ADNOC DRILLING COMPANY P.J.S.C.

Fourth Quarter and Year End 2022 Earnings

Webcast & Conference Call Transcript

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PRESENTATION

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

Ladies and gentlemen. Welcome to the ADNOC Drilling fourth quarter and full year 2022 earnings webcast and conference call. My name is Nicolas Robert, Vice President of Investor Relations here at Drilling.

Before getting into today's presentation, and as a publicly listed company, let me remind you of our disclaimer… which I 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 a recording of today's call will also be made available shortly after its conclusion.

Let's get the show on the road… I am joined today by our management team. Sitting with me are Abdulrahman Al Seiari – Chief Executive Officer, Esa Ikaheimonen – Chief Financial Officer and Emri Zeineldin - Senior Vice President for Oilfield Services. As a reminder, following today's presentation, we will open the floor to a Q&A session. I will now hand over the call to our CEO, Mr. Abdulrahman to talk you through the key highlights and our strategic progress.

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

Thank you, Nick and welcome all.

It is my pleasure to be here with you today delivering ADNOC Drilling's results for our first full year as a publicly listed company. This outstanding set of results was enabled by the delivery of our highest-ever quarterly revenue, supported by new rigs joining the operational fleet, leading to a strong financial and operational performance as we continue to deliver and execute on our strategic priorities.

Safety is at the heart of everything we do, and by embedding our 100% HSE culture we will continue to offer our customers the safe and efficient operations.

In the fourth quarter we achieved our highest ever revenue, up by 27% year-on-year to $733 million, driven by new rigs joining the operational fleet… this translated into a 61% growth in our year-on-year net income of $234 million.

Now CapEx also increased in the fourth quarter of the year, totaling $434 million with investments in our rig acquisition program translating into 16 rigs joining the fleet, ending 2022 with 115 owned rigs.

Next slide please…

Now as a strategic partner at the heart of ADNOC Upstream, we have three main objectives that sit at the core of our value creation profile.

1. Significant leverage to growth
2. Delivering superior financial results
3. Achieving the high returns with limited risk

Now all those three elements can be seen in the delivery of our fourth quarter and full year 2022 results. Next slide please…

Coming back to the last of our main objectives from the previous slide, achieving high returns with limited risk. We have a contractual framework with our clients that provides long-term earnings and cash flow underpinning our progressive dividend policy. No other drilling company in the world benefits from a return model which specifies minimum target IRRs with contractual clauses providing protection against cost escalations. ADNOC Drilling is the key enabler of ADNOC Upstream's plans and is proud to be contributing to the growth and prosperity of the UAE. Next slide please…

ADNOC Drilling has accelerated its own growth plan to enable the expansion of ADNOC's production capacity. Now that acceleration has led to an updated owned rig count of 142 rigs by year 2024 end. This compares to our IPO guidance of 127 rigs by the end of 2030. The increase is expected to come from the addition of 21 land rigs and 9 jack-ups.

It won't stop here, so let me also cover our long-term growth drivers:

1. First, maintaining production capacity requires a continuous high level of drilling activities.
2. The UAE's aspirations of gas self-sufficiency and the development of unconventional resources will drive our domestic longer-term growth.
3. The same is true about the continued expansion of our OFS and Integrated Drilling Services business.
4. Furthermore, we are actively pursuing regional expansion opportunities and,
5. New revenue streams such as investments in technology and / or manufacturing opportunities.

Next please…

I would like to reiterate the message that we continue to execute our long-term strategy. In 2022, we accelerated our rig fleet expansion program, adding 16 new rigs to our fleet to support ADNOC in ramping up towards its revised targets.

Our Integrated Drilling Services offering, a key growth driver for ADNOC Drilling, continued to capture market share ending the year with 39% share… expanding owned drilling fleet with more to come in future.

We are taking steps to become a regional leader in unconventional development plans… with two rigs having drilled unconventional gas wells in 2022 with more to come.

Lastly, we are actively exploring new revenue opportunities inside and outside of Abu Dhabi, in line with our objective to expand our operations. I will now hand over to Emri to walk you through the operational highlights for reported period.

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 fiscal year 2022.

The year was all about accelerating our fleet expansion strategy as we continue to enable our client's strategic imperative to increase production capacity from four to five million barrels per day by 2027. Through our strategic partnership with US-based H&P we acquired eight world-class H&P FlexRigs©, which were delivered and commissioned in stages over the course of 2022. Moreover, we successfully integrated five of the seven newly purchased jack-up rigs into operations and acquired an additional land rig over in the year. This resulted in 16 rigs being added to the fleet for a total of 115 owned rigs and fleet availability of 95% as of the end of December 2022.

Our drilling performance remains robust - we drilled 620 wells in 2022. Onshore drilling continued its strong performance considering the higher complexity well types, maintaining 41 days of average duration. Meanwhile, Offshore maintained its outstanding 77 days quarter-on-quarter, as well as achieving a key milestone; delivering the longest lateral section drilled onshore, at 17,000 feet, almost 7 days ahead of schedule.

Our OFS business continues to have strong momentum, recording a 14.3% year-on-year improvement in drilling efficiencies versus the 2021 benchmark.

We also performed Integrated Drilling Services on 40 rigs in 2022 and reported a temporary decrease in market share from 45% in 2021 to 40% in 2022 due to the number of new rigs entering the fleet with ADNOC Drilling. Next slide please…

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. Rig efficiency remained high across our Onshore, Offshore Jack-up and Offshore Island operations, at 93%, 92% and 95%, respectively.

In Oilfield Services, we successfully delivered 205 wells in 2022, 56 of which were ahead of schedule and budget of the 76 benchmarked wells.

Delivering on our strategy of becoming a Middle East leader in unconventional development, 19 FRAC stages were performed in the fourth quarter, compared to 12 in the prior quarter.

I'd also like to mention that the growth trajectory in Oil Field Services and Integrated Drilling Services continues with the award of two contracts. First was the award in October of a two-year extension for $1.53 billion for the provision of jack-up, island rigs and associated Integrated Drilling Services (IDS). 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 our previously stated IPO guidance. Next slide please…

Sustainable drilling sits at the core of our business. This slide provides an update on our progress against our ambitious ESG goals.

As you know, health, safety and security are of utmost importance to our leadership. This is why we have adopted the highest standards of HSE. Our TRIR this quarter was 0.6, well ahead of our target of 1.0, as we continue to record improvement in this area.

In line with ADNOC's GHG intensity targets, we have been working to reduce our energy intensity. I am pleased to share that in the fourth quarter, we implemented seven decarbonization initiatives to reduce emission intensity.

Today, our energy intensity per rig is at 50,000 GJ versus the target of 52,500 GJ. We will be providing regular updates on progress and impact as our initiatives take effect.

We also launched a sewage treatment sprinkler system pilot, which saw us discharge treated water into the desert, minimizing our impact on the local environment.

Lastly, ADNOC Drilling is committed to workforce diversity. As of the end of December, we have 16 women in leadership roles across the Company and our workforce comprises 79 nationalities.

I will now hand over to Esa who will talk you through our financial performance for the period.

Esa Ikaheimonen - *ADNOC Drilling - Chief Financial Officer*

Thank you, Emri.

We had an exceptional fourth quarter to bring year 2022 to an end, we delivered our highest-ever quarterly revenue of $733 million, which then translated into a 35% increase in EBITDA to $353 million and net profit growth of 61% to $234 million.

For the full year 2022, total revenue was nearly $2.7 billion, an 18% year-on-year increase. This top line performance led to an 18% rise in EBITDA to about $1.23 billion with record net profit of $802 million, an increase of 33% from 2021.

As you also see, we also remain highly cash generative. Cash from operations stood at over $1.5 billion, one and a quarter time our EBITDA.

Moving on to CapEx, we accelerated our growth investments throughout the year and fourth quarter spend increased to $434 million, more than 3 times prior year as we continue to execute on the accelerated fleet expansion program. Full year CapEx was nearly $1 billion and there's plenty more growth investments to look forward to in 2023 and 2024.

On the balance sheet side, at the end of December, our cash balance stood at $326 million with liquidity totaling nearly $1.6

billion. This liquidity, as a reminder, includes our unutilized syndicated term loan and revolving credit facilities in addition to the cash on balance sheet.

Net Debt increased moderately to $1.2 billion at the end of December 2022 with Net Debt remaining equal to EBITDA, hence leverage ratio of 1x. Next slide please…

Now, let's take a closer look at our different segments and first the revenue they generated.

In Onshore, fourth quarter was excellent, revenue increased by 29% from the prior year due to additional rigs joining the fleet and commencing operations.

Full year was equally impressive, Onshore revenue was getting close to $1.5 billion, up 27% from 2021. The performance was mainly attributable to the addition and integration of eight H&P rigs as well as the phased reactivation of stacked rigs throughout the year. We also received material reimbursement for cost escalation in-line with the contractual framework agreement between the Company and its client, ADNOC Onshore.

In the Offshore Jack-up segment, we reported revenue of $180 million in the fourth quarter, a 23% increase from a year ago. For the full year, the Offshore Jack-up segment reported a more modest 3% increase in revenue to $611 million from $596 million in 2021. The year-on-year increase was due to the integration of five new jack-up rigs into fleet operations which was partly offset by reduced realized dayrates for the higher number of rigs undergoing periodic maintenance in 2022.

Offshore Island quarterly revenue increased 34% to $51 million from $38 million in the year-ago period, mainly due to the reversal of claims to ADNOC Offshore in the prior year period.

For the full year, Offshore Island activity levels remained stable leading to revenue of $204 million, flat year-on-year as operations and activity level remained the same in both years.

Oilfield Services continues to demonstrate why it is one of our strategic growth priorities and delivered a strong top line performance, with fourth quarter revenue up 26%. For the year, OFS revenue was $405 million, 23% above prior year. Growth was driven by increased activity across the portfolio including the commencement of unconventional activity and the introduction of Tubular Running Services which further contributed to the segment's expansion plans.

Now, let's see what this revenue performance means for EBITDA in these same segments. Next slide please…

Starting again with Onshore, EBITDA for the quarter increased by 42% to $188 million, which aligns with the segment's increased activity levels and effective cost management. For the full year, Onshore delivered $705 million in EBITDA, an increase of 43% or $212 million year-on-year. This jump was largely attributable to incremental drilling activity, as new rigs commenced operations combined with the reimbursement received in relation to cost escalation claims by the client. As a side note, this annual segment EBITDA is higher than what the world's largest onshore drilling companies generated in 2022. Another thing to be proud of here in ADNOC Drilling.

In Offshore Jack-up segment, fourth quarter EBITDA increased to $108 million from $83 million in the last quarter of 2021. For the year, Offshore Jack-up operating expenses rose materially by 17% in 2022 on the back of the increased size of the rig fleet but also the impacts of inflation on particularly maintenance activity in the period. We also incurred extra running costs in the pre-operational phase of the five new jack-up rigs prior to their full integration into the fleet and ahead of any revenue generation. As a result, EBITDA decreased slightly to $329 million for the year, however remained still at a very impressive level compared with any other leading Jack-up operators in the world.

In Offshore Island, quarterly EBITDA showed a healthy increase of 22%, coming in at $28 million compared with $23 million a year ago. For the year, Offshore Island EBITDA decreased marginally from $128 million in 2021 to $121 million for 2022. The small decline was mostly attributable to an increase in consumables costs as a result of previously mentioned inflationary pressures.

In Oilfield Services, fourth quarter EBITDA rose to $29 million from $24 million over the same period last year. For the year, EBITDA increased to $77 million, an increase of 8% from $71 million in 2021, reflecting increased activity volumes across the segment partially offset by a less favorable activity mix related specifically to lower margin workover activity awarded to our Drilling Services and Drill Bits service lines.

On the next slide, we will look at how these segments and the earnings convert into ADNOC Drilling cash flow. Next slide please…

As mentioned already earlier, we are a highly cash generative business, and remained so in the most recent period. For fiscal year 2022, cash from operating activities stood at above $1.5 billion, an increase of 29% from previous year. This was mainly attributable to growth in Onshore profit and cash flow coupled with material improvements in working capital management.

Our Net Debt / EBITDA leverage ratio remained flat at 1x. Cash and cash equivalents stood at $326 million, compared to $453 million in the fourth quarter of last year, the decrease a function of spending associated with the rig fleet expansion program. Liquidity stood at nearly $1.6 billion as I've already mentioned.

Now let's look at working capital and CapEx in more detail. Next slide please…

As stated earlier, we have directed significantly more cash towards capital expenditure as we 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 16 new rigs joining the fleet in the first nine-months of this year alone with a lot more to come.

2022 CapEx came in at a total of $942 million, up from $583 million a year ago, reflecting payments for the purchase of new drilling units. Our expectation is that CapEx will remain elevated, through to 2024 given the further rig demand to enable ADNOC's accelerated production capacity target, something our CEO already covered.

Our focus on working capital management is also paying off nicely. Our overall working capital position is now very healthy and has improved considerably in 2022, driven by meaningful improvements in collections from our related parties. There's more to do, and we are confident about maintaining our positive recent track record in this area.

For the year, operating working capital came in at $314 million, an improvement of 47% compared to year-end 2021 and 18% improvement quarter-on-quarter, this is due to strong collections from related parties I already mentioned.

I will now end my remarks by introducing our 2023 guidance and providing a refresh on our medium-term outlook. Next slide please…

Firstly, it's an obvious pleasure introduce our first ever year-ahead guidance. Especially as it is quite exciting. We expect total revenue between $3.0 and $3.2 billion, which represents year-on-year growth of up to 20%. We expect EBITDA in a range from $1.35 to $1.5 billion with a very health margin of 45% to 47%. We also anticipate a new record net income of $850 million to $1 billion, again continuing the growth from $600 million in 2021 to $800 million in 2022 and now to this new level in 2023.

As you know, growing drilling company CapEx can be lumpy, so our range is quite wide, for now, but significantly up from earlier periods, forecasting to spend between $1.3 and $1.75 billion this year. Moreover, we plan to do so while maintaining the leverage ratio below 2.0x.

The refreshed medium-term guidance, is as follows:

- Revenue CAGR in the 12% to 16% range
- EBITDA margin around 50% with drilling margins exceeding 50% and OFS margin in a range of 22% - 26% medium term
- Conservative long-term leverage target of up to 2.0 times net debt to EBITDA, excluding material M&A
- Net working capital as percentage of revenue maintained at 10% to 11%
- Number of owned rigs to reach a level of 142 units already by the end of 2024, compared to IPO guidance of 127 rigs by the end of 2030, demonstrating the acceleration of the growth, but also material growth in absolute terms
- Additional CapEx over the two-year period of 2023 to 2024 between $2.0 - $2.5 billion, a net increase of some $1 billion over and above the original guidance at IPO
- Maintenance CapEx post-2024 of $200 - $250 million per annum, leading to a very significant free cash flow generation after the ongoing capacity ramp up investments are completed

  Annual dividend growth at least a minimum of 5% per annum over the next four years

As you will see from our updated guidance for 2023 and our outlook for the medium term, our profitable growth continues and will meaningfully exceed expectations set when the Company IPO'd some 15 months ago.

If I now use the opportunity and look at ADNOC Drilling through the investment case lens, my closing remarks are as follows:

- The Company has a unique commercial model based on long-term contracting and guaranteed returns, leading to cash flow visibility that is second to none in not only the oil and gas industry, but nearly any industry.
- Company demonstrates high margin and strong cash flow performance, with low balance sheet leverage whilst growing rapidly
- This all has allowed us to already deliver more than $5 billion of value to our shareholders since our IPO
- Furthermore, looking forward, it will allow us to execute our strategy and leverage our balanced capital allocation model to deliver short and long-term value to our shareholders, and offer them a unique combination of growth and dividend returns.

That concludes my remarks, and I'll now hand back to our CEO for some closing thoughts.

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

Thank you, Esa.

To recap and conclude, we delivered an exceptional set of results as we enable ADNOC's production capacity targets.

We continue to invest in our fleet, adding 16 new rigs during the year … establishing one of the largest operating fleets in the world. And we will be adding additional rigs in 2023.

Our market leading capabilities have further enabled us to secure contract awards worth more than $10 billion in 2022, providing us with unmatched earnings and cash flow visibility.

In closing, I would like to thank the whole ADNOC Drilling team for the success of 2022, and I am confident in our ability to deliver plans ahead in 2023. Thank you for joining today's webcast and conference call.
I'll now hand over to the operator, to open the floor for your questions. Thank you.

QUESTIONS AND ANSWERS

Operator -

Thank you. As a reminder, if you'd like to ask a question, you can press star one on the telephone keypad. If you'd like to withdraw your question, you may press star two. Please ensure your unmuted locally when asking your question. Our first question for today comes from Karen Kostanian from Bank of America. Karen, your line is now open. Please go ahead.

Karen Kostanian - *Bank of America Merrill Lynch*

Thank you very much, gentlemen. Congratulations on very strong results. I have two questions. My first question, do you have any visibility in terms of the timeline for your potential regional expansion? And given your very strong cash flow generation and CapEx sort of coming below guidance, your leverage coming below guidance, would you consider perhaps more than 5% increase in dividend

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

Hi Karen, it's Nick here. I think we'll have the CEO take that and then kick it to the CFO on the dividend.

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

Yeah. On the subject of regional growth, definitely something that we have been working on, we're in the process of pre-qualification in certain areas in GCC. So, something definitely on top of our agenda for growth. So, we will update as we go in the near future once we get pre-qualified. So, we'll look at that. Esa you can take over the next part.

Esa Ikaheimonen - *ADNOC Drilling - Chief Financial Officer*

Yes, sure. Regarding the dividend, obviously, we are benefiting from what I would call super strong cash flow, as you indicated, and that obviously has given us, should I say, further confidence when it comes to progressing our dividend policy. But at the same time, just to put it in context, we are investing a lot. So, $2 to $2.5 billion of our operating cash flow goes to reinvestment and CapEx in the next couple of years. So wanted you to keep that in mind, particularly in the light of the fact that we do want to continue with the strong balance sheet. So, it's a balancing act from the Company perspective. But given the strong cash flow generation and the outlook for 2024 / '25, obviously our board will continue to monitor our progress and develop the right moves for our dividend. For now, the policy remains as it is.

Karen Kostanian - *Bank of America Merrill Lynch*

Thank you very much.

Operator -

Thank you. Our next question for today comes from Jared Thomas of JP Morgan. Jared your line is now open. Please go ahead.

Jared Thomas - *J.P. Morgan*

Hi. Good morning. Just two questions. So, if big rigs are going to be 142 in 2024, what happens afterwards? Do we see a gradual decline and the same for CapEx. And then the second question is sort of – EBITDA guidance for 2024, I think 2023 is quite clear but 2024 is that, can we expect a better number or how can we look at it going forward?

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

I think the program that we have on the growth is not ending at 2024. Is actually going beyond that and we are planning part of the being enabler to ADNOC upstream companies for 5 million by 2027. Now, yet again, I mean, still there is other work which is being at this stage of appraisal programs, unconventional activities. So, there is so much still on the plan. I mean, what we see, we will be steady and most probably if other programs kicks in, we'll be adding more. Part of it is also the earlier question, which is related to the growth in the region. So definitely, 142 potential to sustain or a slightly increase.

Esa Ikaheimonen - *ADNOC Drilling - Chief Financial Officer*

Yeah, before I move on to the EBITDA point. Obviously, drilling continues with the fleet that we've acquired, so we're not acquiring the fleet and then having it sitting idle. Rigs will be long term contracted and therefore as a kind of bare minimum level of activity that we will see also for longer term. I should mention one more thing, and it's the unconventional drilling that we see currently as being a very significant potential for further, medium and longer-term growth. Also, when it comes to adding further capacity to our drilling fleet, so keep an eye on that unconventional development. We will continue to update the market as to how that starts ramping up. Currently, it's still relatively small part of our business, understandably early days, but expectation is that it will become a meaningful part of our activity level, driven by the UAE gas self-sufficiency aspirations.

Now the EBITDA, yeah, obviously we've only provided EBITDA guidance for 2023, but if you kind of forward forecast a little bit and I'm not providing you guidance on 24 because we deliberately don't do that at this moment in time, but we are adding about 30 rigs this year and actually most of those rigs will only start operating and earning revenue during the second half of the year. Some of them actually as late as in 2024. So as a result of that, actually the fleet capacity increase that we are now including in our guidance is going to generate best part of its revenue starting in 2024, not dissimilar to what happened in '22, by the way, because you saw our 4Q results reflecting the kind of full force of the new rigs that we acquired during last year. Similar thing will happen in 2023 and then we'll see a material further increase in our EBITDA for 2024. That's obviously assuming that we can, as we believe we will, be able to maintain the 45% / 47% EBITDA margin. As a matter of fact, actually longer term, even improving it.

Operator -

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

Faisal Azmeh - *Goldman Sachs*

Hi. And thank you for the opportunity to ask questions and congratulations on the strong set of numbers. Just two questions on my end. The first is just generally when we look at the OFS margin this year, there were a bit on the weaker side versus the year before. How should we think about that part of the business in 2023? I know you've provided long term guidance, but just trying to think about the transition there and how do you move towards those 22% to 26% levels?

And just another question on securing the rig. Is it difficult to secure also the rigs these days? And how should we think about the upside risk to CapEx or your CapEx guidance when it comes to securing the new rig for the accelerated growth? Thank you very much.

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

Thank you. Now I'll take the last one, and then between Emri and Esa we'll cover the rest. On the rigs to secure rigs, I think we've been quite successful as a Company when we look at different sectors. I mean, if I look at the offshore segment, we managed to do a good job there because we were ahead of the market in terms of identifying the units that we wanted to get in and we started working with them, with the owners, with the companies, and we've done a good job there. Part of the rigs will be delivered, majority in this year for the jack-ups.

Now, on the land also, I think is the market is quite competitive there, which is more availability of the resources on the land rigs. So again, what we are doing today, I think we have reasonably, I would say, excellent deals that we are building the new rigs with more capabilities, looking for future. Part of it, I mean, where we are looking at the sustainability aspects, the technology introduction. We will be having rigs with, we are calling them green rigs. So, some of the rigs that we'll be getting for majority, I would say will be green rigs and hopefully that will make us a step forward from any other drilling companies, probably

Emri if you can take on the OFS, please.

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

I mean, on the OFS part, I mean, as you know, we're currently in the growth and ramp up phase for the oilfield services business. I mean, we started the business in 2019 and we provided the major parts of the services in most of the wells that we built. Yet today, we're expanding on the portfolio site that we're providing to our customers. So, we expect the margins to stabilize with the business maturity in the medium term. I mean, you're talking possibly around 2023 and '24.

The revenue growth for this year was mainly driven by some of the increased activity volume across the portfolio, including the commencement of the unconventional in onshore and offshore, as well as some of our new service portfolios like the Tubular Running Services, which contributed to the expansion. Which would you have to put in mind that the operating expenses were affected by the labor cost due to the increase in in the portfolio itself as well as we've seen an inflation in cost for the chemicals specifically which went up to 200% in certain instances and cases. But this is where we invested in part of our upcoming projects early or basically ahead of time so that we could leverage the revenue and profitability in 2023 and 2024 going forward.

We expect the profitability for 23 and 24 to be within the range and guidance that we have provided and where we could ramp up from our 22% to 26% easily given the forward investment that we have done in 2022, given the business that we're actually expanding into OFS. So, I mean, also what you need to have in mind is that that business, when it comes to services, it's within the range of, I mean, we are actually on the higher side of the profitability range when compared to our international peers be it in the local market or even in the region itself.

Faisal Azmeh - *Goldman Sachs*

Thank you.

Operator -

Thank you. Our next question comes from Guillaume Delaby from Société Générale. Your line is now open. Please go ahead.

Guillaume Delaby - *Société Générale*

Yes. Good morning. Thank you for taking my question. I would like me to come back a little bit regarding your original expansion. I know that we should be waiting at some stage for your progresses in terms of pre-qualification, but basically my question is probably a little bit more broader. It's without -- if we except Abu Dhabi, where basically we have -- or at least I have a quite good vision of -- maybe could you give us some, I would say qualitative color regarding the oilfield services market outside of Abu Dhabi of the new elements or things which might have surprised you over the last a couple of weeks or months? This is essentially my question.

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

I think you're focusing on the Oilfield Services expansion. Right?

Guillaume Delaby - *Société Générale*

Yeah.

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

Definitely. I mean, that's also part of the plan. I mean, again, the pre-qualification was for everything is not just the rig activities, but that's something also which Emri we are working on.

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

Yeah, I mean, basically what we're doing, the pre-qualification process does not only encompass the direct qualification or the drilling capabilities. The qualification process also takes in consideration your service portfolio and the pre-qualification for the types of services that ADNOC drilling is providing. If you look at the overall regional market that we have, I mean, without going into too much detail in terms of dissecting the market, but we have, you remember in our IPO guidance, we did a very detailed study and analysis on the regional markets and we have classified them between Tier One and Tier Two where we have had Saudi and Kuwait in terms of Tier One. I think Saudi remains and will remain in the Tier One part where their business and market expansion and growth in terms of be it in the business or projects that are coming ahead. Also, in the conventional or unconventional domains is going extremely high with their demand for increased production. So Saudi is not only a target, but I mean it also when it comes to services, it has the highest service margins among the regional countries that we have. But definitely pre-qualification is the main milestone for us to do to be able to enter into those markets.

And as we mentioned earlier, growth is not going to come just for the sake of a fingerprint growth or showing to the market that we are just growing for, you know, like unprofitable businesses. No. It has to make sense, it has to be profitable, and it has to complement what we have as ADNOC Drilling.

Esa Ikaheimonen - *ADNOC Drilling - Chief Financial Officer*

I think one thing I'd like to add has to do with the final point that Emri mentioned, which is the complementary capabilities. And one way to think about our expansion, whether it's domestic or international, regional or international, is to look at this through further integration. And in terms of further integrating, we're also looking to develop partnerships or potential acquisition opportunities to integrate even more beyond our existing Oilfield Services portfolio. Why? Because we can make money by further integrating, but we can also add value to our clients, which is a really important part of this domestically and international. It actually makes us more compelling regionally if we can offer something else than just the drilling rig, because there are drilling rigs available for people.

And in terms of expanding the integration, we are interested in additional services, but also technology and manufacturing capability. And that applies to our domestic market as much as to a regional market. And, you know, the way we currently look at that is a little bit less drawing a line between domestic and international, because actually that integration and further the complementary capabilities are serving our purposes and our shareholders both here in the UAE as well as regionally. Hope that makes some sense, I might be complicating a simple conversation, but it's an important element of our strategy going forward.

Guillaume Delaby - Société Générale

That's extremely useful. Thank you very much for the color.

Operator -

Thank you. As a reminder, if you'd like to ask a question, you can press star one on your telephone keypad. Our next question comes from Nour Sherif from Arqaam Capital. Your line is now open. Please go ahead.

Nour Eldin Sherif - *Arqaam Capital*

Hello everyone and thanks for the call. And congrats for the strong results. Just a couple of questions for me. My first one is that you mentioned some cost reimbursements and reversals on the onshore and offshore island. Can you give us some color around how much are these reimbursements? My second one regarding the rig acquisition or the rig expansion plan. So, you've mentioned the big and the number of rigs to 142. So following 2024, should we expect that to have to peak at these levels? Do you expect them to peak at these levels for modeling purposes or should we expect an increase from there?

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

On the rigs, I think I mentioned slightly before a couple of minutes, the 142 rigs that we are planning is not going to, I mean, the growth plan goes up to 2027, the P5. So the rigs are going to be beyond 24. And as mentioned also, I mean, there is the unconventional program which is expected also to take a lot of resources than if we to go into the development more than the unconventional, then there definitely their account would be increasing. That's something which I think, in the 23 / 24 will materialize more.

In addition to the expansion which we have been talking about to today morning now, that's again another potential to increase the rig count. Now, on the other part, I think Esa –

Esa Ikaheimonen - *ADNOC Drilling - Chief Financial Officer*

Yeah, thanks for good questions. I think without going into too many details regarding the cost escalation, of the principle is that we are exceedingly well protected against cost escalation in the areas of fuels, manpower and certain materials. And that's a contractual protection we've got with our clients, and that's particularly strong on the onshore side. And obviously onshore is the dominant business in our portfolio, at least for now. So, that protection is quite exceptional.

We do have some exposure. We have some exposure on the offshore side. We have exposure definitely on the oilfield services side as you'll have seen in 2022, where obviously that impact was quite visible. We maintained our EBITDA margins there respectively and we forecast to do so also in 2023. And when you look at our medium-term guidance, we're actually guiding towards increasing margins rather than reducing margins in this inflationary environment. So that is a demonstration of our competence and our ability to actually not only compensate through cost management and efficiency improvement, but actually do even more than that. So, without going into the details, we've got exceptional commercial contractual protection against cost escalation in these key areas. We effectively get a large part of escalation reimbursed by our clients. You can even see a net positive in our onshore results in 2022. And then what is residual in terms of our exposure, we have been successful, and we will be successful in absorbing those and not allowing it to damage our margins.

Nour Eldin Sherif - *Arqaam Capital*

Yeah. Okay. Thank you very much.

Operator -

Thank you. Our next question comes from Shadab Ashfaq from Al Ramz. Your line is now open. Please go ahead.

Shadab Ashfaq - *Al Ramz*

Hi all. Congrats on the record results. And my question is, what is the breakdown in terms of backlog? Like, how much is for drilling and how much is for Oilfield Services? And even in drilling, how they're classified as onshore and offshore?

Esa Ikaheimonen - *ADNOC Drilling - Chief Financial Officer*

I think the backlog, this is based on the top of my head, but I think about 60% of our backlog is actually in onshore, about 30 in offshore and about to 10 in oilfield services, give or take.

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

So, to be more specific, around the north of $10 billion that was mentioned as part of the release, just about $6 - $6.5 billion of that is oil related. And then the difference is with the drilling, onshore and offshore. Mainly the jack-up rigs that would have been contracted in October timeframe.

Esa Ikaheimonen - *ADNOC Drilling - Chief Financial Officer*

But that's only the incremental awards and not the full backlog.

Shadab Ashfaq - *Al Ramz*

And on capital allocation like the company is expected to have the current facility of $1.5 billion and then they will have additional $2 billion in new CapEx. How will the Company finance these and will these have any impact on the dividend policy?

Esa Ikaheimonen - *ADNOC Drilling - Chief Financial Officer*

Yeah. So, we are effectively fully funded for our expansion 2023, 24. So if you start from operating cash flow, it was about a billion and a half last year, and it won't be much less than that. It probably won't be less than that in 2023 either. And at the same time, we've got $1.6 billion dollars in cash and unused credit lines available to ourselves. So, we're effectively fully funded through our operating cash flow and the undrawn credit facilities for this program. And it certainly won't have any detrimental impact on our dividend policy. Our dividend policy is a is a minimum five percent on an annual basis, and I emphasize it's a minimum five percent.

Operator -

Thank you. We currently have no further questions. I'll hand back to the speaker team for any further remarks.

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

I thank you very much. And hopefully we'll be meeting again with the other updates on different venues. Thank you for the feedback right.

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

Thank you, operator. Thank you, everyone.