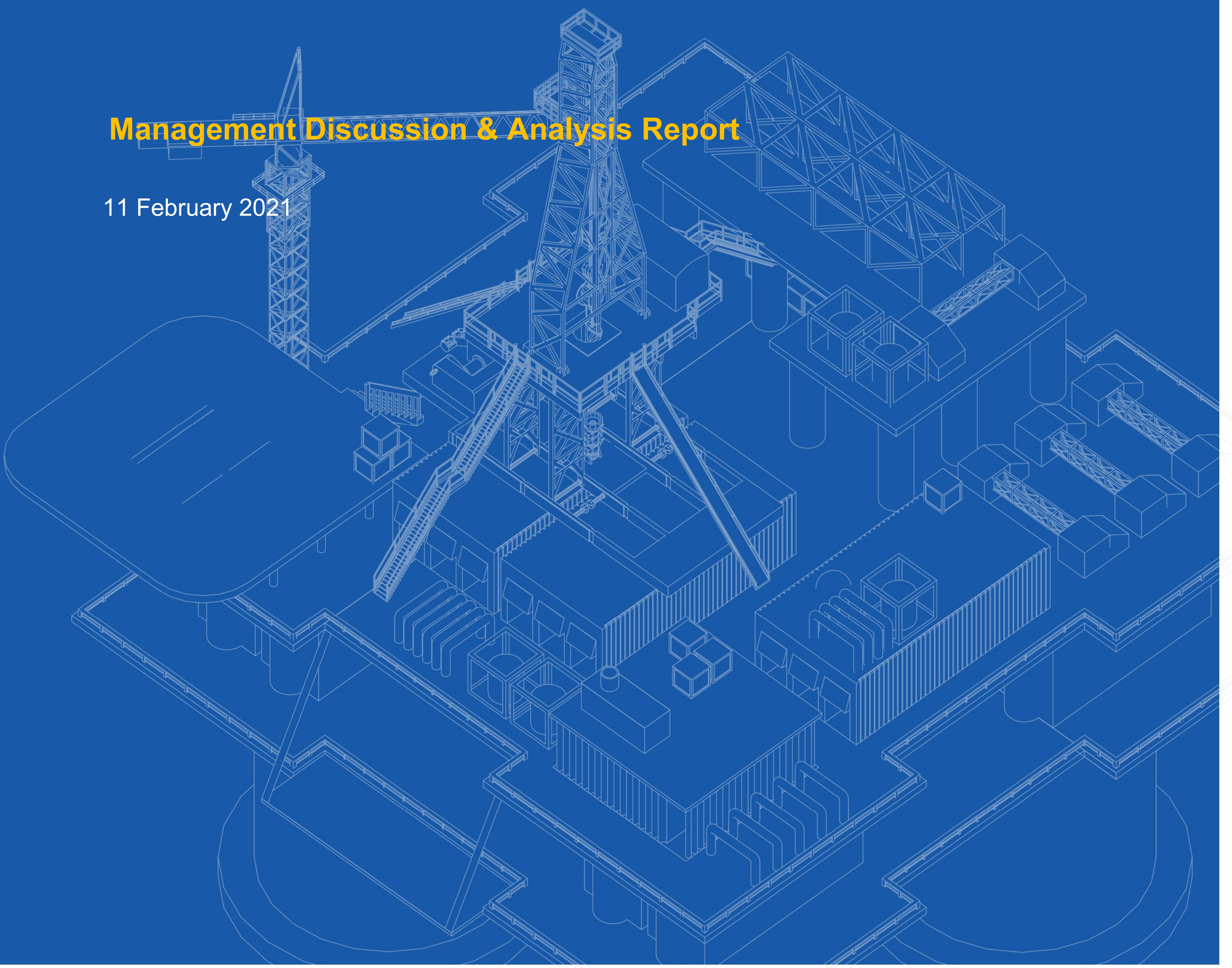
ADNOC Drilling Company PJSC Fourth Quarter & Full Year 2021 Results

Management Discussion & Analysis Report

11 February 2021



ADNOC Drilling Company PJSC
Fourth Quarter & Full Year 2021 Results

Content

1. Financial Highlights

Financial Summary

ADNOC Drilling Company PJSC (the "Company") achieved net profit of USD 604 million for the full year ended 31 December 2021 (FY21), a year over year increase of 6% compared to USD 569 million for the previous corresponding period (FY20).

USD millions	Q4-21	Q3-21	*QoQ %*	Q4-20	*YoY %*	2021	2020	*YoY %*
Revenue	575	571	1%	581	(1%)	2,269	2,098	8%
Direct cost excluding depreciation	(260)	(236)	10%	(275)	(5%)	(993)	(935)	6%
General & Administrative expenses (G&A) excluding depreciation and impairment	(53)	(50)	6%	(49)	8%	(239)	(206)	16%
Other Income	-	-	-	(2)	NM	10	3	233%
EBITDA[1]	**262**	**285**	**(8%)**	**255**	**3%**	**1,047**	**960**	**9%**
Finance Cost	(3)	(4)	(25%)	(6)	(50%)	(16)	(25)	(36%)
Depreciation[2]	(115)	(103)	12%	(102)	13%	(427)	(366)	17%
Net Profit	**144**	**178**	**(19%)**	**147**	**(2%)**	**604**	**569**	**6%**
EBITDA Margin	46%	50%		44%		46%	46%	
Net Profit Margin	25%	31%		25%		27%	27%	
Earnings per Share (USD per Share)[5]	0.0090	0.0112	(20%)	0.0092	(2%)	0.0378	0.0356	6%
Net cash generated from operating activities	458	242	89%	442	4%	1,179	1,789	(34%)
Capital Expenditure[3]	(129)	(171)	(25%)	(133)	(3%)	(583)	(233)	150%
Free Cash Flow	329	71	363%	308	7%	597	1,557	(62%)
Total equity	2,795	2,652	5%	3,252	(14%)	2,795	3,252	(14%)
Net debt[4]	1,086	1,412	(23%)	587	85%	1,086	587	85%
Capital employed	4,427	4,278	3%	4,867	(9%)	4,427	4,867	(9%)
Return on capital employed	14%	15%		12%		14%	12%	
Net debt to EBITDA	1.0	1.4		0.6		1.0	0.6	
Leverage ratio	28%	35%		15%		28%	15%	
Return on equity	22%	23%		18%		22%	17%	

NM: Not meaningful
(1) EBITDA represents Earnings Before Interest, Tax, Depreciation and Amortisation
(2) Depreciation which is directly related to the operations is included in the direct cost. Indirect depreciation is part of G&A.
(3) Payments for purchase of property and equipment
(4) Interest bearing liabilities less cash and cash equivalents
(5) Number of shares for EPS calculation in the comparatives are adjusted as if the share split and capitalisation had taken place as at 1 Jan 2020
See Appendix 1 (Glossary) for the calculation of certain metrics referred to above

Results by Segment

USD millions	Q4-21	Q3-21	QoQ %	Q4-20	YoY %	2021	2020	YoY %
Revenue	**575**	**571**	**1%**	**581**	**(1%)**	**2,269**	**2,098**	**8%**
Onshore	293	279	5%	305	(4%)	1,140	1,076	6%
Offshore Jackup	146	157	(7%)	154	(5%)	596	597	(0%)
Offshore Island	38	61	(38%)	54	(30%)	204	203	0%
Oilfield Services (OFS)	98	74	32%	68	44%	329	222	48%
Total OPEX[1]	**(313)**	**(286)**	**9%**	**(324)**	**(3%)**	**(1,232)**	**(1,141)**	**8%**
Onshore	(161)	(162)	(1%)	(151)	7%	(653)	(601)	9%
Offshore Jackup	(63)	(58)	9%	(92)	(32%)	(244)	(277)	(12%)
Offshore Island	(15)	(16)	(6%)	(20)	(25%)	(77)	(78)	(1%)
Oilfield Services (OFS)	(74)	(50)	48%	(61)	21%	(258)	(185)	39%
EBITDA[2]	**262**	**285**	**(8%)**	**255**	**3%**	**1,047**	**960**	**9%**
Onshore	132	117	13%	154	(14%)	493	477	3%
Offshore Jackup	83	99	(16%)	60	38%	355	320	11%
Offshore Island	23	45	(49%)	34	(32%)	128	125	2%
Oilfield Services (OFS)	24	24	-	7	243%	71	38	87%
Net Profit	**144**	**178**	**(19%)**	**147**	**(2%)**	**604**	**569**	**6%**
Onshore	78	70	11%	99	(21%)	293	296	(1%)
Offshore Jackup	46	63	(27%)	23	100%	206	173	19%
Offshore Island	10	33	(70%)	23	(57%)	79	81	(2%)
Oilfield Services (OFS)	10	12	(17%)	2	400%	26	19	37%

(1) Operational expenses including allocated G&A
(2) Underlying EBITDA includes other income

Full year ended 31 December 2021
Revenues

Revenue increased by 8% USD 2,269 million for FY21, compared to USD 2,098 million for FY20, driven by the following segmental performance:

Onshore revenues of USD 1,140 million grew by 6% compared to prior year (FY20: USD 1,076 million). Growth was attributable to increased operating rig days resulting from the addition of two new rigs, and the reactivation of 7 previously stacked rigs during the year.

Offshore Jackup revenues of USD 596 million were broadly unchanged, compared to the prior year (FY20: USD 597 million). Underlying operating rig days were lower in this segment year over year, following the retirement of three Jackup rigs in FY21. While year over year activity levels were lower, revenues in the prior FY20 year were negatively impacted by a credit note provided to our major customer, resulting in year over year booked revenues being flat.

Offshore Island revenue of USD 204 million was broadly flat compared to the prior year (FY20: USD 203 million). Underlying operating rig days were lower in this segment year over year. Whilst several of our Island rigs are operational, a few remain stacked having achieved their drilling targets earlier than originally budgeted. Annual revenues were flat, but a number of one-off accruals were reversed in Q4FY21, which are discussed in more details in the quarterly description below.

Full year ended 31 December 2021
Revenues (continued)

Oilfield Services (OFS) revenue of USD 329 million compared to the prior year (FY20: USD 222 million), reflecting strong growth in market share across various product lines including Directional Drilling and Completion Fluids, E-logging, Cementing and FRAC. Customer demand growth drove increased rig counts for Integrated Drilling Services (IDS) to both Onshore and Offshore. IDS rig counts increased from 22 at the end of 2020 to 38 at the end of 2021 resulting in the growth across this segment.

Full year ended 31 December 2021
Operational expenses

USD millions	Q4-21	Q3-21	QoQ %	Q4-20	YoY %	2021	2020	YoY %
OPEX[1]	**(313)**	**(286)**	**9%**	**(324)**	**(3%)**	**(1,232)**	**(1,141)**	**8%**
Manpower	(163)	(155)	5%	(158)	3%	(665)	(617)	8%
Hire Equipment	(18)	(20)	(10%)	(20)	(10%)	(80)	(67)	19%
Diesel	(24)	(23)	4%	(14)	71%	(84)	(62)	35%
Chemical	(37)	(24)	54%	(31)	19%	(112)	(91)	23%
Repair & Maintenance	(38)	(15)	153%	(38)	-	(153)	(147)	4%
Major Maintenance	(24)	(24)	-	(49)	(51%)	(81)	(89)	(9%)
Others	(9)	(25)	(64%)	(14)	(36%)	(57)	(68)	(16%)
Depreciation	**(115)**	**(103)**	**12%**	**(102)**	**13%**	**(427)**	**(366)**	**17%**
Depreciation included in direct cost	(109)	(97)	12%	(98)	11%	(392)	(357)	10%
Depreciation included in G&A[2]	(6)	(6)	-	(4)	50%	(35)	(9)	289%
Direct cost excluding depreciation	**(260)**	**(236)**	**10%**	**(275)**	**(5%)**	**(993)**	**(935)**	**6%**
Onshore	(129)	(132)	(2%)	(124)	4%	(514)	(486)	6%
Offshore Jackup	(46)	(43)	7%	(72)	(36%)	(169)	(196)	(14%)
Offshore Island	(11)	(11)	-	(18)	(39%)	(52)	(68)	(24%)
Oilfield Services (OFS)	(74)	(50)	48%	(61)	21%	(258)	(185)	39%
G&A excluding depreciation	**(53)**	**(50)**	**6%**	**(49)**	**8%**	**(239)**	**(206)**	**16%**
Onshore	(32)	(30)	7%	(27)	19%	(139)	(115)	21%
Offshore Jackup	(17)	(15)	13%	(20)	(15%)	(75)	(81)	(7%)
Offshore Island	(4)	(5)	(20%)	(2)	100%	(25)	(10)	150%
Oilfield Services (OFS)	-	-	-	-	-	-	-	-
Depreciation	**(115)**	**(103)**	**12%**	**(102)**	**13%**	**(427)**	**(366)**	**17%**
Onshore	(53)	(43)	23%	(52)	2%	(189)	(168)	13%
Offshore Jackup	(36)	(35)	3%	(35)	3%	(145)	(137)	6%
Offshore Island	(12)	(12)	-	(11)	9%	(48)	(43)	12%
Oilfield Services (OFS)	(14)	(13)	8%	(4)	250%	(45)	(18)	150%

(1) Operational expenses including allocated G&A
(2) General and Administrative Expenses

Operational expenses increased by 8% to USD 1,232 million for the full year ended 31 December 2021 (FY20: USD 1,141 million). The business was able to achieve positive operating leverage in our direct costs, driven by cost control over our key manpower expense line, contributing positively to margins.

Full year ended 31 December 2021

Operational expenses (continued)

The 8% year over year increase in manpower costs includes a one off USD 16 million charge, relating to an actuarial adjustment in End of Service Benefit accruals. Excluding this charge, underlying manpower expenses grew by only 5.1% year over year, mainly from growth in OFS business.

Increases in diesel costs were primarily driven by the Onshore business segment. Increases were attributable to both price and volume variance. Prices paid for diesel in FY21 were circa 30% higher year-on-year compared to the corresponding period; and volume variance is driven by higher consumption due to additional rigs and higher operational hours.

Increases in hire equipment and chemicals were primarily driven by increasing underlying activity in the OFS segment.

Within other costs, the company incurred an additional USD 17 million of pandemic related costs relating to in-country quarantine and testing requirements for rig crew and administrative staff offset by lower stacking, insurance and rent expenses in FY21.

Reduction in major maintenance expense was mainly due to realization from an initiative implemented for planned maintenance in Offshore Jack-up segment.

G&A lines grew ahead of revenue, although this was primarily attributable to higher manpower costs and the additional pandemic related costs in FY21 as discussed above.

At a segment level, year over year, direct costs expanded in Onshore drilling and OFS in line with revenue growth and drilling activity. Costs fell year over year in Offshore Jack-up and Offshore island, reflecting lower underlying activity levels in both segments.

Fourth quarter period ended 31 December 2021

Revenues

Within Q4 FY21, revenue decreased by 1% to USD 575 million for the fourth quarter period ended 31 December 2021 (Q4 FY20: USD 581 million) driven by the following:

Onshore revenue of USD 293 million was lower than the corresponding period in the prior year (Q4FY20: USD 305 million). Underlying activity levels and rig days were higher year over year, however the comparable last year period was supported by USD 25 million one-off stacking claims, which did not recur in the current financial year.

Offshore Jackup revenue of USD 146 million was lower than the corresponding period in prior year (Q4FY20: USD 154 million), impacted mainly by the retirement of 3 Jackup rigs in 2021.

Offshore Island revenue of USD 38 million was lower than the corresponding period in prior year (Q4FY20: USD 54 million). This variation in revenue was driven by two matters. Firstly, in Q4FY21, the company reversed a portion of one-off stacking fees previously booked in Q3FY21, decreasing revenues in Q4FY21, after an agreement with ADNOC Offshore to continue to charge a number of rigs in the quarter on standby rates. Secondly, in Q4FY21 the company reached another agreement with ADNOC Offshore relating to termination claims that it had first lodged in Q4FY20 when certain Island rigs were first put on standby. As a result of this agreement, a portion of stacking claim revenue booked over Q4FY20 and Q1FY21 was reversed in the current period.

Fourth quarter period ended 31 December 2021
Revenues (continued)

Oilfield Services (OFS) revenue of USD 98 million compared to USD 68 million in 2020 reflecting strong growth in market share across various product lines including Directional Drilling and Completion Fluids, E-logging and Cementing, owing mainly due to increased rig count for IDS.

Fourth quarter period ended 31 December 2021
Operational expenses

Within Q4, operational expenses decreased by 3% to USD 313 million for the fourth quarter period ended 31 December 2021 (Q4FY20: USD 324 million) driven mainly by the following:

Lower Major Maintenance ("MM") costs due to reduced planned maintenance in the Jackups rigs due to a new initiative that was implemented which moved the MM cycle from every 2.5 years to every 5 years, subject to health, safety, and asset integrity protocols.

The significant decline in MM costs mentioned above was partly offset by higher diesel costs which increased significantly in Q4 FY21 compared to Q4 FY20 due to price variance with some increase also driven by higher volumes consumed due to additional Onshore land rigs in operation.

Remaining increases in other cost elements such as Manpower and Chemicals was driven mostly by growth in OFS business.

Full year ended 31 December 2021
Depreciation

Depreciation increased 17% USD 427 million for the full year ended 31 December 2021, compared to USD 366 million in FY20, driven by the following:

Onshore Increased depreciation was mainly due to capitalisation of 2 new rigs during 1Q and 2Q of FY21, in addition to the full period impact of the 2 new rigs capitalised in 3Q of 2020. In addition, the Company incurred higher lease costs, accounted as depreciation from Right-of-Use ("RoU") assets under IFRS 16.

Offshore Jackup and Island Increased depreciation was also attributable to depreciation related to RoU assets in comparison to previous year. Furthermore, Offshore Jackup depreciation increased to include the impact of a new rig that became operational in late December 2021.

Oilfield Services (OFS) Increased depreciation mainly due to significant expansion in the asset base to support growth across the Directional Drilling, Pressure Pumping and Wireline Services product lines for which majority of capitalisations were carried out in FY21.

Fourth quarter period ended 31 December 2021
Depreciation

Depreciation increased 13% USD 115 million for the fourth quarter period ended 31 December 2021, compared to USD 102 million for the corresponding period in 2020. Key movements were largely related to the factors described above for the full year.

Operating Working capital

The Company's Operating Working Capital witnessed significant improvement as at the year ended 31 December 2021. Due from related parties decreased from USD 1,779 million as at period ended 30 September 2021 to USD 960 million. Notably, the business released significant cash from working capital intra year, with due from related party balances falling at the full year. The delay in collecting due from related party balances until 3Q21 was mainly attributable to invoicing and collection delays caused by the implementation of a new ERP at our major customers, which has now been resolved.

Overall Operating Working Capital of USD 590 million as at 31 December 2021 is 27% lower than USD 811 million as at 30 September 2021, and 5% lower in comparison to USD 620 million as at 31 December 2020.

USD millions	At 31 Dec 2021	At 30 Sep 2021	*QoQ %*	At 31 Dec 2020	*YoY %*
Current Assets	**1,691**	**2,223**	**(24%)**	**2,172**	**(22%)**
Inventories	175	185	(5%)	177	(1%)
Trade & other receivables	103	134	(23%)	139	(26%)
Due from related parties	960	1,779	(46%)	903	6%
Cash and bank balances	453	125	262%	953	(52%)
Current Liabilities	**669**	**1,310**	**(49%)**	**611**	**9%**
Trade & other payables	315	394	(20%)	414	(24%)
Lease liabilities	21	23	(9%)	12	75%
Due to related parties	333	893	(63%)	185	80%
Operating Working Capital	**590**	**811**	**(27%)**	**620**	**(5%)**

See Appendix 1 (Glossary) for the calculation of certain metrics referred to above

It is expected that 2022 will bring further sustained improvements in Company's Operating Working Capital position through ongoing process enhancements and further system automations within the SAP 4 HANA ERP to address any further backlog within billing and collections.

Free cash flows and capital structure

USD millions	Q4-21	Q3-21	QoQ %	Q4-20	YoY %	2021	2020	YoY %
Net cash generated from operating activities	458	242	89%	442	4%	1,179	1,789	(34%)
Net cash used in investing activities	(129)	(171)	(25%)	(133)	(3%)	(582)	(232)	151%
Free Cash Flow	**329**	**71**	**363%**	**309**	**7%**	**597**	**1,557**	**(62%)**

See Appendix 1 (Glossary) for the calculation of certain metrics referred to above

Full year ended 31 December 2021

FCF for the full year ended 31 December 2021 were USD 597 million compared to USD 1,557 million in 2020, a decline of USD 960 million (62%). Although it does appear that the FCF have decreased in 2021 compared to 2020, the normalized position is that FCF remained almost consistent year on year despite a significant increase in the capex spend during 2021. This is explained in the following paragraph.

Prior to 2020, the Company maintained a surplus fund account with ADNOC (its majority shareholder) in accordance with a treasury management agreement dated 8 May 2008. As part of that agreement, the Company transferred surplus cash to ADNOC and the balance held with ADNOC was non-interest bearing and payable at the request of the Company within 30 days. This balance was reflected as Due from Related Party within the audited financial statements even though it was in the nature of cash and cash equivalents. In FY 2020, full balance outstanding in the surplus fund account was collected from ADNOC and the corresponding movement in the Related Party balance was disclosed as a positive working capital movement within the financial statements (USD 970 million). Excluding this movement of USD 970 million within the working capital changes of 2020, the adjusted FCF position of FY 2020 is USD 587million which is slightly lower but more comparable with the FY 2021 position of USD 597 million.

The Company maintained a strong financial position at year end, with USD 453 million in cash and cash equivalents at year end. In Q4 FY21, the Company entered into a syndicated term and revolving facilities agreement with multiple banks and financial institutions for USD 1,250 million for a term of 4 years. Pursuant to this the Shareholder Loan was terminated of USD 1,250 million which was entered into by the Company via Shareholder Loan Agreement dated 16 August 2021.

In combination, the Company had access to liquidity of USD 1,703 million at 31 December 2021 in the form of USD 453 million of cash and cash equivalents, USD 500 million in an unutilized term facility and USD 750 million in the form of an unutilized revolving facility.

The Company's balance sheet remains strong with a net debt to EBITDA ratio of 1.0x as of 31 December 2021 vs 0.6x as of 31 December 2020.

Fourth quarter period ended 31 December 2021

Free cash flow increased by 7% to USD 329 for the fourth quarter ended 31 December 2021 (Q4 FY20: USD 309 million). The increase is mainly driven by the improvement of the working capital position and increased invoicing and settlement of dues from related parties in 4Q 2021.

Balance Sheet

USD Millions	At 31 Dec 2021	At 30 Sep 2021	QoQ %	At 31 Dec 2020	YoY %
Total Assets	**5,096**	**5,588**	**(9%)**	**5,478**	**(7%)**
Non-current assets	3,405	3,365	1%	3,306	3%
Current assets	1,691	2,223	(24%)	2,172	(22%)
Total Liabilities	**2,301**	**2,936**	**(22%)**	**2,226**	**3%**
Non-current liabilities	1,632	1,626	0%	1,615	1%
Current liabilities	669	1,310	(49%)	611	9%
Total Equity	**2,795**	**2,652**	**5%**	**3,252**	**(14%)**
Share capital	436	436	-	109	300%
Statutory Reserve	60	-	NM	-	NM
Retained earnings	2,299	2,216	4%	3,143	(27%)
Total Equity and Liabilities	**5,096**	**5,588**	**(9%)**	**5,478**	**(7%)**

NM: Not meaningful

Total assets of USD 5,096 million at 31 December 2021 decreased 7% compared to USD 5,478 million as at 31 December 2020. The movements were a result of the following:

Non-current assets of USD 3,405 million at 31 December 2021 have increased compared to USD 3,306 million at 31 December 2020, mainly due to increase in property and equipment balances as a result of acquiring new rigs and OFS assets, offset partly by depreciation charge for the full year.

Current assets of USD 1,691 million at 31 December 2021 have decreased by 22% compared to USD 2,172 million at 31 December 2020, mainly due to the decrease in cash and cash equivalents due to dividend payments offset by a slightly higher balance in due from related party compared to previous year.

Non-current liabilities of USD 1,632 million at 31 December 2021 are largely unchanged compared to USD 1,615 million at 31 December 2020, with minor movements on account of non-current lease liabilities and provisions for employees' end of service benefit.

Current liabilities of USD 669 million at 31 December 2021 have increased compared to USD 611 million at 31 December 2020, mainly due to an increase in due to related party balances.

Total equity of USD 2,795 million at 31 December 2021 has reduced compared to USD 3,252 million at 31 December 2020, mainly due to movement in share capital and retained earnings. Share capital increased by USD 327 million due to capitalization of retained earnings prior to the Company's public listing. Retained earnings reduced in 2021 due to dividend distribution of USD 1,060 million in FY21 and transfer to statutory reserve USD 60 million offset by increase in Net profit for the year.

Property and Equipment

USD Millions	Q4-21	Q3-21	*QoQ %*	Q4-20	*YoY %*	2021	2020	*YoY %*
Property and Equipment Additions	**152**	**168**	**(10%)**	**248**	**(39%)**	**505**	**376**	**34%**
Onshore	-	85	NM	27	NM	123	61	102%
Offshore Jackup	112	40	180%	25	348%	271	53	411%
Offshore Island	1	-	NM	4	(75%)	3	11	(73%)
Oilfield Services (OFS)	39	43	(9%)	192	(80%)	108	251	(57%)

NM: Not meaningful

Full year ended 31 December 2021

Property and equipment additions for the full year ended 31 December 2021 were USD 505 million, compared to USD 376 million for the corresponding period in 2020, driven by the following:

Onshore: Acquisition of 8 new Onshore land rigs in 3Q 2021.

Offshore Jackup: Acquisitions of 4 new Jackups, of which one was operationalised in December 2021.

Oilfield Services: In 2020 OFS acquired IDS and other equipment for 30 rigs, majority of which took place in 4Q 2020, whilst in 2021 new equipment acquisitions were made for 8 additional rigs.

Fourth quarter period ended 31 December 2021

Property and equipment additions for the fourth quarter period ended 31 December 2021 were USD 152 million compared to USD 248 million for the corresponding period in 2020. Most of the capex additions in 2020 were concentrated in 4Q 2020 due to covid related lockdowns from 1Q to 3Q 2020. The movements in Onshore, Offshore Jackup and Oilfield Services were largely related to those factors described above for the full year.

2. Operational Highlights

Rig availability and number of wells drilled

Rigs Operational information	2021	2020	YoY %
Fleet	**107**	**104**	**3%**
Onshore	65	63	3%
Offshore Jackup	24	20	20%
Offshore Island	10	10	-
Rented rigs	8	11	(27%)
Rigs Availability	**96%**	**92%**	
Onshore	95%	92%	
Offshore Jackup	98%	100%	
Offshore Island	100%	100%	
Rig Efficiency	**96%**	**95%**	
Onshore	97%	97%	
Offshore Jackup	94%	92%	
Offshore Island	98%	97%	
Number of Wells Drilled	**549**	**553**	**(1%)**
Onshore	481	457	5%
Offshore Jackup	57	75	(24%)
Offshore Island	11	21	(48%)

See Appendix 1 (Glossary) for the calculation of certain metrics referred to above

Drilling Services operational highlights

For the full year ended 31 December 2021, the company had a fleet of 107 owned and rented rigs with availability of 96% compared to 104 owned and rented rigs with availability of 92% for the corresponding period in 2020. Rig efficiency for the full year ended 31 December 2021 96% compared to 95% for the corresponding period in 2020. Further operational highlights are as follows:

- Two new Onshore rigs were added to the fleet in 2021 with new clients
- One new Jackup integrated into operations in December 2021, ahead of plan. The other three new Jackups are likely to be integrated into operations end of 1Q and early 2Q.
- Deployed 15 stacked Land Rigs and three stacked Island Rigs in 2021.
- In 2021 the Company has drilled 549 wells (footage of 4.6 million ft.) compared to 553 wells in 2020 (footage of 5.1 million ft.).
- Island rig drilled longest well (UZ 664) in Middle East & 4th longest well in world at a depth of 45,000 ft.

Oilfield Services (OFS) operational highlights

- OFS performed Integrated Drilling Services on 38 rigs (45% market share) in FY21.
- 277 IDS wells delivered since 2019 with 173 wells ahead of schedule and budget.
- 160 wells delivered in the full year ended 31 December 2021 with 92 wells ahead of schedule and budget.
- 11.5 % YoY improvement in drilling efficiency during year 2021.
- FRAC'd 101 stages in the full year ended 31 December 2021 - highest FRAC'd stages in well GU 03 with Zipper FRAC on wells XN 44 & XN 47 delivering record six stages per day.

3. Outlook

The Company is embarked on a growth trajectory that will see it grow its rig fleet and OFS offer in the short to medium term, expanding its position as a regional leader in Total Drilling Solutions equipped with the potential to expand regionally.

As the Company looks to 2022, the management see minimal disruptions to operations despite the ongoing pandemic and expect to make good progress in the execution of its long-term strategy. The immediate focus remains meeting robust financial targets, whilst maintaining operational excellence. These targets are underpinned by ambitious sustainability goals, as the Company strives to achieve industry leading ESG performance.

Many recently acquired rigs are likely to be operationalized in 2022. The Company remains active in several mega-tenders in Abu Dhabi, while also pursuing the further expansion of its discrete services portfolio and increased market share in the OFS segment. If awarded, these tenders will expand the Company's portfolio outside of the Integrated Drilling Services (IDS) segment, with awards expected during 2022.

4. Dividend Policy

The Company's ability to pay dividends is dependent on several factors, including the availability of distributable reserves and the capital expenditure plans and other cash requirements in future periods. Any level or payment of dividends will depend on, among other things, future profits, and the business plan of the Company, at the discretion of our Board of Directors. Subject to the foregoing, our Board approved a dividend payment of USD 360.3 million, reflecting the dividends for the first half of 2021, distributed to existing shareholders in August 2021 ahead of the Offering.

The Company intends to pay dividends twice each fiscal year after the Offering, with an initial payment in April and a second payment in October of each year. Subject to the foregoing, we expect to pay a fixed dividend amount of USD 325 million for the second half of 2021, to be paid in April 2022. Thereafter, we expect to grow the dividend by 5% per annum on a dividend per share basis over the next five years (2022 – 2026). This dividend policy is designed to reflect our expectation of strong cash flow and our expected long-term earnings potential, while allowing us to retain sufficient capital to fund ongoing operating requirements and continued investment for long-term growth. This dividend policy is subject to consideration by our Board of Directors of the cash management requirements of our business for operating expenses, interest expense, and anticipated capital expenditures. In addition, we expect that our Board of Directors also will consider market conditions, the then current operating environment in our markets, and the Board of Directors' outlook for our business.

5. Share price and Ownership

Our shares are traded on the Abu Dhabi Securities Exchange (ADX) under the symbol ADNOCDRILL. The trading of the Company’s shares commenced on 3 October 2021 at AED 2.30 and the share price has reached a high of AED 3.65 to date. Our market capitalization currently stands at AED 57.76 billion (10 Feb 2022).

As of 31 December 2021, Abu Dhabi National Oil Company (“ADNOC”) owned a majority 84% stake in the Company and Baker Hughes Holding SPV Ltd. (“Baker Hughes”) owned 5% stake in the Company, while 11% of our outstanding shares are publicly owned by other institutional and retail investors.

In October, ADNOC Drilling was included in three of FTSE Russell’s globally recognized indices including the FTSE Emerging Index, FTSE Global Large Cap Index and FTSE All-World Index.

Appendix 1: Glossary

- Free cash flow is calculated as net cash generated from operating activities less payments for purchase of property & equipment and advances to contractors and finance income received.

- Net debt is calculated as total interest-bearing debt less cash and bank balances (including term deposits with banks) adjusted for lease liabilities.

- Capital employed is calculated as the sum of total assets minus non-interest-bearing current liabilities.

- Return on capital employed is calculated as operating profit for the twelve months ended on the last day of the period presented divided by capital employed on the last day of the period presented.

- Net debt to EBITDA ratio is calculated as interest-bearing net debt as of the end of the period presented, divided by EBITDA for the twelve months ended on the last day of the period presented.

- Leverage ratio is calculated as (a) interest-bearing net debt, divided by (b) the sum of interest-bearing net debt plus total equity.

- Return on equity is calculated as profit for the period for the twelve months ended on the last day of the period presented divided by total equity on the last day of the period presented.

- Operating Working capital is calculated as current assets excluding cash and bank balances minus current liabilities excluding lease liabilities.

- Rig availability - Cumulative of (Rig days less actual maintenance days less rig related non-productive time less actual rig move days) divided by Cumulative of (Rig days less planned maintenance days less planned rig move days).

- Rig efficiency:
  - Rig efficiency source is ADNOC Real Time Monitoring Centre (RTMC) database
  - Criteria considered is the weighted ratings of the Drilling Parameters
  - Parameters:
    - Tripping speed criteria = (total number of stands divided by total duration), including any activity during trip (less than 30 minutes).
    - Connection time = (total number of connections divided by total duration).
    - Excluded exploration wells and workover well.
    - Excluded all restricted operations from calculation.

Appendix 2: Cautionary Statement Regarding Forward-Looking Statements

This communication includes forward-looking statements which relate to, among other things, our plans, objectives, goals, strategies, future operational performance, and anticipated developments in markets in which we operate and in which we may operate in the future. These forward-looking statements involve known and unknown risks and uncertainties, many of which are beyond our control and all of which are based on management's current beliefs and expectations about future events. Forward-looking statements are sometimes identified by the use of forward-looking terminology such as "believes", "expects", "may", "will", "could", "should", "would", "intends", "estimates", "plans", "targets", or "anticipates" or the negative thereof, or other comparable terminology. These forward-looking statements and other statements contained in this communication regarding matters that are not historical facts involve predictions and are based on the beliefs of our management, as well as the assumptions made by, and information currently available to, our management. Although we believe that the expectations reflected in such forward-looking statements are reasonable at this time, we cannot assure you that such expectations will prove to be correct. Given these uncertainties, you are cautioned not to place undue reliance on such forward-looking statements. Important factors that could cause actual results to differ materially from our expectations include, but are not limited to: our reliance on ADNOC Onshore and ADNOC Offshore for deploying rigs as per existing terms and conditions; failure to successfully implement our operating initiatives and growth plans, including our cost savings initiatives, due to general economic conditions, our reliance on information technology to manage our business; laws and regulations pertaining to environmental protection, operational safety, the extent of our related party transactions with ADNOC Group; the introduction of VAT and other new taxes in the UAE; failure to successfully implement new policies, practices, systems and controls that we implemented in connection with or following our IPO; any inadequacy of our insurance to cover losses that we may suffer; general economic, financial and political conditions in Abu Dhabi and elsewhere in the UAE; instability and unrest in regions in which we operate; the introduction of new laws and regulations in Abu Dhabi and the UAE; and other risks and uncertainties detailed in our International Offering Memorandum dated 6 September 2021 relating to our initial public offering and the listing of our shares on the Abu Dhabi Securities Exchange, and from time to time in our other investor communications. Except as expressly required by law, we disclaim any intent or obligation to update or revise these forward-looking statements.