ADNOC DRILLING COMPANY P.J.S.C.

Fourth Quarter and Full Year 2024 Earnings

Webcast & Conference Call Transcript

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PRESENTATION

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

Ladies and gentlemen, welcome to the ADNOC Drilling's Fourth Quarter and Full Year 2024 Earnings Webcast and Conference Call. My name is Mass Cominelli, Vice President of Investor Relations. Before handing the floor over to our main speakers, I would like to draw your attention on 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 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'll 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 and full year.

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

Salaam aleikum. Good day to all. I'm pleased to share that we have delivered another year of exceptional growth, achieving record-breaking results in the fourth quarter and also the year. Our disciplined execution, expansion of our fleet and commitment to operational excellence have enabled us to reinforce our position as the fastest growing drilling company globally. We recorded 32% year-on-year revenue increase to over $4 billion, reflecting the expansion of our fleet and strong oilfield services growth.

Profitability was also strong, with EBITDA reaching $2 billion, as we continue to maintain an industry-leading margin of 50%. We reported a net profit of $1.3 billion, up 26% year-on-year, demonstrating our ability to deliver sustainable and growing returns.

On operations, our rig fleet reached 142 rigs, having added a total of 13 rigs throughout the year, including two jack-ups in the fourth quarter, which will start contributing to revenue during the first half of this year. This expansion have further strengthened our ability to support ADNOC's ambitious growth plan. Within our fleet, we perform integrated drilling services on 57 rigs, and also, we offer discrete services on another 48 rigs. We remain committed to maintaining the highest safety and environmental standards.

In 2024, we achieved a total recordable incident rate of 0.46, outperforming our target and reinforcing our focus on operational safety. Additionally, our energy intensity stood at 2,565 gigajoules per million dollar of revenue, reflecting continued improvements in our environmental footprint. Beyond our core financial and operational results, we achieved several key milestones throughout the year, including securing a contract of $1.7 billion for the unconventional business, making a major step in supporting our unconventional oil and gas expansion.

Our joint venture, Enersol, has made a strong progress in executing its growth pipeline. Over the year, we announced the acquisition of four tech-enabled oilfield service companies, strengthening our portfolio with cutting-edge solutions that enhance performance and efficiency. We have also strengthened our profile in the equity market through two transactions that increased our free float to 16.5%, significantly enhancing stock trading liquidity and allowing us to be included in the MSCI indexes, an important milestone that increased our appeal to investors.

As we lay the foundation for future growth, our commitment to maximizing shareholder value remains top priority. Next slide please. Growth remains at the core of ADNOC Drilling's strategy. Through Enersol expansion, continued progress in the unconventional resources and regional growth initiatives. We are strengthening our position as a leader in the drilling and oil field services landscape. Enersol has established itself as AI technology-focused oil field services investment platform, acquiring four companies for around $800 million, representing around half of the committed capital.

In the fourth quarter, Enersol signed the agreement to acquire a 95% equity stake in Deep Well Services for $223 million, a leading technology and services company specializing in high-pressure long lateral and multi-well completion and intervention operations. Enersol also closed its NTS Amega and EV acquisitions.

Moving on to Turnwell, the JV successfully delivered the first wells to ADNOC in under 16 days, setting a new benchmark for well delivery. This serves as a very good start to fulfill the mandate of unlocking Abu Dhabi's world-class and conventional energy resources to meet growing global demand for affordable, accessible energy.

Finally, we are making progress in expanding regionally and growing our drilling and oil field services activities beyond the UAE. We have secured contract extension in Jordan and we are targeting to potentially operate in Kuwait and Oman. As always, I am optimistic about ADNOC Drilling's future as we continue to advance the UAE's energy ambitions.

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

Youssef Salem - *ADNOC Drilling - Chief Financial Officer*

Thank you, Mr Abdulrahman. Good afternoon, everyone, and thank you for joining today's earnings course. We closed out 2024 with a record fourth quarter, delivering strong operational growth as we expanded our rig fleet, increased drilling activity, and further optimized efficiency across our operations. Our rig fleet reached 142 rigs, up 10% year-on-year, following the addition of 13 rigs during the year, including 11 land rigs and two jack-ups, while rig availability stood at 96% in the fourth quarter.

Moreover, drilling activity accelerated with 214 wells drilled in Q4 compared to 161 in the same period last year, reflecting the impact of new rigs coming into operation. On the OFS side, we continued expanding our capabilities with 57 rigs operating under Integrated Drilling Services contracts in Q4, compared to 48 rigs in Q4 2023 and 50 in Q3 2024. Discrete services were offered across 48 rigs, bringing total OFS coverage to 105 rigs, or around 74% of the drilling fleet.

We have also seen improvements regarding operational efficiency, with a 20% increase in IDS drilling efficiency compared to 2023 benchmarks. This progress reflects ongoing enhancements in drilling performance, automation, and utilization, supporting both cost control and faster well delivery. Looking ahead, OFS activity is set to ramp up further in 2025, supported by the continued deployment of IDS rigs and growth in unconventionals. As we scale our operations, our focus remains on delivering high-performance drilling solutions, maximizing asset efficiency, and sustaining ADNOC Drilling's strong operational momentum into the next phase of growth.

Moving on to our decarbonization initiatives, next slide, please. We continue to make substantial progress in reducing emissions across our operations, with a strong focus on camp electrification, rig efficiency, and energy optimization initiatives. All 16 newbuild hybrid rigs are now full operation, equipped with battery energy storage systems to optimize energy usage. In our camp, the Madinat Zayed camp has been powered by the grid, marking a key milestone in our decarbonization efforts.

Additionally, we successfully installed solar mobile power on AD-122, reinforcing our commitment to integrating renewable energy in power operations. We are also advancing rig energy optimization, continuously monitoring consumption to identify efficiency gaps and reduce diesel usage. Further electrification initiatives are under evaluation along with a diesel optimization program which includes testing fuel additives to improve combustion efficiency.

Enersol remains a key enabler of ADNOC Drilling's decarbonization agenda. Through strategic acquisitions and technology integration, Enersol is strengthening our capabilities, allowing us to implement innovative solutions that enhance efficiency and reduce our environmental footprint. With these initiatives in motion, we remain committed to reducing our carbon footprint while enhancing operational efficiency, ensuring ADNOC Drilling remains at the forefront of responsible energy development.

Moving on to financials on the next slide, please. Coming back to what the CEO said earlier, we're very pleased to report that ADNOC Drilling closed 2024 on a strong note, delivering another record quarter and full year performance with revenue, EBITDA, and net income all reaching new highs.

Revenue in Q4 grew 16% to $1.19 billion, while full year revenue surpassed $4 billion, a 32% year-on-year increase. I would like to highlight that approximately 50% of the sequential revenue growth in Q4 was supported by activity phasing, primarily within OFS and certain cost reimbursements in the Onshore segment. Adjusting for these, our core revenue growth remains in line with expectations. You will have to consider this positive phasing and the reimbursement in Q4 when you model the first quarter. I'll be more explicit on this when we come to guidance.

EBITDA expanded to $596 million in Q4, bringing full-year EBITDA to $2.02 billion with a 50% margin. Excluding the impact of activity phasing and cost reimbursements, sequential EBITDA growth was 7%, in line with the trends we had anticipated in our Q3 earnings call. Net income for Q4 reached $399 million, with full-year net profit standing at $1.3 billion, up 26% year-on-year. Excluding activity phasing impact, sequential net profit growth stood at 4%.

Bottom line, our sequential growth was around or higher than mid-single digit, even when excluding the non-recurring elements. Cash from operations for the full year stood at $1.65 billion, representing 82% of EBITDA, a healthy level. One point to highlight, net working capital as a percentage of revenue stood at around 8% at the end of the quarter. However, as you have probably seen, the four lease-to-own land rigs from the previous quarter have been reclassified to own rigs. As such, the normalized ratio was 12%, adjusting for the impact from phasing of CapEx-related payments for the unwinding of the lease liability to payables.

Capital expenditures for 2024 totaled $761 million including prepayments and accruals, reflecting discipline deployment aligned with our rig acquisition program. We expect CapEx to be in a range between $350 million to $550 million for 2025. This guidance only includes maintenance CapEx and the CapEx for island rigs. We anticipate making additional inorganic gross investments in our JV Enersol of up to $490 million in 2025, assuming the completion of transactions by Enersol totaling $1.5 billion since its inception. CapEx for 2025 will remain flexible to support our growth, potentially exceeding $1 billion with M&A, depending on investment opportunities and execution.

Our balance sheet remains strong, with net debt at $1.99 billion, leading to a 1.0x net debt to EBITDA ratio. This provides ADNOC Drilling with ample flexibility to fund both growth and dividends, ensuring we maintain a balanced approach to capital allocation while continuing to deliver shareholder value.

Now, let's look at revenue for the various segments. Next slide, please. Starting with the Onshore segment, fourth quarter revenue grew 33% year-on-year to $554 million, supported by new rigs commencing operations and contributions from the unconventional business. Sequentially, Onshore revenue rose 14%, with growth supported by hiring activity, a $48 million positive impact from unconventional business, and certain cost reimbursements in the Onshore segment.

For the full year, Onshore revenue reached $1.89 billion, up 27% year-on-year, reflecting the impact of fleet expansion and increasing unconventional activity. Offshore Jack-up revenue grew 17% year-on-year in Q4 to $264 million, supported by higher activity from new rigs. Sequentially, revenue declined 9%, mainly due to major maintenance coinciding at the same time for a few rigs.

For the full year, revenue increased 40% to $1.12 billion, reflecting strong demand across ADNOC's offshore development projects. Offshore Island segment revenue increased 8% year-on-year to $56 million in Q4, reflecting the reactivation of an island rig for the Hail and Ghasha project. Sequentially, revenue was also up 8%, demonstrating stable performance in this segment. For the full year, revenue stood at $212 million, broadly in line with 2023 levels.

OFS delivered outstanding growth, with the number of IDS rigs standing at 57, growing from 48 rigs at the end of 2023. Fourth quarter revenue increased 111% year-on-year to $313 million, and up 59% sequentially, driven by higher IDS activity, positive phasing for approximately $50 million related to direction drilling and pressure pumping, and $73 million revenue from unconventional business in Q4 alone.

For the full year, OFS revenue increased 47% year-on-year to $813 million, driven by increased volumes of activity from IDS as well as the positive phasing relating to direction drilling and pressure pumping, and the unconventional business, which contributed $100 million in the second half of 2024.

As you have probably seen, for the unconventional business, the revenue split between OFS and Onshore was approximately 60% to 40% respectively. However, I would like to highlight that this was driven mainly by phasing of certain activities and for the phase 1 of the project, $1.7 billion contract, we anticipated the cumulative contribution will be around 80% to OFS and 20% to Onshore for land.

With IDS ramp-up continuing and the unconventional development gaining traction, we expect OFS activity to remain strong in 2025, reinforcing our position as a key enabler of ADNOC's growth ambitions. Over to the next slide, please. Moving on to EBITDA. Onshore EBITDA grew 40% year-on-year to $285 million in Q4, reflecting higher revenue and stable operating expenses supported by realized cost optimization initiatives. Sequentially, EBITDA increased 18% in line with higher activity levels and continued efficiency gains.

For the full year, EBITDA grew 28% to $927 million with a margin of 49%. Offshore Jack-up EBITDA rose 33% year-on-year to $197 million in Q4, supported by higher operational efficiency and cost optimization initiatives. Sequentially, EBITDA declined 1% due to major maintenance time. For the full year, EBITDA increased 50% to $768 million, with a 69% EBITDA margin up from 64% in 2023.

Offshore Island EBITDA declined 3% year-on-year to $32 million in Q4, reflecting reactivation costs for the island rigs assigned to Hail and Ghasha while remaining flat sequentially. For the full year, EBITDA reached $128 million with a 60% margin, maintaining steady profitability. OFS continued its exceptional growth, with Q4 EBITDA increasing 105% year-on-year and 110% sequentially to $82 million, driven by higher revenue and supported by contributions from joint ventures. For the full year, OFS EBITDA rose 67%, to $192 million with a 24% margin.

Our ability to sustain a 50% EBITDA margin while delivering strong absolute growth across all our segments, highlights ADNOC Drilling's structural profitability, disciplined cost management, and operational efficiency. Next slide, please.

Throughout 2024, as we continued expanding our operations and capturing growth opportunities, we had the visibility and confidence to upgrade our guidance twice. Our disciplined execution and operational strength have allowed us to deliver on all key metrics, creating sustainable value for our shareholders. We delivered record revenue, EBITDA, and net income, exceeding the higher end of the twice upgraded guidance for all three markets.

This performance was driven by strong contributions across all segments, which benefited from new rigs, unconventional activity, and increased IDS and OFS penetration. Looking ahead, ADNOC Drilling remains well positioned to sustain its growth trajectory, supported by continued operation efficiencies, rig fleet expansion, and an increasing contribution from technology-driven OFS solutions.

The Board has proposed a final cash dividend of $394 million - 9.05 fils per share - subject to shareholder approval at the upcoming AGM in March. This brings total dividends for the year to $788 million - approximately 18.1 fils per share - reflecting a 10% year-on-year increase. The final dividend is expected to be distributed in the first half of April 2025. In line with our progressive dividend policy, dividends are projected to increase by at least 10% year-on-year, bringing the minimum amount for 2025 to $867 million.

Moreover, let us stress an important point. The Board at its discretion may approve additional distributions above the progressive policy, depending on free cash flow, accretive growth opportunities.

Moving on to guidance. As we look ahead, our 2025 guidance reflects continued high growth. Importantly, this guidance excludes further acceleration of unconventional development, which is expected to contribute in both 2025 and 2026, and any additional land rigs related to that. For the full year 2025, we expect revenue between $4.6 billion and $4.8 billion, reflecting full contribution from rigs assets throughout last year, as well as continued OFS and unconventional growth.

As you can understand, the phasing of unconventional between 2025 and 2026 will be an important driver of revenue evolution and distribution. The beginning is promising as we are drilling below 16 days, hence allowing us to continue progressing and we'll update the market in due course as we get more visibility on the progress and once the volume of fracking activity will pick up at a later stage.

Also, starting from the first quarter of 2025, we will simplify our reporting structure by consolidating Offshore Jack-up and Offshore Island into a single Offshore segment, aligning with the focus of our offshore clients on optimizing the mix of offshore assets and maximizing operational synergies. EBITDA is expected to range between $2.15 billion and $2.3 billion maintaining a strong 46% to 48% margin. While net income is projected to be between $1.35 billion and $1.45 billion, translating to a 28% to 30% net margin.

Looking ahead, I suggest for Q1 taking: Revenue close to the average of Q3 and Q4 2024, as Q1 has two less days than Q4 last year, a 2% delta in volume, and Q4 benefited from OFS phasing an onshore re-imbursements. EBITDA and net income margins broadly in line with the mid of the annual guidance, as OFS is growing disproportionately driven by IDS and unconventional.

For the next three quarters, taking the number close to midpoint of the annual guidance, minus Q1, and dividing it by three, assuming broadly even quarters. We anticipate 2025 CapEx between $350 million and $550 million, in line with the natural cycle of our investments. The lower end of the guidance reflects routine maintenance and the awarded new island rigs capital expenditure. While the upper end, incorporate incremental CapEx for potential additional island rigs and OFS equipment and other targeted organic growth initiatives.

Moreover, for the first time, we have introduced free cash flow guidance, expected between $1.3 billion and $1.6 billion, excluding any cash outflows associated with M&A. This underpins our 2025 dividend floor of approximately $870 million, which represents a minimum 10% year-on-year increase comfortably supported by projected free cash flow.

Looking at our medium-term outlook, we anticipate revenue to reach approximately $5 billion in 2026, reflecting continued business growth and growing contribution from OFS. Our rig count is expected to increase to at least 148 rigs by 2026 and 151plus rigs by 2028, ensuring ADNOC Drilling remains well positioned to support ADNOC's long-term capacity expansion plans.

It's important to highlight that the 50% EBITDA margin in our medium-term guidance applies to conventional drilling operations, whereas the unconventional segment, despite optically reducing margins, remains accretive to overall returns. This is due to its lower capital intensity and a greater weighting towards OFS, which structurally operates at lower margins but higher returns than drilling.

We remain committed to capital efficiency and financial discipline, maintaining a conservative leverage target of up to 2.0x net debt/EBITDA ensuring flexibility for future growth. We expect to maintain a stable 12% working capital ratio in the medium term. Our 2025 and medium-term guidance reflect ADNOC Drilling's ability to drive sustained growth, optimize capital efficiency, and maintain strong financial flexibility, ensuring we remain on track to deliver long-term value for our shareholders. Thank you. I now hand over to Mr Abdulrahman for closing remarks.

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

To recap, ADNOC Drilling delivered another exceptional year, achieving strong financial results while continuing to execute on our strategic priorities. We continue to build on our growth momentum, with Enersol progressing well in its acquisition strategy, and Turnwell establishing a strong foundation in unconventional resources. These developments alongside with our regional expansion ambitions position ADNOC Drilling to capture new opportunities and drive future growth.

At the same time, we remain committed to our ESG agenda, advancing sustainability initiatives that enhance operational efficiency and contribute to a lower carbon future. With a strong financial position, a growing asset base, and a disciplined approach to execution, we are well positioned to pave the way for further growth and long-term value creation. Thank you for joining us today. I will now hand over to the moderator to open the Q&A session.

Thank you very much.

Salaam aleikum.

QUESTIONS AND ANSWERS

Giuseppe Villari - Morgan Stanley

Hi, good afternoon. Thank you for the presentation and for taking our questions. We have two, if I may. The first one is about the three incremental rigs that you guided for by 2026. We were wondering if you could provide the breakdown between Onshore and Offshore. And then secondly on CapEx, you indicated that for 2025 CapEx could reach over $1 billion including M&A, and we were wondering how advanced are you on negotiations? Thank you.

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

Thank you. Okay, we'll take the two questions separately. The first one with regard to the island rigs. The first - hopefully these are the island rigs, three rigs, which are coming for the island project that we have.

The first one, hopefully I'm expecting the first to come in late '25, to be available in Abu Dhabi, and expecting to start operation somewhere probably late in the first quarter - in the second quarter. Then we'll get the delivery of the other two island rigs during '26 and between the second half of the year. We'll try our best to have also the second to start also in 2026. The third probably it will extend into '27 early to start or if we manage to get all that started.

So they are island rigs. They will have the features of - capabilities of AI, smart rigs for the activities that we are doing on the island. On the other part, on the CapEx, Youssef will take that part and…

Youssef Salem - *ADNOC Drilling - Chief Financial Officer*

Definitely. I think closing up on the first point, because I think part of your question related to Bu Muhammad answered, which is the three island rigs which we have previously announced in 2024 for the $733 million contract. These are the ones arriving uniformly throughout and starting operations uniformly throughout the course of 2026. Effectively, the initial part of the revenues of these rigs is reflected in our $5 billion revenue target for 2026, with the first full year of operation being 2027 and hence having further upsides from that.

Then the other part of your question was related to how do we go from 148 rigs in 2026 to 151 rigs in 2028. That is most likely going to be a function of three incremented most likely island rigs to effectively be arriving between - starting operations between 2027 and 2028 and hence creating partial upside in both of these years plus full upside for the first full operation of these incremented three probably island rigs in 2029.

In terms of your question on CapEx, the breakdown this year is going to be you have first the $550 million top end of the existing organic guidance for this year, which is broken down into $250 million of maintenance CapEx, $200 million of CapEx on existing previously announced rigs, primarily the three island rigs which are arriving in 2026, where the majority of the CapEx will be incurred in 2025. Then the remaining $100 million is to cater for incremental yet-to-be-announced growth, which is a combination of additional IDS rigs.

We ended Q4 with 57 IDS rigs. We expect this year to reach at least 62 IDS rigs and hence incremental OFS CapEx for at least these five rigs, plus starting to accrue CapEx on the additional rigs, including that transition from 148 to 151, which these rigs would only arrive in '27 and '28, but they will start to potentially be ordered this year and hence the start of partial accrual, and that is the bridge for the $550 million.

Then the bridge from the $550 billion to the $1 billion, the majority of that is completing the rest of the Enersol deployment, so completing the $1.5 billion at the JV level, out of which the ADNOC Drilling share is $765 million. So removing the amount we already deployed last year, we're looking at around $400 million of deployment this year.

All of these are identified deals, which are in various stages of due diligence and offering. We basically have a clear line of sight to signing all of these deals this year. Then potentially some of them closing this year, some closing next year, depending on the merger control. Like what happened in 2024 when we signed half of the deals, and then three of them ended up closing during '24, and one is closing this year.

Then in terms of financial impact of these deals which are being closed, again you see it one year later. So the same way the 2024 signed deals are contributing around $50 million of bottom line impact this year before any purchase price adjustments for the new deals. Similarly, the incremental deals we will be doing this year would take the bottom-line impact from Enersol to around $100 million next year, again before any purchase price adjustments.

Then the final piece of how do we go, let's say, from this $950 million, which is the $550 million organic plus the $400 million inorganic Enersol, how do we go to then slightly over $1 billion? The balance of that is the additional CapEx we expect to incur this year in Oman and Kuwait, which is again in very advanced stages of basically very clearly identified assets, which are in final stages of diligence and offering to be able to land additional rigs in both countries.

That effectively again will start to create a little bit of financial impact from revenue and net income this year, but predominantly the impact will come in 2026. Again, will be part of effectively how we will grow next year from the $4.6 billion to $4.8 billion revenue this year to the $5 billion revenue next year.

Giuseppe Villari - Morgan Stanley

Perfect. That's very clear. Thank you.

Abishek Kumar - Bank of America

Congratulations on a great set of numbers and thanks for taking my questions. I have a question around unconventional. You've talked about unconventional acceleration, although you also mentioned that you're not baking into this year's revenue guidance. What is the thought process behind that? Then, again, in terms of operational parameters of the first phase progress in terms of well productivity, you touched upon the time taken to drill the well is reducing along with cost.

Then again, a question basically on, currently in the quarter, most of the revenue has come on drilling side, not on the completion side. So what is the thought process? Is it client-led that wells are not getting completed there, you're just filling the wells on unconventional side or is it logistics or something that is going to catch up as we go - move forward in 2025?

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

Okay, thank you, Abishek. I think we'll address it in two parts. Now, in terms of the program, the program started and in turn will pick up the activities. Today, as we talk, we have eight rigs active in the unconventional program in Abu Dhabi. Now, definitely we have major improvements, learnings captured and reflected into the whole program that we are delivering improvements. Basically you're talking about probably up to 60% we have seen and it's something now the team is working to sustain that kind of performance in the deliverability part.

With regard to the completion, there is a requirement to have enough backlog of wells so we can really also go similarly in the completion side where the frack activities will happen. Now, we have started, but - in well-by-well kind of thing. Today, what we are addressing is there is some standalone wells that has started the frack activities.

Also there, we see the improvements happening. We used to do three stage or four stage in a day. Today we are doing six targeting to achieve 10 stages in a day. So there is - the momentum is picking up there and definitely once we will have enough backlog of the wells there is a shift to happen there similarly like what we see on the drillability part. Now, if you take the second part on the…

Youssef Salem - *ADNOC Drilling - Chief Financial Officer*

So I think effectively, to recap quickly and break down your points. On the drilling side, as Bu Muhammad said, we are effectively performing extremely well. We are drilling wells in 15 days, which is a record number of days. All the eight rigs are fully operational. That's why you get significant step-up in the Q4 revenue being well above $100 million, as well as all the associated oil field services coming effectively with drilling these wells.

Obviously, as a result of the well time coming down, the well cost is coming down significantly, which obviously is a double benefit; a benefit that it provides to our clients, ADNOC, a very clear roadmap towards getting the final investment decision on phase 2 from a drilling perspective.

At the same time, because of the lump sum turnkey nature of the model, it allows us to have a higher margin than originally anticipated, at least for now on the drilling side, where we were talking about the 10% net income margin. As we continue delivering at this effectively 15 days, the margins from this will be higher than originally anticipated. That we have effectively full confidence in.

The second part of your question of why is the acceleration not yet fully reflected into the plan, because just purely, with the with way the logistics of the program work, you start with drilling a certain portfolio of wells, which becomes then available for fracking,for the frack fleet to be able to come in and frack these wells, and as you said, some of the logistics that need to be provided around fracking, including the water, the sand, the other requirements from the client side.

Hence effectively, as the drilling performs extremely well in Q4, 2025 now is all about setting up these fracking milestones. As we see the fracking come in at the same efficiency and performance of the drilling, then at that point, we would feel very confident, effectively reflecting this in our numbers, and baking in this upside.

Basically, despite the acceleration from the ADNOC side and the intention to do that, we want all our guidance to be based on contracted elements, and hence drilling is very clear; it's contracted, it's accelerated, the 8 rigs are in place. The fracking, we want to see the same level of contractual visibility and physical achievements on the ground, which is a function of time, to be able to accelerate in the same way.

Abishek Kumar - Bank of America

Thank you very much. That's very clear. One more question, if I may, is on the IDS side of things. You moved from 50 to 57, that's very impressive, and you also mentioned that you're looking at moving into 62 in 2025. Given approximately both owned as well as rented is like 150 odd rigs working in the country, how far we can go in terms of providing IDS services? IDS plus discrete services, in total, we already have like 70%, 75% of market share, so how far we can go there? As a reminder, can you tell us what is the potential revenue opportunity from IDS per well both on the onshore side as well as the offshore side? Thank you. Thank you, Abishek. I think again, on the IDS, if you have seen the story, we started with 10%; we've progressed so far, 10% was during 2019. The whole thing, how much efficient we are being and how much optimization we're introducing, that is happening. That's why today we are at 57 rig count, and the clients, they see the advantage to go into 62, which is additional rigs. The potential to go for more, there is - again, the client has to see the value, which repeatedly they are seeing it and they are increasing the allocation.

Now have in mind, we are not only 57 rigs today, we are on 105 rigs, but the other 48 rigs are more of discrete services; where we are providing one or two services on single discrete rigs, apart from the IDS. We are progressing. I'm expecting that we will be able to progress more. Probably we can reach beyond 50% also of the rigs that we have. When we are saying 150, it can go up to 70 plus rigs also. Again, it's our efforts that is continuously performing, showing the client the benefits and the allocation which comes. There is potential to go more also. What was the other one?

Youssef Salem - *ADNOC Drilling - Chief Financial Officer*

It's just on the same thing, Muhammad, on the OFS basically, it's the count but also it's getting additional services on each rig. It's not only about the rig count going up. Today with these IDS rigs, there's still additional service potential as we transition into a more comprehensive. Today we have the unconventional, we do a lumpsum turnkey, which is even more comprehensive than the integrated rig service. Even though it's already IDS, even within these 57 rigs, there's potential to potentially do more services.

We already have the 49 discrete rigs, which some of these over time can effectively be also moved into IDS. As you have seen in Q4, the overall service intensity is going up with the client. I think while there's definitely potential to go for even more rigs, even within the existing rigs, that's quite sizeable.

The point around the market side, we're already expecting OFS at middle of the guidance this year to grow by 50% from $800 million to $1.2 billion of revenue. The majority of this is coming from the unconventional, but there's also a conventional component to that growth. There is still a continued ability. The OFS has grown more than 100% last year, and we're now talking about 50% this year. Even obviously as this percentage naturally comes down over time, it's still a very substantial percentage of opportunity.

Abishek Kumar - Bank of America

Thank you very much. If you can tell us, what is the potential revenue that you can get from one well in onshore and offshore? If you're providing all the services, what is the potential revenue opportunity?

Youssef Salem - *ADNOC Drilling - Chief Financial Officer*

I think at a very high level, you can take the 2024 numbers. We have around $800 million coming from OFS. If you remove the part of that which leads to unconventional, which is around $100 million, you're left with around $700 million. The majority of this revenue does come from the IDS fleet; it's around 57 IDS rigs.

If you want very back-of-the envelope math, you can look at it at around just under $10 million revenue per rig per year on the services, as a very high-level estimate, obviously plus/minus depending on the actual activity mix, how much is the directional drilling, pressured pumping, et cetera. If you want to use $10 million per revenue per rig per year for the IDS rigs, that's a very high level direction there.

Abishek Kumar - Bank of America

Thank you. There's not much of a difference between offshore and onshore?

Youssef Salem - *ADNOC Drilling - Chief Financial Officer*

Yes, there is no major - except the fracking on the onshore, that's where the difference is. The unconventional wells have fracking, that is where the onshore activity becomes significantly more sizable. If they are conventional onshore or offshore wells, there will be no substantial difference.

Abishek Kumar - Bank of America

Thank you very much.

Waleed Jimma - Goldman Sachs

Hello, thank you for taking my questions. I have two. On the dividend, should the Company lever up to its net debt to EBITDA target of two times, it should have around $4.5 billion worth of borrowing capacity. Furthermore, the Company generates a ballpark of around $1.4 billion of free cash flow per guidance. How should we think about that in that context? Are there any restrictions for the Company to pay a higher dividend beyond the 10% annual year-on-year growth? Second, how many rigs could the international expansion require? Could you provide the preliminary CapEx guidance for that as well as an expected operation start date? Thank you.

Youssef Salem - *ADNOC Drilling - Chief Financial Officer*

I think starting with the dividend question, in terms of your question of are there any restrictions? No. There's no restrictions at all. Financially, our implied payout ratio from a dividend to net income is around 60%, as the percentage of free cash flow before M&A is around 50%, net debt to EBITDA is only one time.

From a policy perspective, the Board has full discretion that's been granted to them by the shareholder assembly and the annual general meeting, to go above 10% in any form that they would want to go, so there's absolutely nothing restricting the Company from doing that. This is purely a balancing decision from the Board on the optimal timing to balance growth and dividends. The Company continues to grow extremely rapidly; like Q4 was effectively at 40% year-on-year growth.

As we look forward, we're looking at the unconventional, at Enersol, the existing size, plus potentially even additional deals above the existing size. We're going to be announcing during the course of this year awards of new rigs on the conventional side as well. That's why we've upgraded the number to 151 rigs.

The region expansion, we are live tendering as we speak, for both contracts and assets outside Abu Dhabi. Hence, it's purely timing the different moves that the Company makes on the dividends and the growth, and basically finding the optimal time to do that. I think we went through the same journey last year, where we went through multiple iterations and thought process around the dividend.

Then in the Q1 2024 results, that's where we came up with the upgraded dividend, going from 5% to 10%. That continues to be a discussion topic, and we continue to be ultra-focused on capital return and shareholder value, and that will continue to be a discussion point with every Board. We will ultimately make sure we always balance growth and dividends to create the maximum value.

In terms of regional expansion, in terms of initially guiding to a certain CapEx figure, I think very directionally, you can look at this as potentially up to $300 million of incremental CapEx between this year and next year on new regional rigs, as a directional maximum estimate.

If you take this as being all onshore rigs, especially if it's not firsthand existing rigs, then these onshore rigs average around $15 million per rig. Again, it’s a very directional number. You can take 20 rigs as a very directional, medium term target to potentially look at over a couple of years.

If you look at it from a market share perspective, Oman and Kuwait, which are our two key markets, between them they have around 300 rigs that their markets are growing into. Over the next couple of couple of years, as you think about a single digit market share in these markets, which is what we would expect to be a reasonable market share to be looking at potentially a high single digit market share on this, that will take you to around that same figure.

The way we look at this is, basically the fundamental premise of the business would remain at Abu Dhabi; the long term contracts, IRR base stability at Abu Dhabi office, but the ability to go outside, plus provide an incremental growth level that allows us to maintain these very high elevated growth, plus effectively gives us more overall portfolio flexibility in terms of being able to deploy these rigs across different environments, and hence allows us overall more commercial flexibility and optimization.

Waleed Jimma - Goldman Sachs

Very clear. Thank you.

Guillaume Delaby - *Bernstein Societe Generale Group*

Good afternoon. Thank you for taking my question. Maybe a quite high level question, and it is going to be for Mr. Abdulrahman, I'm quite impressed by your strategy with Enersol, where basically I have an impression that you start to consolidate the OFS industry by picking up some promising technologies.

My question is more widespread. If you compare the OFS situation, the OFS market structure as of today in the region, versus what it used to be three or four years ago at the time of the IPO, according to you, what has changed? What has surprised you? What are possibly some trends which you would not have expected three or four years ago? Thank you very much. It's a difficult one and a very open one.

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

Don't worry, I would never find something difficult. If I look at before the IPO, the OFS, we had a number of services not available. Some of the things which we really progressed very well is the fracking, pressure pumping. Some of them in the past we were hiring it from third parties. Today, we have our own setups for that, which is giving us the better opportunity in the unconventional to be a good player rather than relying on third parties. That's really some of the things which is happening.

If we want to compare the market of Abu Dhabi to anywhere else, probably we are doing very good being here and running 57 rigs on the IDS, all these services. Anybody else is not having that scope into his umbrella. Today we have that.

Today also, we are extensively working with regions in the prequalification. We are today at the final stage I would say, for the prequalification. Certain services were qualified, certain in the processes. As we talk, we have a team today in GCC meeting clients to complete some of these services' qualification, and eventually to get tenders that we can bid for.

Our bigger picture for ADNOC Drilling is a total solution provider. This is what distinguishes ADNOC Drilling compared to anybody else in the region, and now we provide the total solution, and it's something we started working on long before to be into this situation today. That's why when we come to the unconventional, we picked up the same concept, created Turnwell with the total solution possibility or capability. This is where we're demonstrating that we are moving in the right direction.

Even today, I have feedback from within the region, who've been extensively working on unconventional. Looking at what we have done, creating a focused body to deliver the unconventional is a good solution that will pick up a lot of learning fast. Definitely OFS as a start, Turnwell, we really see and we have a bigger objective to provide a total solution approach, which will distinguish ADNOC Drilling compared to anybody else in the market. I hope that answers, but if there is anything more, please repeat the part I did not, so I can elaborate more into that.

Guillaume Delaby - *Bernstein Societe Generale Group*

No. Thank you very much, but clearly the thing on which I think it's - because you know historically OFS landscape in the region was dominated by the big three US guys, I find it interesting to see that there might be the beginning of a shakeup, so interesting. Thank you very much. I turn it over.

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

Just one second, please. I think the whole idea when we have strategically introduced the OFS capabilities, it's not just when we started in 2019. Actually, back in 2005 also we started some, but we've done a major shift in 2019 when we had the partnership with Baker, in creating a solid company which will be able to do oilfield services. I think we've been very successful.

Yes, in history it was the four players. We are the fifth player today but if you look at some of the reports, it shows probably we are ranked number 1 or 2 in the region. Yes, it is a shift, but it's an ambition and plans, strategies, that we worked for a long time to be here today on this stage. Hopefully I'm in the future also talking about the Turnwell, frack and all those. We need those capabilities to be locally available for us that we can highly depend on ourselves also when it's needed.

When we created Turnwell, we did not shy out to bring partners. The partner is with us and we are working together. Hopefully we'll go to the second level in due time and hopefully we'll be a successful story also.

Aakarsh Tomar - SICO

Thank you so much for the opportunity to ask a question. Congratulations on your great set of results. I have a question on your margins. The first part of the question is, for the offshore segment, despite the turnaround and lower revenues, the margin closed to 70% and it's close to 75%. What was the reason for that? Do you see that being sustainable?

The second question on margins is, on your guidance, in 2024 you were able to achieve 50% margins and the guidance is 46% to 48%. Is that because of the oilfield services, because it is a lower margin segment and it is increasing in revenue? Is it just that, or is there something else also, you see some margin compression in any other segments? These two questions, thank you.

Youssef Salem - *ADNOC Drilling - Chief Financial Officer*

Starting with the second one, no margin compression at all in any like-for-like business. Actually, if you see every individual segment, it's improving its margins, including the OFS itself, which has hit highest margins in Q4 reaching 24% level,and that will continue to be the trend. If anything, on a segment basis, this will continue to improve as we get more economies of scale.

As you said, the impact is purely a function of the OFS being the fastest growth in 2024. In 2025 as well, you will see from the guidance, OFS is increasing 50% mid-guidance, going from $800 million to $1.2 billion. That very rapid growth, especially driven by the unconventional, is weighing down on the overall weighted average blended margin, but each segment is going up. In terms of the offshore, this is again a function of continued cost optimization that we continue to do regardless of the revenue level.

I think in terms of what's sustainable for us, the best way to look at it, especially going forward, that we see more of the additional rigs being ordered by the client on the island side, is to look at the offshore as a combined segment like we have done in the guidance for 2025. If you look at middle of the range of the guidance for next year, you're looking at around $1.4 billion combined revenue for the offshore as a whole.

If you apply a similar blended margin on that compared to what we've seen in 2024, you end up with around $950 million of EBITDA in 2025; in the high 60%. That is what we see as a sustainable blended margin for the offshore as a whole, and we think that's probably the best way to look at it going forward.

Aakarsh Tomar - SICO

Thank you. That's very helpful. All the best for your next quarter.

Oliver Connor - Citi

Hi, thank you for taking my questions and congratulations on results. Two from me. First one, just coming back to the unconventionals, you've got eight rigs now operating there; I believe you talked about being at six previously and potentially moving to nine, and acquiring rigs as needed for phase 1. Just trying to get a sense of your view on the need to buy any rigs or acquire any rigs to deliver on phase 1, and any implications for rig needs into possible phase 2.

Then the second question is coming back to the three incremental island rigs that you talked about for 2028. Is that targeting gas developments or conventional oil? Just curious in terms of the upside on what the drilling needs are there for those three rigs. Thank you.

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

Thank you, Oliver. On the first part on the unconventional, yes, we were planning to get additional rigs for the unconventional, but as we have updated, the efficiencies that we have seen in the initial phase, initial work that we have started; dropping from 40 days towards the 15, 16 days, we're modifying our plans. We see eight rigs will be sufficient to bring the 144 wells for de-risking, within two plus years. That's something everybody's quite confident with and happy to maintain.

Definitely if there is a need for additional, basically we've got 95 rigs in operation on the land activity, so there is one or two rigs maybe we can shift between activities that we have; especially talking about efficiencies that can be made from the rest of the fleet.

On the island rigs, the main driver is the oil part of it because it's the same islands which we are talking about for the three island rigs that we have ordered already; the three potential to come also for the same project. The gas part is another project which already they have. The rigs are defined, allocated, and it's just matter of the third and fourth rig to start operation within '25, inshallah.

Youssef Salem - *ADNOC Drilling - Chief Financial Officer*

Just very quickly on the first point, unlike the conventional where additional rigs would mean additional revenue and the other way around, for the unconventional, we already have a lump sum contract for the whole amount. Even if we don't have additional unconventional land rigs above the eight, that has no impact on our revenue and EBITDA, which we would still be able to generate because we're still doing the well. We'll actually improve the returns further because we would reduce the CapEx associated with these incremental rigs while we still have the revenue and EBITDA.

Despite that as well, we have kept our 148 rig counts and increased it 151 because we are confident that even if we don't have the requirements for these additional land rigs on the unconventional side, between the other land rig activities we have inside and outside the UAE, now with the rig in Jordan and the Oman and Kuwait expansion, we would still need at least three incremental land rigs.

Back to the point we discussed earlier on the call, we see the opportunity for land rigs outside the UAE even much bigger than three. That's why we've reiterated the guidance of the 148 going to 151. We would still achieve the revenue and EBITDA without even these incremental rigs. Then as these incremental rigs come in, now we generate additional revenue on top of what's in this contract and hence create another further upside on the financials.

Oliver Connor - Citi

Very clear. Thank you for that.

Ruben Dewa - Jefferies

Hi Abdulrahman and Youssef. Thank you very much for taking my questions. I just wanted to ask the first one on Turnwell and phase 1 of the unconventional. Do you have a timing on when you expect to deliver the 144 wells? I think you used the guide to essentially mid-2026, late 2025, and if there's any timing update for the unconventional phase 2. That's my first question. Thank you.

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

For the plan, we've been communicating it before, even at the start. It will be two plus kind of thing. Why I say two, not two plus immediately, because there is potential that we will be doing efficient activities and we'll bring forward towards two. We started mid ‘24, so at least expect to go towards mid ‘26, probably towards end ‘26 if no efficiency is gained. With the way things are going, we see confidently that there will be efficiencies, and hopefully it will be two, two plus max, to do the de-risking of the 144 wells. I hope that answers, Ruben.

Youssef Salem - *ADNOC Drilling - Chief Financial Officer*

Again, we come back a little bit to this point, just to be very clear, if you look at it purely on the drilling side, if you take the 15 days, even if you don’t take this an average and take a higher average number, with eight rigs, you'd be able to see, if it's purely drilling, we'll be able to drill these well very, very quickly. As you said, purely mathematically, between the end of ‘25 and middle of ‘26, we can get these wells drilled with the eight rigs we have, with the current wells.

Now the question becomes, as we effectively advance in the fracking and we establish the completion of the fracking schedule, then that also would establish the optimal connectivity between the drilling and the fracking, to make sure that these two are going hand in hand with the optimal scheduling from the client side. That's why despite our full confidence and delivery on the drilling side, we remain a bit open on the timing and preparation point, just to see the completion part, which also has a lot of infrastructure from the client side, and the final schedule for that before we bake it further into the numbers.

Ruben Dewa - Jefferies

Thank you very much. That's super clear. My last question was actually on your free cash flow guidance. Just as a clarification point, if I look at the midpoint for your EBITDA, which is around $2.2 billion and the CapEx of let's say about $450 million, this gets me to a free cash flow before working capital and tax of about $1.8 billion, which is around $400 million delta, so what you have guided. I was wondering, is that $400 million purely explained by working capital and tax?

Youssef Salem - *ADNOC Drilling - Chief Financial Officer*

Yes. I think I may have skipped a couple of things. If you look at first, the $1.6 billion that we have in terms of the top end of the free cash flow guidance before M&A, I think yes, the bridge to that basically is starting from the $2.2 billion, which is the middle of the EBITDA guidance. If you want to remove from that, if you take the mid end of the CapEx and you basically take $450 million out of that, you will be at around $1.75 billion. Then out of that $1.75 billion, you remove the tax, you're at $1.6 billion.

If you start from middle of the EBITDA and middle of the CapEx, $2.2 billion minus $450 million, $1.75 billion, minus $150 million tax, you have $1.6 billion. Within that range, then where do we end? Between $1.3 billion to $1.6 billion. That is really where working capital drives where we are in that range.

Ruben Dewa - Jefferies

Thank you very much. It’s clear.

Mark Adeeb - CI Capital

Hello, thank you for the call. Congrats on this very strong set of results. I have a few questions if I may. Specifically with regards to 2026 revenue guidance of $5 billion, this shows a slowdown in terms of revenue growth compared to 2025. Is there a specific reason behind it? Also, how does that compare with the UAE'S gas self-sufficiency plan by 2030? My second question is, on the unconventional phase 2, are there any updates regarding this, and whether this could overlap with phase 1? Thank you

Youssef Salem - *ADNOC Drilling - Chief Financial Officer*

I think if we take the first part, we always guide only based on contracted revenue. What we have done is, if you take the $4.6 billion, which is the bottom end of 2024, and you take the $5 billion of 2026, these two collectively have $1.6 billion revenue; collectively between the two years, compared to the $4 billion of 2024 remaining flat through each of these years.

The $4 billion of 2024 already had around $150 million of unconventional. If the $4 billion was remaining flat for the next two years, this would've meant that you would have consumed $450 million out of the unconventional contract, because it's $150 million every year. Now we're saying, no, we're going to have $1.7 billion of contract, which means that you have another $1.2 billion or $1.25 billion of unconventional revenue on top of what's already baked into the $4 billion. That's 1.25 billion, we take that in.

Then, we also take the additional contracted from the additional island rigs, which arrive in 2026, and we take the IDS that we have very high visibility of, which is going from 57 to 62. We add this, and this is how we come up with that $4.6 billion bottom end, going to $5 billion the next year.

Is there upside to that for sure, and that's why we say it’s only based on contracted guidance, because we still have the potential regional operations outside, we track potential, additional awards, et cetera The decelerating trend, if you want, is purely a function of how we think about the contracted pieces. If you go back and see how we constantly design it, almost it's always a rolling exercise, where it's almost always slowing down because of just declining visibility on new awards.

The existing business we have 100% visibility because of the 15 year contract, but obviously lower visibility on what will happen next. Hence again, next year, we'll be firming up, upgrading again, and then we go on and so on and so forth. On the comment on the phase 1, phase 2?

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

With regard to the phase 1, phase 2, I think today's still we're on phase 1 and we are doing wells. Is there going to be an overlap? I think it's too early to say. Really, there is the completion part that has to start, then probably that will give the appetite to do the FIDs. I wouldn't say we'll bake that into our plans today because maybe we need to see the completion part.

Definitely the drilling part is being able to demonstrate, and then the efficiencies, I'm expecting that there will be efficiencies also in the completion part. It's just a matter of time, so we can confidently come forward and update based on our client's feedback on what's the plans for the phase 2. Have in mind that all this, the project is to today 144 to de-risk the unconventional and extract those resources, so very clear plans they have. I think we'll be working closely and updating as more information will be available for us also.

Mark Adeeb - CI Capital

All right, thank you so much.

Ildar Khaziev - HSBC

Hi. Thank you very much. Just coming back to this unconventional contract, I'm sorry if this question was already answered, but you mentioned that there are bottlenecks related to completion from the client side. Do you think these bottlenecks can be removed during 2025, or the best case scenario now is that the contract will be executed over 2025, 2026 as planned earlier, not in this year. Separately, how many fracking fleets do you have currently, and how many would you like to have execute this contract? Thank you.

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

Sorry, can you repeat the last part please?

Ildar Khaziev - HSBC

How many fracking fleets do you have at the moment, and how many do you think you will need, if you'll need more in the future to execute the pilot project?

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

Thank you for the question. I think the last part and how many frac fleets we have, we have basically two between the partners of Turnwell. There is two frac fleets available, and if there is a need for the third, definitely it will be arranged. Today, as we talk, we have two of them.

Now…2025, I think we will be having a number of wells for the completion and frac. It will be good data to feed in. The thing which takes longer is the production testing, long-term testing, so they can make the best judgment on the plans for number of wells and all those different things. There is that part which is still not done, but initial information is good. Definitely they need to build that confidence into doing long-term testing.

I'm expecting that within - we have at least today one part complete, so there is high potential, and I will be getting more information as we go forward. Probably somewhere in late '25 there will be more information available in terms of a complete solution, whether in wells and completion, and the efficiencies that can be taken.

On the logistics also, there is a lot of progress happening. Change of different practices is happening, especially with the partnership that we have. There is progress in the area of logistics, water, sand. There has been major shifts. Only two years back we were talking about proppant and ceramics, and coated proppant. Today, we're talking about sand. Those are game changers. Water, in the history, we were talking about fresh water, now we're talking about location water. Definitely '25 will give us a lot of information. If we can roll that into the production testing feedbacks that will be received, we'll be looking at it then I would say.

Ildar Khaziev - HSBC

Thank you very much.

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

Thank you.

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

Thank you very much. I think it's been one of the busiest calls. Everyone had at least good question, not only one question, a few questions, and thank you for that. Definitely, we look forward for the next call and next meetings that are going to happen with our teams and myself. I really appreciate all the questions that we have received today also. Thank you very much. I appreciate it.