ADNOC Logistics & Services

Nine months 2023 Earnings

Management Discussion & Analysis Report
13 November 2023

ADNOC Logistics & Services

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL PERFORMANCE AND RESULTS OF OPERATIONS

Table of Contents

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL PERFORMANCE AND RESULTS OF OPERATIONS

Financial Highlights

ADNOC Logistics & Services plc ("ADNOC L&S" or the "Company") reported its results for the nine months ended 30 September 2023, once again demonstrating strong growth in top line and profitability as the Company successfully implements its transformational growth strategy. This is driven largely by the continued realization of value from the Zakher Marine International Holdings' acquisition in Q4 2022, the expansion in other Integrated Logistics services activities including growth in EPC services, along with healthy charter rates for Tankers & Gas Carriers driving continual robust Shipping segment performance.

Revenues for the period increased 49% to $1,927 million. EBITDA surged 124% to $635 million with EBITDA margin expanding by 11 percentage points to 33%. Net profit for the period increased 162% to reach $455 million.

USD Million	Q3 23	Q2 23	*QoQ %*	Q3 22	*YoY %*	9M 23	9M 22	*YoY %*
Revenue	702	632	11%	539	30%	1,927	1,295	49%
Direct Costs	(516)	(440)	17%	(405)	27%	(1,382)	(1,040)	33%
EBITDA [1]	218	219	0%	139	57%	635	284	124%
Margin	31%	34%	-4%	26%	5%	33%	22%	11%
Net Profit	148	162	-9%	101	46%	455	173	162%
EPS ($ /share)	0.02	0.02	-9%	N/A	N/A	0.06	N/A	N/A
EPS (AED /share)	0.07	0.07	-9%	N/A	N/A	0.23	N/A	N/A
Capital expenditures	281	177	59%	86	227%	501	344	46%
Free Cash Flow [2]	59	(101)	158%	(38)	258%	140	(242)	158%

USD Million	Q3 23	Q2 23	*QoQ %*	Q3 22	*YoY %*	9M 23	9M 22	*YoY %*
Total Equity	4,307	4,158	4%	1,702	153%	4,307	1,702	153%
Net Debt [3]	(102)	(43)	137%	552	-118%	(102)	552	-118%
Net Debt / EBITDA	(0.12)x	(0.05)x		0.99x		(0.12)x	1.46x	

[2] *Free Cash Flow is defined as Operating Free Cash Flow less Capital Expenditure. Operating Free Cash Flow is defined as EBITDA and Total Working Capital Adjustments less income tax expense*

[3] *Net Debt and Cash is defined as debt and debt-like items consisting of shareholder loan and current and non-current lease liabilities less cash and cash equivalents*

9M 2023 financial highlights:

Revenue for the nine-month period ended 30 September 2023 was $1,927 million, an increase of $632 million, or 49%, compared to $1,295 million for the nine-month period ended 30 September 2022.

EBITDA for the nine-month period ended 30 September 2023 was $635 million, an increase of $351 million, or 124%, compared to $284 million for the nine-month period ended 30 September 2022.

Net Profit for the nine-month period ended 30 September 2023 was $455 million, an increase of $282 million, or 162%, compared to $173 million for the nine-month period ended 30 September 2022.

Q3 2023 financial highlights:

Revenue for the three-month period ended 30 September 2023 was $702 million, an increase of $70 million, or 11%, compared to $632 million for the three-month period ended 30 June 2023. Revenue increased by $163 million, or 30%, compared to $539 million for the three-month period ended 30 September 2022.

EBITDA for the three-month period ended 30 September 2023 was $218 million, which is in line with $219 million for the three-month period ended 30 June 2023. EBITDA increased by $79 million, or 57%, compared to $139 million for the three-month period ended 30 September 2022.

Net Profit increased by $46 million, or 46%, compared to $101 million for the three-month period ended 30 September 2022. Net Profit for the three-month period ended 30 September 2023 was $148 million, a decrease of $14 million, or -9%, compared to $162 million for the three-month period ended 30 June 2023 driven by typical seasonality in shipping segment results.

Segmental Results

INTEGRATED LOGISTICS

USD Million	Q3 23	Q2 23	*QoQ %*	Q3 22	*YoY %*	9M 23	9M 22	*YoY %*
Revenue	456	378	21%	260	75%	1,185	569	108%
Direct Costs	(331)	(262)	26%	(213)	56%	(854)	(484)	77%
EBITDA [1]	139	131	6%	51	173%	371	88	320%
Margin	30%	35%	-5%	20%	11%	31%	16%	16%
Net Profit	95	94	1%	37	159%	258	50	414%

[1] *EBITDA is defined as profit before income tax, finance costs, finance income, depreciation and amortisation*

YoY Performance

Integrated Logistics revenue was up 75% to $456 million in the 3-month period ended 30 September 2023, from $260 million in the same period last year. Revenue increased 108% to $1,185 million in the 9 months period ended 30 September 2023, from $569 million in the same period last year. The increase was largely driven by the operational performance of Jack-up barges ("JUB's") and offshore support fleet following the ZMI acquisition; the impact of the May 2022-deployment of the Integrated Logistics Services Platform ("ILSP"); and the initiation of works supporting the Hail and Ghasha. In addition, the company also benefited from the commencement of work on the recently announced $975 million EPC contract for construction of offshore artificial island, awarded in the second quarter of 2023.

EBITDA was up 173% to $139 million in the 3-month period ended 30 September 2023, from $51 million in the same period last year. EBITDA increased 320% to $371 million in the 9 months period ended 30 September 2023, from $88 million in the same period last year. This was mainly driven by the ZMI acquisition and increased volumes managed through ILSP, coupled with improvement on asset utilization and cost-efficiency.

QoQ Performance

Revenue increased 21% to $456 million in the third quarter, from $378 million in the previous quarter. The increase was mainly due to increased volumes managed through ILSP, commencement of work related with EPC contract and higher JUB utilization and rates.

EBITDA of $139 million in the quarter was 6% higher than the $131 million achieved in the previous quarter. The increase was mainly due to higher volumes managed through ILSP and the commencement of EPC contracts.

SHIPPING

USD Million	Q3 23	Q2 23	*QoQ %*	Q3 22	*YoY %*	9M 23	9M 22	*YoY %*
Revenue	**200**	**208**	**-3%**	**230**	**-13%**	**608**	**603**	**1%**
Gas carriers	38	38	1%	32	20%	121	99	22%
Tankers	101	98	3%	98	4%	296	222	33%
Dry-bulk shipping	61	71	-14%	101	-39%	191	282	-32%
Direct Costs	**(151)**	**(140)**	**8%**	**(159)**	**-5%**	**(423)**	**(453)**	**-7%**
Gas carriers	(26)	(25)	4%	(16)	64%	(76)	(53)	44%
Tankers	(78)	(62)	27%	(71)	11%	(199)	(198)	1%
Dry-bulk shipping	(47)	(53)	-11%	(73)	-36%	(148)	(203)	-27%
EBITDA (1)	**71**	**85**	**-17%**	**79**	**-11%**	**239**	**184**	**30%**
Gas carriers	22	24	-8%	18	22%	75	58	31%
Tankers	33	43	-24%	24	37%	118	36	224%
Dry-bulk shipping	16	18	-11%	37	-57%	45	90	-49%
Margin	**35%**	**41%**	**-6%**	**34%**	**1%**	**39%**	**30%**	**9%**
Gas carriers	58%	64%	-6%	57%	1%	62%	58%	4%
Tankers	32%	43%	-11%	24%	8%	40%	16%	23%
Dry-bulk shipping	26%	25%	1%	37%	-11%	24%	32%	-8%
Net Profit	**51**	**67**	**-24%**	**65**	**-21%**	**182**	**133**	**37%**
Gas carriers	15	18	-17%	15	3%	56	43	29%
Tankers	22	33	-34%	24	-8%	89	16	451%
Dry-bulk shipping	14	16	-13%	26	-46%	38	73	-49%

(1) *EBITDA is defined as profit before income tax, finance costs, finance income, depreciation and amortisation*

Gas carriers

YoY Performance

Gas carriers' revenue was up 20% to $38 million in the 3-month period ended 30 September 2023, from $32 million in the same period last year. Revenue increased 22% to $121 million in the 9 months period ended 30 September 2023, from $99 million in the same period last year. The increase was mainly due to the charter-in of two additional vessels at higher charter rates benefiting from higher spot market rates.

EBITDA was up 22% to $22 million in the 3-month period ended 30 September 2023, from $18 million in the same period last year. EBITDA increased 31% to $75 million in the 9 months period ended 30 September 2023, from $58 million in the same period last year. As explained above the increase was mainly due to chartering-in two additional vessels to benefit from higher spot market rates.

QoQ Performance

Revenue of $38 million for the third quarter was stable compared to previous quarter.

EBITDA of $22 million for the third quarter was slightly lower than the $24 million achieved in the previous quarter.

Tankers

YoY Performance

Revenue from Tankers segment grew 4% to $101 million in the 3-month period ended 30 September 2023, compared to $98 million in the same period last year. Revenue increased 33% to $296 million in the 9 months period ended 30 September 2023, from $222 million in the same period last year. The increase was mainly due to higher charter rates benefiting from spot market strength and from newbuild VLCCs delivered into the fleet during the year.

EBITDA was up 37% to $33 million in the 3-month period ended 30 September 2023, from $24 million in the same period last year. EBITDA increased 224% to $118 million in the 9 months period ended 30 September 2023, from $36 million in the same period last year. The increase was mainly due to improved spot market rates and newbuild VLCCs added to the fleet.

QoQ Performance

Revenue increased 3% to $101 million in the quarter, from $98 million in the previous quarter, driven by earnings from newbuild VLCCs delivered into the fleet.

EBITDA of $33 million in the quarter was 24% lower than the $43 million achieved in the previous quarter due to moderation in Tankers rates in Q3 2023 primarily driven by seasonality, OPEC plus cuts and lower Russian oil products exports as well as increase in direct costs.

Dry-bulk shipping

YoY Performance

Revenue of Dry-bulk shipping dropped 39% to $61 million in the 3-month period ended 30 September 2023, from $101 million in the same period last year. Revenue decreased 32% to $191 million in the 9 months period ended 30 September 2023, from $282 million in the same period last year. The drop is a direct reflection of the downward trend in the Dry-bulk market spot rates, mainly due to unfavourable macroeconomic conditions that have pressurised Dry-bulk market spot rates over the past year. This was partially offset by an increase in the container vessels’ revenues, mainly due to higher volumes.

EBITDA was down 57% to $16 million in the 3-month period ended 30 September 2023, from $37 million in the same period last year. EBITDA decreased 49% to $45 million in the 9 months period ended 30 September 2023, from $90 million in the same period last year. The decrease is mainly due to lower Dry-bulk market spot rates.

QoQ Performance

Revenue decreased 14% to $61 million in the quarter, from $71 million in the previous quarter mainly due to decreased chartering-in in the lower rate environment.

EBITDA of $16 million in the quarter was 11% lower than the $18 million achieved in the previous quarter due to subdued Dry-bulk rates in line with the company’s expectations.

Marine Services

USD Million	Q3 23	Q2 23	*QoQ %*	Q3 22	*YoY %*	9M 23	9M 22	*YoY %*
Revenue	46	47	-3%	49	-6%	134	122	9%
Direct Costs	(34)	(38)	-9%	(32)	6%	(105)	(98)	8%
EBITDA [1]	10	9	6%	15	-36%	27	25	8%
Margin	22%	19%	3%	32%	-10%	20%	21%	-1%
Net Profit	6	5	30%	12	-51%	14	14	1%

(1) EBITDA is defined as profit before income tax, finance costs, finance income, depreciation and amortisation

YoY Performance

Marine Services segment revenue eased $3 million to $46 million in the 3-month period ended 30 September 2023, from $49 million in the same period last year mainly due to decrease in volumes for port operations. Revenue increased 9% ($12 million) to $134 million in the 9 months period ended 30 September 2023, from $122 million in the same period last year. The improvement in performance was driven by one-off equipment replacement services and higher volumes managed through the Petroleum Ports and Oil Spill Response Centres services.

EBITDA dropped 36% to $10 million in the 3-month period ended 30 September 2023, from $15 million in the same period last year. EBITDA increased 8% to $27 million in the 9 months period ended 30 September 2023, from $25 million in the same period last year.

QoQ Performance

Revenue was $46 million in the third quarter compared with $47 million in the previous quarter.

EBITDA of $10 million in the quarter was 6% higher than the $9 million achieved in the previous quarter due to reduced direct costs.

Free Cash Flow

USD Million	Q3 23	Q2 23	QoQ %	Q3 22	YoY %	9M 23	9M 22	YoY %
EBITDA [1]	**218**	**219**	**0%**	**139**	**57%**	**635**	**284**	**124%**
Working Capital Adj.	123	(141)	NM	(90)	NM	8	(182)	NM
Income Tax	1	(2)	NM	-	NM	(1)	-	NM
Operating Free Cash Flow	**341**	**76**	**356%**	**49**	**602%**	**642**	**102**	**531%**
Capital Expenditure	(281)	(177)	59%	(86)	227%	(501)	(344)	46%
Free Cash Flow	**59**	**(101)**	**NM**	**(38)**	**NM**	**140**	**(242)**	**NM**

[1] *EBITDA is defined as profit before income tax, finance costs, finance income, depreciation and amortisation*

Operating Free Cash Flow for the nine months ended 30 September 2023 was $642m, up 531% ($540m) from $102m in the first nine months of 2022 mainly due to a higher EBITDA and improvement in working capital. Free cash flows for the same period were $140 million, up $382 million from (negative) $242 million in the nine months of 2022. Capital expenditure for the nine months period ended 30 September 2023 totalled $501 million, supporting delivery of ADNOC L&S' smart growth strategy and other ongoing offshore projects. During the quarter, $100 million was drawn down from the term loan facility, with the majority of capital expenditure financed using free cash flows from operations.

Three newbuild VLCC's were delivered (year-to-date), with one due to be delivered later this year. Newbuild vessel purchases are typically paid in instalments with the last instalment being settled on delivery.

Free Cash Flow of $59 million in the third quarter of 2023 was higher than the previous quarter due to improved working capital partially offset by higher capital expenditure.

Key Developments

ADNOC L&S took delivery of eight self-propelled JUBs, six owned and two chartered in. With this expansion, the fleet of JUBs owned and /or operated by ADNOC L&S has increased by 25% from 31 to 39, reinforcing the Company's status as the owner and operator of one of the largest fleets of JUBs in the GCC region. This expansion comes at a time when JUB charter rates are robust due to high demand for offshore services. The additional JUBs include the purchase of two newbuild and four second-hand JUBs, in addition to the chartering of two newbuild JUBs.

ADNOC L&S took delivery of two additional newbuild LNG dual-fuel Very Large Crude Carriers (VLCCs) in the third quarter, increasing the total delivered year-to-date to three. The fourth and final vessel is set to join the ADNOC L&S fleet later this year. These vessels are market-leading and environmentally efficient, largely due to their dual-fuel engine, which can also run on Liquified Natural Gas (LNG), significantly reducing their exhaust emissions.

Outlook

Group

- Consolidated Revenue: We target mid-to-high single digit growth year-on-year in the medium term.
- Consolidated EBITDA: We target an EBITDA margin of above 30% in 2023. Over the medium term, we target average annual EBITDA growth in the low teens towards an EBITDA margin of 35%.
- Capital Structure: We target 2.0-2.5x net debt / EBITDA over the medium term.

Segmental Medium-Term Targets

1. Integrated Logistics
    - Revenue: We target strong double-digit year-on-year growth in 2023 and 2024, including the impact of newly entered EPC contract works. We target growth to continue in line with UAE inflation thereafter.
    - EBITDA: We target EBITDA margins continually increasing into the mid-30%s in the short-to-medium term, on pre-existing business lines. On EPC activities, we anticipate mid-to-high single digit EBITDA margins in line with industry norms.
2. Shipping
    - Revenue:
        - For Gas Carriers, we target 2024 performance broadly in line with the stronger-than-anticipated performance in 2023, with a growth rate of 30% for three consecutive years commencing 2025. This growth is largely driven by the delivery of six newbuild LNG carriers, five of which are already contracted long-term to ADNOC Gas commencing 2026.
        - In Tankers, In Q4 2023, we continue to benefit from increase in fleet size with product tankers rates expected to show continued strength but anticipate softening in VLCC rates. We anticipate 2024 performance slightly behind the stronger-than-anticipated performance in 2023 driven by rate declines on VLCCs.
        - For Dry-bulk shipping, in Q4 2023, we anticipate moderate improvement in charter rates. We anticipate performance in 2024 in line with 2023, with rates remaining at similar levels.
    - EBITDA: We target mid-single digit margin expansion again into 2024, largely due to a higher proportion of time charter assets in the portfolio.
3. Marine Services
    - Revenue: In the medium term, we target growth in line with UAE inflation.
    - EBITDA: We anticipate margins remaining around the 20% level in the medium term.

Dividend

The Board of Directors approved the distribution of an interim cash dividend of $65 million (AED239 million) for Q2 2023, equivalent to 3.2 fils per share, that was paid to shareholders on 02 November 2023.This reaffirms the company's commitment to deliver attractive returns to its shareholders. A final dividend is anticipated to be paid in Q2-2024 in relation to 2H-2023. At the time of listing the Company indicated a 2H-2023 dividend of $130 million (AED477 million).

Thereafter, the Company expects to increase the annual dividend per share on a progressive basis by at least 5% annual growth over the medium term against the annualized 2023 dividend, while regularly reviewing the policy considering value-accretive growth opportunities. The Company intends to pay dividends twice each financial year, with an initial payment of the first-half results being paid in the fourth quarter of that year, and a second payment following second-half results being paid in the second quarter of the following calendar year.

Earnings Conference Call Details

ADNOC L&S will host the earnings webcast and conference call followed by a Q&A session for investors and analysts on Monday, Nov 13, 2023, at 2:00 pm UAE time / 11:00 am UK time.

The call will be hosted by Abdulkareem Al Masabi (CEO) and Nicholas Gleeson (CFO). Interested parties are invited to join the call by clicking here.

About ADNOC Logistics & Services

ADNOC Logistics & Services, listed on the Abu Dhabi Securities Exchange (ADX symbol ADNOCLS / ISIN "AEE01268A239") is a global energy maritime logistics company based in Abu Dhabi. Through its three business units; Integrated logistics, shipping and Marine Services, ADNOC L&S delivers energy products to more than 100 customers in over 50 countries.

To find out more, visit: www.adnocls.ae
For investors enquiries, please contact: IR@adnocls.ae

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 ability to enter into strategic alliances and third party transactions; ; 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 other ADNOC Group companies; the introduction of 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 September 1st 2023 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.

Absolute figures and percentages included in this document have been subject to rounding adjustments.