ADNOC Drilling

ADNOC DRILLING COMPANY P.J.S.C.
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CORPORATE PARTICIPANTS

Nicolas Robert – *ADNOC Drilling - Vice President, Investor Relations*

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

Emri Zeineldin - *ADNOC Drilling - Senior Vice President, Oilfield Services*

Esa Ikaheimonen- *ADNOC Drilling - Chief Financial Officer*

CONFERENCE CALL PARTICIPANTS

Karen Kostanian - *Bank of America Merrill Lynch*

Guillaume Delaby - *Société Générale*

Abhishek Kumar - *HSBC*

Faisal Azmeh - *Goldman Sachs*

PRESENTATION

Nicolas Robert - *ADNOC Drilling - Vice President, Investor Relations*

Hello ladies and gentlemen, welcome to ADNOC Drilling's Third Quarter 2022 Earnings Presentation Webcast and Conference Call. My name is Nicolas Robert, the Vice President of Investor Relations here at ADNOC Drilling. Now before getting into the heart of today's presentation and as a publicly listed company, we need to remind you of our disclaimer here on slide two, which we encourage you to read. It contains important information, and we advise caution on the interpretation and limits of historical data and forward-looking statements. For reference, the presentation is available on our website and the recording of today's call will also be made available shortly after its conclusion.

Now on to the main event. I'm joined today by an illustrious group of presenters. With me, our CEO, Abdulrahman Al Seiari, our CFO, Esa Ikaheimonen, and our SVP of Oilfield Services, Emri Zeineldin. As a reminder, following today's presentation, we will open the floor to a Q&A session. I now hand the call over to our CEO, Mr. Abdulrahman for his initial remarks.

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

Thank you, Nick, and welcome all. It is a pleasure to be here with you today, just over one year following our landmark IPO on ADX. I am pleased to report that we maintained momentum in the third quarter, reporting strong financial and operational performance as we continue to make good progress in delivering our strategic priorities.

Safety and environmental initiatives continue to be a priority, and by embedding our 100% HSE and performance safety culture across the business, we are currently well ahead of our target TRIR of one. We achieved very healthy revenue growth in the third quarter, up by 17% from the last year to $670 million, driven by particularly strong Onshore and Oilfield Services segment activity. We also recorded a 6% growth in net income.

CapEx increased as we continue to invest in growing our rig fleet. In the first nine months of 2022, we added 9 additional rigs to the fleet, with more expected to enter operations in the fourth quarter.

Rig utilization remained high at 96%, showcasing our world-class operational capabilities. We were also pleased to have been awarded a $3.4 billion contract to provide eight jackups to our client ADNOC Offshore supporting the expansion of ADNOC's drilling activities, and its broader strategy of unlocking offshore oil and gas resources in Abu Dhabi. For sure there will be more details provided in this presentation by the team on the contracts and the awards that we have. Next slide please.

I am sure many of you here today have seen this slide before, however I want to reiterate and emphasis the significance of the messaging we are conveying. As a strategic partner at the heart of the ADNOC Upstream ecosystem, we have three main objectives that sit at the core of our value creation profile. One, achieving high returns with low risk. Second, delivering strong financial results. Last, but not least, is our leverage to grow through our unique propositions to ADNOC, the UAE and the region. As you will all come to realize throughout today's presentation, all three elements can be seen in the delivery of our third quarter and the nine-month results for 2022. Next slide please.

I would like to take this opportunity to put the spotlight on the fact that we continue to execute our long-term strategy. Our rig fleet expansion, in particular, gathered pace this year as we support ADNOC in ramping up towards its ambitious production capacity target. Our owned rig count has gone from 99 rigs at the end of 2021 to 108 rigs at the end of September. At the same time, our IDS offering continues to deliver healthy growth, capturing greater market share from our drilling fleet, and we are making headway towards becoming a regional leader in the unconventional space.

Our team is working hard on our objective to pursue new revenue streams in Abu Dhabi and the region. We see meaningful opportunities that merit exploring not just in the expansion of our rig fleet and the Oilfield Services / IDS offering, but also in manufacturing and technology. We hope to be able to discuss this in greater detail in the near future. I will now hand over to Mr. Emri Zeineldin, Oilfield Services, who will be taking you through the operational performance.

Emri Zeineldin - *ADNOC Drilling - Senior Vice President, Oilfield Services*

Thank you, Mr. Abdulrahman. I will now walk you through some of the operational highlights from the first nine months of the year. I am pleased to share that our fleet expanded to 108 owned rigs at the end of September 2022, as we push ahead with our fleet expansion program. Six onshore H&P FlexRigs have been integrated into operations and three additional Onshore rigs are expected to commence operations in the final quarter. Our drilling performance remains robust, as we drilled 441 wells during the first nine months of the year, with 152 wells in 3Q 22 compared to 125 in the same period last year.

Onshore drilling continues its strong performance, maintaining 37 to 38 days of average duration considering the lower completion and heavy casing design type wells, while offshore improved to 76.5 days quarter-on-quarter, as well as contributing to drilling the longest well in the world, at a depth of 50,000 feet. On the contracting side, two contracts were awarded in late July for the Hail and Ghasha Development Project. One valued at $1.3 billion for Integrated Drilling Services, while the other, at $700 million is for four Island drilling units. As a reminder, the IDS contract included an additional $40 million per year over 10 years of incremental revenue above and beyond our guidance.

An additional two contracts were awarded in early August for a combined value of $3.4 billion to provide eight high-specification premium jackup rigs to ADNOC Offshore, further confirming execution of our strategy. Our Oilfield services business continues to have strong momentum, recording a 15.1% year-on-year improvement in drilling efficiencies versus 2021. We performed IDS on 37 rigs, which represents 37% market share. This dropped slightly quarter-on-quarter due to the acquisition of additional rigs that joined the fleet. However, with extra Integrated Drilling Services rigs and awards in the pipeline, we expect to reach our target of 45% to 50% by years end. Next slide.

Let's look in more detail at our segmental operating performance. In line with our broader objectives, efficiency remained a core priority this period, as we pushed to reduce our costs and increase our bottom-line performance. Onshore segment activity was a key performance driver this quarter, contributing to an increase in both top-line and bottom-line. Rig availability and efficiency remained high in the first nine months of 2022 as 6 new rigs commenced operations. In the Offshore and Offshore

Island segments our fleet expanded and now includes 25 jackup rigs, an increase of 4 rigs from 21, the same period last year. Despite a slight contraction in rig availability in Offshore, the team successfully delivered improved efficiencies from 93% to 94%. In the Offshore Island segment rig availability continued at 100% and efficiency increased to 93% from 90% year-on-year.

Moving on to Oilfield Services where we recorded significant activity in the first nine-months and continued to grow our Integrated Drilling Services offering. 151 wells were delivered in the period with 56 benchmarked wells delivered, of which 45 wells were ahead of schedule and budget. Delivering on our strategy of becoming a Middle East leader in unconventional development, 12 FRAC stages were performed in the third quarter, which compares to 13 stages in the second quarter and 17 in the first quarter of this year.

I'd also like to mention that the growth trajectory in Oilfield Services and Integrated Drilling Services continues with the post period award of two contracts. First was the award in October of a two-year extension for $1.53 billion for the provision of jackup, island rigs and associated Integrated Drilling Services. Second was the November award of a 5-year framework agreement valued at up to $1.6 billion for Integrated Drilling Fluids Services. This particular contract adds an incremental $750 million of revenue over the five-year contract which is above guidance. Next slide please.

As you are aware, sustainability and reliability sit at the core of our business. This slide provides an update on our progress against our ESG goals. We remain deeply committed to, and focused on, maintaining the highest health, safety, and security standards across our operations. Our Total Recordable Incident Rate this quarter was at 0.58, well below our target of one for 2022, as we continue to record improvement in this area. In support of ADNOC's Green House Gas intensity targets, we have been working to reduce our energy intensity. Today, our energy intensity per rig is at 36.2k versus the target of 52.5. ADNOC Drilling is committed to workforce diversity. As of September 30, we have nine women in leadership roles across our company and our workforce represents 79 nationalities. I will now hand over to Esa who will talk you through our financial performance for the period. Thank you.

Esa Ikaheimonen – *ADNOC Drilling - Chief Financial Officer*

Thank you, Emri. We had another strong quarter, recording an increase in both our top-line and bottom-line, driven by very positive developments and growing activity in the Onshore and OFS segments. Third quarter revenue grew overall by 17% versus the prior year to $670 million in total. Third quarter EBITDA increased by 5% year-on-year to $299 million due to our ongoing fleet expansion program. We also maintained an industry leading EBITDA margin of 45%. This margin was lower than last year, but that's due to certain one-off claims that were recognized and had a positive impact in the third quarter of 2021.

Net Income for the quarter was $189 million, up from $178 million in 2021, representing an increase of about 6%. As you'll also see, we remain a highly cash generative business. Cash from operations in the quarter was $317 million, on the back of increased activity in the Onshore and OFS segments.

Moving on to CapEx, third quarter spend increased by 31% to $224 million versus prior year due to continued and accelerating execution of the fleet expansion program. On the balance sheet side, at the end of September 2022, our cash balance stood at $383 million with liquidity totaling $1.63 billion. This total liquidity, as a reminder, includes our unutilized syndicated term loan and revolving credit facilities in addition to the cash on balance sheet. Net Debt decreased from $1.4 billion in the third quarter of 2021 to $1.15 billion at the end of September 2022 with our Net Debt to EBITDA leverage ratio falling to one. As we approach the end of the financial year, we are expecting a strong fourth quarter with further improvement in our profitability, and we aim to also deliver on our previously disclosed guidance of bringing our working capital down to 10% to 11% of annualized revenue. Next slide please.

Now, taking a closer look at our different segments and the revenues they generated. In Onshore, third quarter revenue came in at $372 million, an increase of 33% from the year-ago period, driven by increased drilling activity. That increased activity was underpinned by the introduction of six new H&P FlexRigs into operations in the quarter, along with higher operating days. Growth in the segment was further supported by cost escalation claims which form a part of our contractual framework with the customers and offer a near complete hedge against inflation.

In the Offshore Jackup segment, third quarter revenue contracted by 9% year-on-year to $143 million because of higher planned rig maintenance activity, which impacted day rate generation. This was partly offset by three new rigs commencing operations during the quarter.

Offshore Island revenue declined 15% in the reporting period to $52 million versus last year. This drop was driven by one-off contractual claims recognized in the third quarter of 2021, which was slightly offset by more positive operating and stand-by revenue mix in 3Q 2022.

Oilfield Services again demonstrated why we want to continue developing this business and delivered a strong year-on-year top line performance, with third quarter revenue up 39%. This positive momentum was driven by increased activity and volume across the portfolio, and the introduction of Tubular Running Services, which supported continued expansion for the segment. Now, let’s see what this revenue performance means for EBITDA, for that next slide please.

Increased activity in the Onshore segment supported healthy EBITDA growth to $177 million, with a 48% margin up from 42%, thanks to increased drilling activity and effective cost management.

In Offshore Jackup, EBITDA was $70 million which translates to an EBITDA margin of 49%. The decline from $100 million last year was due to consumables cost inflation and periodically high planned maintenance of certain jackup rigs which reduced revenue and added to costs for this particular period. In Offshore Island, EBITDA came in at $35 million with 67% margin, with the slight decline from $44 million year-on-year due to one-off contractual claims concluded and recognized in the corresponding quarter a year ago. These were partially offset by positive operating and stand-by revenue, as I’ve already mentioned when I covered revenue.

In Oilfield Services, EBITDA for the quarter was $17 million due to increased activity levels which were partially offset by cost inflation impacting the margin in the period as well as front end ramp up costs as the business continued to grow. On the next slide, we will look at how these segments and the earnings they delivered converts into ADNOC Drilling cash flow. Next slide please.

As mentioned earlier, we are highly cash generative, and remained so in the most recent period. In the first nine-months of 2022, cash generated from operating activities stood at $1.14 billion, an increase from $721 million last year, due to growth in earnings and significant reduction in working capital. In the third quarter, cash from operations was $317 million, up 31% from 2021, which was driven by growth in the Onshore and OFS segments. This strong operating cash flow keeps serving us well as we continue to re-invest these cash flows for longer term growth and dividends to our shareholders.

Our Net Debt to EBITDA leverage ratio decreased to one in the third quarter of 2022, mainly on the back of an improved EBITDA performance. Cash and cash equivalents stood at $383 million, increasing significantly from $125 million last year, mostly due to improvements in collections, reinforcing our improving working capital position. Now let’s look at working capital and CapEx in more detail on the next slide please.

As stated earlier, we have directed cash toward capital expenditure as we look to fund our ongoing fleet expansion. In addition to the progressive dividend, this fleet growth is at the heart of our shareholder value creation. The expansion program is progressing at pace, with nine new rigs joining the fleet in the first nine-months of this year with a lot more to come. Nine-month CapEx came in at $508 million, up $54 million from a year ago, especially reflecting pre-payments for the purchase of jackup drilling units. Our expectation is that CapEx will remain elevated, and increasing, through the rest of the year and into 2023 as a result of further rig acquisitions.

Our focus on working capital management is also paying off. Our overall working capital position remains healthy and has improved considerably in 2022, driven by meaningful improvements in collections from our related parties. There's more to do but we are confident about maintaining our positive recent track record in this area. In the first nine-months, operating working capital came in at $385 million, down 35% since December, driven by the collection of delayed payments. By the end of this year, taking into account growth in the overall business, our guidance of achieving net working capital between 10% to 11% of annualized revenue remains unchanged. I will now end my remarks by reiterating our guidance. So, to the next slide please.

I'll be brief, as I think it's clear that we have made excellent progress on not only achieving but beating our targets since IPO one year ago. Revenue and EBITDA have grown throughout 2021 and 2022 and our focus on working capital management has had the desired results. We anticipate a very positive fourth quarter and look forward to providing exciting guidance for 2023 in due course. Our rig fleet expansion is well underway, and CapEx is in-line with guidance of $2.5 to $3 billion between 2021 and 2022, with a possible upside to these figures as our growth plans mature and more importantly accelerate.

For the rest, our guidance remains unchanged for the time being, and we look forward to updating our guidance in due course to provide a further update as to how we expect to deliver against our short and longer-term targets. That concludes my remarks, and I'll now hand back to Abdulrahman for some closing thoughts.

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

Thank you both, Emri and Esa. It's hard to believe that we recently celebrated the one-year anniversary of our IPO. We have come a long way, and I want to take this opportunity to thank the investment community, especially our shareholders, for their continued support while also commending the ADNOC Drilling team for their remarkable efforts.

In just one year, we have added more than $13 billion in contracts backlog to date, achieved strong top and bottom-line growth as we support ADNOC's ambitious production targets, by expanding our fleet from 95 at the time of the IPO to 108 at the end of the third quarter. In the first nine months of the year, our fleet utilization and rapidly growing activity in the Oil Field Services and Onshore segments supported our financial performance which has enabled us to deliver significant growth and shareholder value. In fact, in the year since IPO, the Company has managed to deliver total shareholder returns of approximately 54% including dividend payments.

With that being said, we have a lot of work ahead of us, and we remain dedicated to delivering on our commitments. Thank you for joining us today. I'll now hand back to the operator, to open the floor to your questions. Thank you.

QUESTIONS AND ANSWERS

Operator -

Thank you. If you'd like to ask a question via the telephone lines, you can do so by pressing star followed by one on the telephone keypad. If you choose to withdraw your question, please press star followed by two. When preparing to ask you a question, please ensure your phone is unmuted locally. As a reminder that star followed by one on your telephone keypad now. Our first question comes from Karen Kostanian of Bank of America Merrill Lynch. Karen your line is open. Please go ahead.

Karen Kostanian - *Bank of America Merrill Lynch*

Gentlemen, thank you so much for the detailed presentation. Congratulations on the good results. I have two questions for you, if I may. The first question is about CapEx. So, the CapEx figure was a little, you know, lower than we expected, but your guidance for the next two years will be the same. I wish to think about this. Should we think about accelerating CapEx to catch up in the fourth quarter or should we think about it as the majority of the CapEx is going to spill over into 2023? And my second question is about the regional expansion. Do you have any concrete plans or this is unknown yet? Thank you very much.

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

Thank you, Karen. I think both questions will be addressed. One with the with Esa CFO and the other one can be addressed by Emri. So go ahead Esa.

Esa Ikaheimonen - *ADNOC Drilling - Chief Financial Officer*

Thanks, Karen. Thoughtful questions. CapEx lower than expected during the quarter. Maybe, maybe not, it depends I guess, but that doesn't really matter. Our guidance unchanged, as you already heard from the prepared remarks. And if anything, there's actually a further upside to that guidance. So as a result of that, you should expect CapEx ramping up very significantly in 4Q and throughout 2023. Now, just a word of caution. CapEx is really chunky in this industry, and you might see some really big numbers one quarter and a little bit of a pause another quarter. But as a result of that, quarterly evaluation or analysis on CapEx is pretty meaningless, if I may say so. So, in that context, we are well on track to do what we've said already a year ago that we will do during 21, 22 and 23. And as I said, if anything there's a further upside because our growth plansseem to be accelerating.

Emri Zeineldin - *ADNOC Drilling - Senior Vice President, Oilfield Services*

Thank you very much. On the regional expansion, I mean, we continue to explore a number of options in the region, basically expanding be it on the rigs or the services leveraging on our expertise in both segments. We are involved currently, were involved, in a number of large tenders in the region. However, the process can have a longer timeframe in terms of pre-qualification and requirements. For the time being, nothing you can say major in terms of expanding until the pre-qualification process happens, but we will keep the market and yourselves updated with any progress in due course.

Karen Kostanian - *Bank of America Merrill Lynch*

Thank you very much.

Operator -

Thank you. Our next question comes from Faisal Azmeh of Goldman Sachs. Faisal, your line is open. Please go ahead.

Faisal Azmeh - *Goldman Sachs*

Yes, hi and thank you for the opportunity to ask questions. Two questions on my end. Maybe just starting off with the OFS margins. The nine-month margins are now averaging at almost 17%. The guidance was on the low twenties for this year. What should we expect, I guess, for 4Q and what's pressuring margins year to date versus where you expected them to be as per the previous guidance? That's my first question. My second question relates maybe to the CapEx question. And obviously, there is news on the accelerated build up in the UAE's capacity. And so how should we think about the relationship between CapEx and leverage over the coming years? Should we expect some form of an update in 4Q in terms of the number of rigs and where you need them to be at? Should the country go ahead with this accelerated buildup of capacity? If you can also share some color on that, that would be very helpful. And maybe just a final question on 4Q, how many rigs should we expect to be deployed in Q4? Thank you very much.

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

Thank you, Faisal. I think we'll take the last question first and between me and Esa we'll try to address that. And then on the terms of the plans that we have and the growth or the expediting of the drilling programs is going on. And we are in the process. I mean we have already, as I mentioned in the call, integrated already nine rigs. Actually, some of the rigs are just in the process of concluding some of the upgrade work in the shipyards and hopefully they will be joining soon also. In addition, also, we are going to have some additional land rigs towards late this year and early next year. In addition to that, there will be other acquisitions that we are in the process of processing. I mean whether it is alignment with the client and the approvals process. Esa if you can add more to this.

Esa Ikaheimonen - *ADNOC Drilling - Chief Financial Officer*

Yeah. Two additional point from my side, Faisal. Number one, we will undoubtedly provide more guidance and clarity on multiple items, not just CapEx, but definitely CapEx when we report 4Q. And at that point in time, obviously, we already have seen that the scheduling of CapEx a little bit more clearly and we've seen as to how much CapEx will be incurred in Q4 so that would be an opportune time to update on our guidance for remaining part of the 2023 and 24. So definitely more to come in terms of updated guidance on that on other things.

Then regarding the leverage, although you are right that the UAE aspirations, ADNOC as a group aspirations, seems pointing towards an upside regarding not only our CapEx but also our revenue growth. But based on our current thinking and plans, we will still stay quite well within the guidance leverage, which as a reminder, was no more than two times EBITDA. So, we are within that guidance range. When we put M&A aside, then when we start talking about potential M&A of the regional growth and other areas of growth, and particularly when it comes to possibly driving that further growth and further growth upside through M&A then we obviously need to have a different conversation. But putting that aside as a sort of should I say add on an incremental to our earlier guidance, we are within the guidance on the leverage side.

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

The other part on the OFS margins, Emri if you like.

Emri Zeineldin - *ADNOC Drilling - Senior Vice President, Oilfield Services*

Yeah. I mean, in 3Q of 2021, EBITDA in the segment was exceptionally high in the sense of that we had a one-off accounting adjustment posted in Opex. So, we've reversed that. So, this is where the profitability went higher in 3Q 21 when you compare it to 3Q 2022. On a normalized basis, the incremental activity supported the steady, EBITDA which was marginally offset by some cost inflation. And we expect more or less to the close the year around the twenties, so partially on track with the new contracts and new awards as well as extra rigs coming on board.

Faisal Azmeh - *Goldman Sachs*

Just to clarify this, you expect the full year average to be a 20. So that means 4Q will be meaningfully higher than 3Q? Or do you expect 4Q to average at 20?

Emri Zeineldin - *ADNOC Drilling - Senior Vice President, Oilfield Services*

No, no, we're more or less averaging 4Q at 20.

Faisal Azmeh - *Goldman Sachs*

I see. Okay. And maybe if I can sneak an additional question, just been looking at depreciation year to date, it's actually lower than last year, but you have higher number of rigs if you can just explain the relationship there and what's driving that, that would be very helpful. Thank you.

Esa Ikaheimonen - *ADNOC Drilling - Chief Financial Officer*

That's a good question. The numbers in 2021 actually included some one offs. I mean, so that's probably the key justification for that increase or decrease sorry.

Faisal Azmeh - *Goldman Sachs*

I see. All right. And the levels this year are normalized, and we should use that as a benchmark. Yes?

Esa Ikaheimonen- *ADNOC Drilling - Chief Financial Officer*

Yeah. Obviously taken into consideration that the rig fleet is increasing going forward.

Faisal Azmeh - *Goldman Sachs*

Perfect. Thank very much.

Operator -

Thank you. As a reminder, if you wish to submit a question, please press star followed by one on the telephone keypad. Now. Our next question comes from Abhishek Kumar of HSBC. Abhishek, your line is open. Please go ahead.

Abhishek Kumar - *HSBC*

Thanks for the opportunity to ask questions. Good set of numbers. My question is around again I mean, the expansion plans and the CapEx. So, in terms of jackup rigs, we understand that the market is getting tighter for secondhand rigs. Prices have been increasing. It has increased by 30% - 40% in last, say, one - one and a half years already. And the number of secondhand rigs that get available in the market is shrinking. And you have quite a big expansion plan in that sense from 24 /25 rigs, you wish to go to, 37 / 38 rigs in couple of years. So out of which, I think in the first half, you have acquired 6 rigs. So, what is the thinking around? I mean, some of the CapEx increase that Esa talked about, is that going to come from the higher CapEx that is now needed to acquire those rigs? Or there could be a mix of owned rigs versus rental rigs in that mix. That's the first question.

And the second question is around the regional expansion plans. You mentioned you're involved in some of the tenders in the in the region. I have a question specifically with respect to this, LSTK tender in Saudi were in instead of direct qualification. Do you, you know, partner with, say, SLB or HAL or a Baker and in turn you provide them rigs and they got those integrated service contracts. Is that also something you are thinking about?

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

Abhishek, thank you for the questions. I mean, now, for the expansion, to start with the expansion plans that we have on the offshore, actually, we have so far committed for 15 jackups. As we talk, we are on the count almost to towards the 32 / 33 jackups in operation or that we own today. Still, we have a few more in the process of purchase. Yes, we understand that the prices are increasing because of the, I mean, the demand is increasing and there are tenders out in the market which is pulling up factors. So far, we have progressed very well. I think we have even additional few rigs in our hand that we are finalizing the negotiations also. So hopefully we will be at achieving targets, 35 / 36 jackups within 23.

So, with regard to the regional expansion, I'm sure as Esa and Emri may add to it, the subject of LSTK. Now part of the pre-qualification, I mean, even going to LSTK with partnership in that requires also the qualification or prequalification of the partners that work together. So, we will be looking into so many different events or venues let's say that we can participate there. One of the things which is happening also in Abu Dhabi, major expansion is happening in the land, which is also taking a lot of resources in Abu Dhabi. So, if Esa / Emri if you would like to add any.

Esa Ikaheimonen - *ADNOC Drilling - Chief Financial Officer*

Okay, I'll go next, if that's okay Abhishek. First, regarding the expansion plans, just to add a couple of comments to that. You asked specifically about ownership versus rentals? Now, hopefully its quite clear in terms of our strategy and our investment story that our preference is to own rigs, because that's kind of the way our business model and our commercial model is geared up. So we create far more value to our shareholders by owning rigs and operating them on an ownership rather rental basis for the client. So that's a very, very clear priority. And our strategy when it comes to adding new capacity to our fleet is very heavily geared towards that preference. We use rental primarily for shorter term peaks and lows and making sure we optimize our supply in line with the client demand. And the client demand is not always entirely stable. And as a result of that complementing the owned capacity with rental capacity makes perfect sense. So that's the strategy. And it's very clear from that perspective. I think I would add another further point to what our CEO already said. We have been quite proactive in approaching the market. And as a result of that, a lot of things that we have recently announced than we're likely to announce in not-too-distant future are actually priced prior to the current tightness in the marketplace. And that's a real value creation element in our stories. So, you saw most recently we announced a deal for three rigs at $210 million in total, about $70 million for high spec premium jackup rigs in the current marketplace is just a dream. But we just announced that I think less than a month ago. And there's probably more to come of similar kind of nature. So that's an important element regarding our expansion plans, being proactive and approaching the market also for price negotiations well ahead of the current tightness which we foresaw already.

And then my final point on the regional expansion side of things, you referred to the LSTK tendering. There's an interesting way of looking at that. And from my perspective, it's the fact that it's not moving forward. Why is it not moving forward? It's not moving forward because the international conventional drilling providers don't really have the capability to provide LSTK, we do. And as a result of that, actually, if that opportunity reemerges in some states. We might be very interested in that and we will be very interested in that. We might actually be very competitive because we have already integrated that required capabilities into our drilling services through IDS. And through also the cooperation with execution. With that I should give Emri an opportunity to say a few more things.

Emri Zeineldin - ADNOC Drilling **-** *Senior Vice President, Oilfield Services*

No, I mean it's exactly what you said Esa. I mean, it's when the opportunity reemerges. I mean, this is something for us to look at and participate in. And if you're referring to other service provider, us teaming up with them, as Mr. Abdulrahman mentioned, it doesn't take the pre-qualification side from our end to in the Kingdom of Saudi Arabia. So basically, we need to be also pre-qualified, which we're working on that. So, if by the time the tender is released or pre-qualified, we'll look at alternative options.

If we're fully pre-qualified, then basically we'll go on our own, as I mentioned, and where we can provide more value to our customers than just, you know, like rigs only or services on that side.

Abhishek Kumar - *HSBC*

Thanks a lot for the answers. Very, very helpful. So just to, you know get clear on the jackup side. So last year you have acquired I think 4 jackups and this year another 6 jackups that you have announced. So, in terms of negotiations, in terms of final announcements, how many are outstanding? I mean, is it 15? Is it 18 in terms of overall acquisitions, if you can give any, any color around that, that would be and all quite useful in terms of we forecasting our numbers accordingly.

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

We will be Abhishek. We will be targeting towards the 18 and 20 jackups. I mean, as you mentioned, yes, we had before 4 and 6 and actually we have 5 already in the final stage and hopefully it will be announced very, very soon as possible. And also, we have additional jackups that we are finalizing the negotiations so they can go to the next phase of agreement. So, there is a lot of is moving and we will be targeting towards 18 to 20 jackups. I hope that answers your question Abhishek,

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Abhishek Kumar - *HSBC*

Yeah, yeah. Very, very, very helpful. And again, I am going to agree with this. It's the numbers are quite attractive. I mean, the prices at which you have, you know, concluded those contracts, bought those jackups. Market has moved considerably up from that. So yeah, job well done.

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

I think we were we worked ahead. And I mean, again, we have to some extent, I mean, a good, I would say probably trust with the sellers and what have you. Because they can see us transparently planning for the growth and where we are concluding with the deal as we go. I mean, so far, it's worked very good with us and hopefully it will be the case also for the one or two or three additional units that we are trying to conclude also.

Esa Ikaheimonen - *ADNOC Drilling - Chief Financial Officer*

I mean the final point perhaps to be added, just to promote our business model a little bit more than we've already done. We are a little bit of a different drilling company to most other drilling companies, given the guaranteed return model that we've got with our principal clients as a result of that, so whether we pay $70 million or $120 million for a rig, we still get the same level of return. And so, our exposure to the market movements and tightening of the market is very different to a conventional drilling operator. It doesn't mean that we are not super sharp, smart and commercial in acquiring additional capacity, but it does mean that we have got a different exposure to rig acquisition costs to what the conventional drill will have.

Abhishek Kumar - *HSBC*

Yeah, that's correct. In fact, if you buy rigs at a higher price, you would get a better profit. But I'll stop there.

Esa Ikaheimonen– *ADNOC Drilling - Chief Financial Officer*

Sadly

Operator -

Thank you. As a reminder, if you wish to submit a question, please press star followed by one on your telephone keypad now. And our next question comes from Guillaume Delaby of Société Générale. Guillaume your line is open. Please go ahead.

Guillaume Delaby - Société Générale

Good morning. Congrats on your results. Maybe quite a high-level question. So basically, as you said, the IPO took place 14 months ago and basically, you've be delivering exactly what you have said during the time of the IPO. So maybe my question is simply, over this first year, as there has been some, I would say, elements either with your company or with the industry which basically surprised you. Let's say we look at the last 14 months, are there one, two or three elements, which basically turns out to be different from what you have expected, either with ADNOC Drilling or more globally within the industry? Thank you very much.

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

Okay. I think on the sense of the IPO. It was October. And yes, we can say this in 13 months and we are delivering on our guidance. But definitely they are slightly better in certain cases where we have also announced that like for the mega tender, like the award that we had on the Hail / Ghasha last year. So plus, also on the jackups that we are integrating the slightly different, better rates than what we're anticipating in our guidance. So, from all that perspective, I think I would say delivering on promise plus kind of thing.

On the second part of the question if there is any difference. I mean definitely, the difference in the market escalations. And over the last one year, if we look at the first few jackups that we bought to the to the later ones and because of the volatility of the market and now additional demand of oil and gas and on fast kind of track, pushed the region to secure additional resources which definitely, I mean if we look at some where back in 21, probably we had how many Esa on the stacked jackups? Probably more than 50%. Okay. On the Jackups? I mean, not us. I mean globally.

Emri Zeineldin - *ADNOC Drilling - Senior Vice President, Oilfield Services*

No. But globally around. Yeah

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

Globally it was a big number of stacked jackups. And the initial acquisitions for us was very, very easy acquisitions. I mean, but it definitely went more tougher and tougher because of the market changes. But generally speaking, I mean for us the focus is very much that we have to deliver the programs that we have in Abu Dhabi in terms of production, expansion of ADNOC and things are promising. If you would like to add Esa or Emri.

Esa Ikaheimonen - *ADNOC Drilling - Chief Financial Officer*

So yeah, the couple of things certainly has happened in the world around us as you touched on that already. One is cost escalation. Very clearly, the inflation is having an impact on the industry. But I should emphasize one more time the uniqueness of our business model, we've got this nearly perfect hedge against cost escalation included in our commercial agreements, which effectively means that we get a compensation for key elements of cost escalation for my clients and that's quite definitely unique. The other thing is that obviously the market is tied and as Mr. Abdulrahman said globally, the number of stack units have found their way to, you know, contracts and operations again and a lot of reactivations has taken place as a result of that, the market has become more balanced. The day rates are going upwards and as a result of that, the regional expansion strategy becomes more attractive. So there's simply more value and more money to be made outside the UAE than what was anticipated a year earlier.

And then I think another list of more company specific changes in since a year and a bit ago, I think the OFS growth potential has probably surprised us a little bit. And as a result of that, obviously, that's become an important part of our growth going forward. The unconventional opportunity potential is accelerated, so there's certainly more to come from that side of things. Unconventionals is emerging as a real opportunity for this, this company starting here in the UAE, but also elsewhere. And then you know, if anything ADNOC capacity ramp up aspirations have accelerated as well. And as a result of that, I've already said it's likely that our growth guidance as well as our CapEx have got more upside than downside. But that's a quite an exhaustive list of things that I have changed. Emri if you have anything to add.

Emri Zeineldin - *ADNOC Drilling - Senior Vice President, Oilfield Services*

No, I mean, it's exactly up to what you've said. I mean, apart from what, Esa and CEO said, basically, it's the new and recent awards that actually, when we're talking about the mega tenders, specifically, when you add $750 million for a period of five years, I mean, it's the anticipation was there for us to land the win on the drilling and completion fluids. But I mean, the $750 million is actually somebody else's revenue in five years' time. So, this is this is an addition to us plus the $40 million. So you're talking a ballpark of $200 million between 2023 extra to 2024 where we are going to see the realization of that. So yes, we deliver through the promise. But I mean, that is also extras that we have done plus the acceleration on the rigs. So, I think this is this is the good surprises that we have seen within the past year.

Guillaume Delaby - *Société Générale*

Thank you very much. Thank you very much..

Esa Ikaheimonen - *ADNOC Drilling - Chief Financial Officer*

In that context, one more thing, because I think we've probably run out of questions now. Mr. Abdulrahman, in his prepared remarks already said. that we've added $13 billion to our backlog since the IPO. $13 billion, actually I think if you look at the rest of the industry globally put together it doesn't add up to $13 billion. That would be my expectation. $13 billion in new contracts in the last 12 or 13 months again demonstrates that there's quite a lot of horsepower behind our numbers. And when it comes to kind of on a look forward basis, that represents a massive amount of the EBITDA for the years to come.

Emri Zeineldin - *ADNOC Drilling - Senior Vice President, Oilfield Services*

And also, to add to that is that a majority of that is also on bidding basis, you know what I mean? It's not like guaranteed business that was given to you. Actually, we did compete within the market itself and delivered to the expectations of our clients, whether in rates and profitability for us.

Guillaume Delaby - *Société Générale*

Appreciate that, thank you so much. Thank you.

Emri Zeineldin - *ADNOC Drilling - Senior Vice President, Oilfield Services*

Thank you.

Operator -

Thank you. As a final reminder, if you wish to submit a question, please press star followed by one on the telephone keypad now. We currently have no further questions. I'll hand it back over to the management team for any closing remarks.

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

Thank you, Charlie. Thank you for all the analysts and investors who are out there. And I hope this session was good to clarify some of the questions and looking forward for next meeting and hopefully in the coming couple of days and weeks, we will be having face to face meetings and some specific calls that will be addressing other details as well will be there. Okay. Anything else, Esa?

Operator - Thank you very much.