely Turnwell phase 2 is something we need to deliver certain targets and hopefully that will be during phase 1 to work it out. That's the whole intention of establishment of this entity to be able to take the project to the next level. So far, things are going positive and we're expecting we will be able to continue with that output and move to the phase 2. Definitely, we'll be updating over the time as we go forward. We have 144 wells in hand that we are working with so hopefully further updates will be coming in different venues of calls that we have. As we just reported, as you are aware, it's only one quarter now since we started. There is more to update, inshallah, will be happening as we go forwards.

Sashank Lanka - *Bank of America*

Thank you. Thank you, Mr Abdulrahman.

Guillaume Delaby - *Bernstein Societe Generale Group*

Yes, good morning. Thank you for taking my questions. Two questions, if I may. Maybe I'm going to repeat to a certain extent the question that has just been asked, just to be sure to understand. Basically, you will update in due course for phase 2. What should we expect in terms of - and I'm really repeating the question just to be sure to get the answer. In terms of the speed at which unconventional is going to develop, and also, I would like also to conclude also with maybe what I would call the near housekeeping question. The \$33 million unconventional revenues, the split, \$27 million and \$6 million or 75%/25%. Should we assume that it is going to be a recurrent split going forward?

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

Sure. Thank you very much. I think Turnwell or unconventional will be a lot of questions coming for that. As I mentioned earlier, we've just started and things are progressing very well, which is leading to clients asking for expedited deliveries to accelerate the program. Now, today at least, from the work that we have been doing, we have seen already as good as 30% and 40% improvements in deliveries. Now, definitely that would expedite the program.

Now, the whole intention for us and to meet certain delivery times to make it more economical for us and for the client to continue with the phase 2. I would say at least we would be in a better position probably towards mid next year to really see how effective will be the learnings and everything moving forward. So, from there we will be able to probably put more solid expectations. Now, we know in unconventional there are wells being turned over in less than two weeks for certain areas.

Now, we achieved already like 20 days here, 22 days now and one of the wells, whether that continues to be with us, we are expecting yes because we are mixing all that expertise together to deliver. So, I would say yes, it would be expedited and as I mentioned earlier, also we'll be more updating as we go forward, and probably mid '25 we'll be in a better position to see very solid information that we can plan based on that also.

Youssef Salem - *ADNOC Drilling - Chief Financial Officer*

Yes, the 80%/20% split between services and onshore drilling in unconventional, we expect that to be recurring as that's reflective of the division in the well plan by the client between these two areas, and that's great for us because that basically puts the vast majority of the spend in the more asset-light oilfield services category, which allows us to overall achieve higher returns on the unconventional and become return accretive for the overall business, and continue to drive rapid growth on the OFS side, which is already now at 98 rigs, 50 integrated and 48 discrete. And now on the unconventional, we have 100% market share on the OFS so that will continue to drive rapid growth on OFS. All of that is why we're updating that in the medium-term guidance we'll be trending towards the upper end as all of these growth levels come together.

Guillaume Delaby - *Bernstein Societe Generale Group*

Okay. Thank you. May I ask a quick follow-up? You mentioned that you are more or less targeting the high end of the medium-



term guidance in terms of revenue growth, and you mentioned CapEx. In your medium-term CapEx guidance, you only include – okay, it's maybe a little bit - I think you only include maintenance CapEx of \$200 million to \$250 million. What kind of reasonable CapEx should we forecast in the coming two or three years? And this additional CapEx, is it going to be only for unconventional or what should we basically assume? Can you give us a little bit of a steerer?

Youssef Salem - ADNOC Drilling - Chief Financial Officer

Of course. I think starting with 2025, if you start with the top end of the maintenance guidance of \$250 million given the increased fleet on both the rig side where we're ending this year with 142 and then next year up to 145, or on the services side where now we have 98 rigs with services equipment, and that again will be increasing significantly over both Q4 and next year, so starting with the \$250 million.

Then on top of that, adding the bulk of the three island rigs which will arrive in 2026, but the majority of the CapEx will be during the course of next year, so if you round that up to \$450 million, so far. Then if you also include the potentially land rigs expansion as we potentially look at additional land rigs to service the unconventional phase 1 acceleration as potentially up to three land rigs, which would include them alongside their associated services and fracking equipment, that rounds you up to around \$550 million.

Then if on top of that you add the oilfield services expansion CapEx, which as part of the Q4 result and the full year guidance will be including a significant expansion. You see this quarter as static at 50 IDS rigs because we're very focused on the expansion in the discrete side and building all these services one by one, but a lot of these will now become integrated by the end of this quarter and next quarter so the significant expansion on OFS space there, so again, rounding that up, that take it to around \$650 million including another \$100 million of OFS capital.

If you look at it today, where this year is 2024, it's \$800 million to \$900 million and hence we see that let's say gradual decline next year. So, in the identified CapEx currently is around \$650 million, obviously there's potential for additional growth or acceleration opportunities on top as well. So, we expect to end up somewhere between that \$650 million build-up we mentioned and \$800 million, which is the bottom end of this year, because definitely next year it's expected to be lower than this year. This is purely on the organic expansion side.

On top of that as well, you would have the deployment of the remaining Enersol piece. Enersol in total, our share of Enersol is \$765 million; around one third of that has already been deployed so far this year. The remaining two thirds will be deployed between the end of this year and beginning of next year.

Guillaume Delaby - Bernstein Societe Generale Group

Okay. Thank you very much, Youssef. Thank you very much. I turn it over.

Ruben Dewa - Jefferies

Hi, good morning, Abdulrahman and good morning, Youssef, and thank you very much for taking my questions. I just had an additional follow-up on the stage 2 and hopefully it's a bit more broad brush, but I just wanted to see should we assume that the economics in terms of revenue per well and CapEx per well are very similar to stage 1? That's my first question.

On the second one, on your rig expansion, also I think you mentioned that you're looking to get to 145 rigs by the end of 2025 and I think it was 148 by the end of 2026. Are all of the increases in the rigs, are they all IDS rigs as well? So, would it be safe to assume about your IDS the number of rigs increases from 50 to say 55 IDS rigs, then 58 IDS rigs by the end of 2026? Thank you.

Abdulrahman Al Seiari - ADNOC Drilling - Chief Executive Officer

Thank you, Ruben. Let me just understand the first part of the question. You mentioned in the...

Youssef Salem - ADNOC Drilling - Chief Financial Officer

For the first phase of \$12 million per well, what would the second phase look like?

Abdulrahman Al Seiari - ADNOC Drilling - Chief Executive Officer

Yes. The whole intention for us, and the drive to bring the project into an economical phase, we are targeting to achieve the oil wells below eight and the gas wells below 12. Definitely, expectation is to go even lower than that. Is that possible? Yes, it's possible. It requires the effort, it requires a change of practices, change of mindsets, which is the whole intention of this joint venture which we have today with Turnwell and with that kind of setup that we have, we are more confident that we will be able



to deliver those kinds of numbers and even better than those. That's the part I'm hoping that answers your question. On the IDS, I think if you can take it.

Youssef Salem - ADNOC Drilling - Chief Financial Officer

Definitely, definitely and Ruben, really great to start having you on these calls and part of the ADNOC Drilling ecosystem. So, on the integrated drilling services side, yes, we definitely expect to even cross these numbers that you mentioned. So, in addition to looking to have the new rigs come in as IDS whether upfront or after joining, we also have a lot of existing rigs in the fleet being able to also get moved into IDS. I should add, the 58 number you mentioned, we expected to hopefully be between - to be between their maximum by Q1 of next year, so hopefully much, much faster as well. Then after that, we continue to trend gradually towards 50% of the overall fleet being in IDS, so by 2026 and '27 we hopefully will be at 70-plus rigs at that point in time.

Ruben Dewa - Jefferies

Okay. Thank you very much, guys. That's super helpful. If I could ask one follow-up, I just wanted to get maybe some clarity on the NTS AMEGA transaction and the EV transaction. Are they expected to close this year or maybe beginning of next year, and I'm guessing if so, then you'll start - they will feed into the 2025 guidance?

Abdulrahman Al Seiari - ADNOC Drilling - Chief Executive Officer

I think our plans are to close them this year for sure, and then it's just the process that we need to conclude, the antitrust part of it, which is - we are expecting soon it will be concluded, and hopefully will be closed before year-end.

Youssef Salem - ADNOC Drilling - Chief Financial Officer

Exactly, and also, we've guided previously that we're looking to deploy half our Enersol during this year, so on a full Enersol based on the \$1.5 billion based on 100% were \$550 million out of the \$750 million, including the signed deals. We also expect in Q4 to have an additional signing to basically bring us to the \$750 million plus level to finish the deployment of the half, and then also we would be working on trying to also close this deal that you will find this quarter as well itself subject to antitrust again.

Ruben Dewa - Jefferies

Okay. Thank you very much, guys. I'll pass it on and congrats on a great quarter.

Giuseppe Villari - Morgan Stanley

Hi. Good afternoon and thank you for taking my questions. I have two if I may. Firstly, about OFS margin, if you can expand a little bit on what drove the performance in third quarter and how you see a recovery there. Then secondly on international expansion, what could be the timing in Oman and Kuwait and how relevant could they be?

Abdulrahman Al Seiari - ADNOC Drilling - Chief Executive Officer

Thank you. Go ahead, Youssef, pick it up please.

Youssef Salem - ADNOC Drilling - Chief Financial Officer

Perfect. I think in terms of the - starting with the second question, the international expansion in Kuwait and Oman. We're looking to as soon as this quarter, maximum by Q1, to have something in terms of signing or in terms of award, et cetera, in these two countries, and then the financial impact of the transaction is again to take time to have the rigs up and running and operational and the relevant closings will be more starting Q2 onwards of next year. The way we see these transactions or these deployments for these rigs as incremental, so they're not part of our medium-term guidance, that would come on top. Obviously, the vast majority of the business would remain in the UAE and that's what provides the extremely stable and contracted nature of the business. But similar, for example, to Enersol where we're basically guiding towards a potential \$100 million of net income at full scale of the joint venture, as share of ADNOC Drilling which will provide the 7% of net income run rate boost as when all of these deals close, we will be targeting something similar from the perspective of the regional expansion if you would have, so it would be an around mid-single digit contribution, so meaningful in terms of additional growth level above the medium-term guidance, but still the vast majority and the characteristics of the business would remain as per the UAE business.

In terms of the OFS, the shorter-term fluctuations come from the variation in the services mix, especially now that we have in addition to the 15 integrated, we have 48 discrete. We may be offering one service but not the whole package and hence some



may be higher margin than others. We continue to be well on track for the conventional OFS piece to be at the 22% to 26% medium term margin side. So, we expect over the next couple of quarters, especially with the IDS, significant IDS increase to see in Q4 and Q1 to continue to gradually trend towards these margin levels.

Giuseppe Villari - Morgan Stanley

Thank you, Youssef. Very clear.

Dalal Darwich - Goldman Sachs

Yes, hi. Thank you very much, everyone, and congrats on a very strong set of results. I'm joining on behalf of Faisal, who couldn't join the call today. Everything has been quite clear, maybe just one more question on our end on the unconventional side. If you can please talk a bit about the CapEx associated with the unconventional activity, how to think about it, maybe some sort of sensitivity would be just helpful for us as you think about the opportunity moving forward.

Abdulrahman Al Seiri - ADNOC Drilling - Chief Executive Officer

Thank you, Dalal. Youssef.

Youssef Salem - ADNOC Drilling - Chief Financial Officer

Absolutely. I think in terms of phase 1, we're looking at potentially up to three additional rigs to be able to service the phase 1 requirement, obviously are trying to optimize and basically utilize the existing fleet as much as possible to reduce CapEx and improve returns even further, but we're looking for up to additional three rigs, which including the service and fracking support infrastructure would be up to \$100 million CapEx in 2025 to be able to achieve phase 1.

As we go into our thinking about phase 2, we can start thinking about it at the high level as around each rig is capable on drilling potential around 10 wells a year at a high level. As Bu Mohamed mentioned, some of the rigs are now drilling wells in the 22 days range which would provide even more upside, but that would be a base case at 10 wells per rig per year. Each well again currently in this phase worth \$12 million revenue per well, but more conservatively we can also assume \$10 million revenue per well in the longer term, especially as we continue to optimize and pass through some of these savings to the client in the new contract.

Hence an onshore rig that will basically be capable of producing revenue of \$100 million a year, effectively drilling 10 wells at \$10 million each and then the CapEx for that rig would be towards the higher end of the onshore CapEx of \$30 million per rig, and then including as well the services component, and the fracking component that can come with it. So, if you include the attribution of this potentially up to \$40 million all-in cost including the services component, so you can see that the basic payback period for these assets will be quite short, again because the majority of that revenue is ultimately coming from the asset-light services components and hence further enhancement for the overall returns.

Obviously, this CapEx would be over a number of years. For example, if you look at the phase 2, for example, illustratively 20 additional rigs over a number of years, then you can potentially be looking at up to \$800 million all-in CapEx over a number of years to basically service the program of up to maybe 200 wells per year, again over a number of years, for the unconventional.

Dalal Darwich - Goldman Sachs

That's very, very clear. Thank you so much.

Rene Selouan - Jadwa

Hi, thank you for the call and the opportunity to ask a question. I was wondering, in terms of the operating cash flow in the third quarter, it dropped quite a bit from the second quarter. Could you please elaborate on that?

Youssef Salem - ADNOC Drilling - Chief Financial Officer

Thank you so much and thank you for taking the time. Yes, I think we've had a record low working capital in Q2, we were down closer to 8%. We continue to guide towards 12% as we see as normalized level. What we basically do is we continue to push in every quarter obviously for the absolute maximum collections, and all this obviously optimizes the cash inflows for us, but over the last four quarters that has been consistently been below that normalized guidance level of 12% in different parts. For example, while Q3 was still well below the 12%, 11% was obviously higher than Q2.

So, I think the way we think about it is shorter term there can be fluctuations. This is all on the positive side in terms of trying to bring the cash in earlier but the 12% working capital remains what we see over time at the really normalized level because



basically, that's where we see the business is. We see it as a yes, slightly behind what was a really exceptional quarter in Q2 from a working capital perspective but still below the 12% and then over time will trend gradually towards the 12% over a number of quarters.

Rene Selouan - *Jadwa*

Okay, thanks.

Oliver Connor - *Citigroup*

Hi. Thanks for taking my question and congratulations again on the strong set of results. Just one from me on the margin profile for the core drilling business, both onshore and offshore, and obviously trending slightly higher Q-on-Q. Just trying to get a sense of how you see the future optimizations for the core business playing out in the next couple of years. You have your overall margin guidance but just wondering what levers are still to pull in the core business to improve the margins in the drilling business. Thank you.

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

Thank you, Oliver. Now, on the future, I think the important part that we have, we have the contracting strategy that we have between both companies, whether it is onshore or offshore, especially majority of our assets are almost new, you can say, relatively, less than 10 years old and we have agreement for 10 to 15 years kind of rate mechanisms that we are working with. That will stay, it will not be something changing, but definitely we work on areas where we can further optimize and then that's the part where we can probably work with our client to pass through on a win-win situation. But overall, the mechanism remains as solid and it's been effective for the last 20 years, and there is no intention to change any of that. Would you like to add?

Youssef Salem - *ADNOC Drilling - Chief Financial Officer*

You're absolutely right. I think we're already at the medium-term guidance margin, which is 50% blended, for the overall drilling and OFS conventional business. To your point, Oliver, that continued upward trending was primarily a function of economies of scale, you will see that our SG&A remains broadly flat to slightly declining. Even some of our direct costs in terms of maintenance, in terms of et cetera also benefits from a pooling of spare parts of inventory. Hence, we continue to benefit from economies of scale both from direct costs et cetera and on fixed costs, and that has drove the margin expansion.

Obviously, going forward, as potential the additional rigs would be less than what we've experienced over the last three years or would be less of these further economies of scale, so we think it's probably fair to assume relatively stable margins from here for the segment with the potential for slight upside as again additional rigs come into play with effectively small further economies of scale.

Oliver Connor - *Citigroup*

Great. Thank you.

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

Thank you very much, we appreciate, I think a very busy session; we do the results and that's what everybody would like to get more information. I hope we were very clear on all the questions being asked and thank you very much for raising all those questions and being with us and appreciate it really. Thank you.