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ADNOC Logistics & Services

FY 2023 Earnings

Management Discussion & Analysis Report
14 February 2023

ADNOC Logistics & Services

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL PERFORMANCE AND RESULTS OF OPERATIONS

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MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL PERFORMANCE AND RESULTS OF OPERATIONS

Financial Highlights

ADNOC Logistics & Services plc ("ADNOC L&S" or the "Company") reported full-year results for 2023. The Company continues to deliver on its transformational growth strategy which is driving strong top line and profitability. These continuing performance gains are driven by the Integrated Logistics business (successful integration of ZMI; Integrated Logistics services activities; increases in transported volumes) and the Shipping segment's performance (Tankers including newly added VLCCs & Gas Carriers benefiting from a continuing strong charter rate environment).

The company achieved exceptional top line gains with revenues for the period increasing 41% to $2,755 million. EBITDA surged 93% to $876 million while EBITDA margin expanded by 9 percentage points to 32% against the same period last year. Net profit for the period grew 138% to $620 million.

USD Million	FY 23	FY 22	YoY %	Q4 23	Q3 23	QoQ %	Q4 22	YoY %
Revenue	2,755	1,952	41%	828	702	18%	657	26%
Direct Costs	(2,003)	(1,543)	30%	(621)	(516)	20%	(503)	24%
EBITDA [(1)]	876	453	93%	242	218	11%	169	43%
Margin	32%	23%	9%	29%	31%	(2%)	26%	3%
Net Profit	620	261	138%	165	148	12%	87	89%
EPS ($ /share)	0.08	N/A	N/A	0.02	0.02	12%	N/A	N/A
EPS (AED /share)	0.31	N/A	N/A	0.08	0.07	12%	N/A	N/A
Capital expenditures	774	300	158%	270	282	(4%)	80	236%
Free Cash Flow [(2)]	49	(33)	250%	(88)	59	(249%)	85	(204%)

USD Million	FY 23	FY 22	YoY %	Q4 23	Q3 23	QoQ %	Q4 22	YoY %
Total Equity	4,406	1,800	145%	4,406	4,307	2%	1,800	145%
Net Debt [(3)]	74	1,814	(96%)	74	(102)	172%	1,814	(96%)
Net Debt / EBITDA	0.08	4.00		0.08	(0.12)		2.68	

[(1)] *EBITDA is calculated as profit before income tax, finance costs, finance income, depreciation and amortization*

[(2)] *Free Cash Flow is calculated as EBITDA less working capital adjustments less income tax expense less capital expenditure*

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

FY 2023 financial highlights:

Revenue for the year ended 31 December 2023 was $2,755 million, marking an increase of $803 million, (41%) against $1,952 million for 2022.

EBITDA for the year was $876 million, up $423 million, (93%) against $453 million for 2022.

Net Profit for the year was $620 million, gaining $359 million, (138%) against $261 million in 2022.

Q4 2023 financial highlights:

Revenue for Q4 2023 was $828 million, an increase of $171 million, (26%) against $657 million for Q4 2022; and an increase of $126 million, (18%) against $702 million for Q3 2023.

EBITDA for Q4 2023 was $242 million, an increase of $73 million, (43%) against $169 million for Q4 2022; and an increase of $24 million, (11%) against $218 million for Q3 2023.

Net Profit for Q4 2023 was $165 million, an increase of $78 million, (89%) against $87 million for Q4 2022; and an increase of $17 million, (12%) against $148 million for Q3 2023.

Segmental Results

Integrated Logistics

USD Million	FY 23	FY 22	YoY %	Q4 23	Q3 23	QoQ %	Q4 22	YoY %
Revenue	1,739	923	88%	554	456	21%	354	56%
Direct Costs	(1,272)	(768)	66%	(418)	(331)	26%	(285)	47%
EBITDA (1)	532	164	225%	162	139	16%	76	113%
Margin	31%	18%	13%	29%	30%	(1%)	21%	8%
Net Profit	374	91	312%	116	95	23%	41	187%

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

Year-on-Year Performance

Integrated Logistics revenue grew 56% to $554 million in the quarter ended 31 December 2023, from $354 million in the same period last year. Revenue increased 88% to $1,739 million for the year 2023, from $923 million in 2022. This exceptional performance is attributable to three key drivers: Higher utilization and strong operational performance of Jack-Up Barges (“JUB’s”) and other offshore support fleet, following the successful integration of ZMI; Increased logistics volumes for offshore drilling processes under the Integrated Logistics Services Platform (“ILSP”) and additional non-aqueous fluid (NAF) as an ancillary service to ILSP, in addition to new activities such as ongoing Hail and Ghasha project and expansion of ILSP like services to non-ADNOC customers; Commencement of $975 million Engineering, Procurement and Construction (EPC) contract for construction of an offshore artificial island, awarded in the second quarter of 2023.

EBITDA was up 113% to $162 million in the quarter ended 31 December 2023, from $76 million in the same period last year. EBITDA increased 225% to $532 million, from $164 million in 2022. This strong performance is attributable to driving revenue growth described above, in combination with increased focus on asset utilization and cost-efficiencies.

Quarter-on-Quarter Performance

Revenue increased 21% to $554 million in the fourth quarter, from $456 million in the previous quarter. The increase was mainly driven by the deployment of eight new JUB’s with higher rates and utilization of existing vessels; strong volumes in the ILSP; and continued momentum in new business activities such as EPC commencement.

EBITDA of $162 million in the fourth quarter was 16% higher than the $139 million achieved in the third quarter.

SHIPPING

USD Million	FY 23	FY 22	YoY %	Q4 23	Q3 23	QoQ %	Q4 22	YoY %
Revenue	**839**	**862**	**(3%)**	**231**	**200**	**15%**	**259**	**(11%)**
Gas Carriers	174	169	3%	53	38	39%	70	(25%)
Tankers	407	335	22%	112	101	10%	113	(1%)
Dry-Bulk and Containers	258	358	(28%)	67	61	9%	76	(13%)
Direct Costs	**(593)**	**(630)**	**(6%)**	**(170)**	**(151)**	**13%**	**(177)**	**(4%)**
Gas Carriers	(112)	(101)	11%	(37)	(25)	45%	(48)	(24%)
Tankers	(279)	(265)	5%	(80)	(78)	2%	(67)	18%
Dry-Bulk and Containers	(201)	(264)	(24%)	(53)	(47)	13%	(61)	(13%)
EBITDA [(1)]	**321**	**275**	**16%**	**82**	**71**	**16%**	**92**	**(11%)**
Gas Carriers	101	87	16%	26	23	14%	29	(12%)
Tankers	159	93	70%	41	33	27%	57	(28%)
Dry-Bulk and Containers	60	95	(37%)	15	16	(5%)	5	173%
Margin	**38%**	**32%**	**6%**	**36%**	**35%**	**0%**	**36%**	**0%**
Gas Carriers	58%	51%	7%	49%	60%	(11%)	42%	7%
Tankers	39%	28%	11%	37%	32%	5%	51%	(14%)
Dry-Bulk and Containers	23%	27%	(3%)	22%	25%	(3%)	7%	15%
Net Profit	**240**	**204**	**17%**	**58**	**51**	**12%**	**71**	**(19%)**
Gas Carriers	73	63	17%	18	16	11%	19	(9%)
Tankers	118	57	105%	28	22	29%	41	(31%)
Dry-Bulk and Containers	49	84	(42%)	11	13	(14%)	11	3%

[(1)] *EBITDA is calculated as profit before income tax, finance costs, finance income, depreciation and amortization*

Gas Carriers

Year-on-Year Performance

Revenue from Gas Carriers was down 25% to $53 million in the 3-month period ended 31 December 2023, from $70 million in the same period last year. This was attributable to a decrease in charter rates and lower chartering-in / out activities. Revenue increased 3% to $174 million for the year 2023, from $169 million in 2022. The increase was mainly driven by spot hire of three LNG Carriers at higher spot market rates and the income generated from the AW Shipping JV.

EBITDA was down 12% to $26 million in the 3-month period ended 31 December 2023, from $29 million in the same period last year due to the same factors impacting revenue. EBITDA increased 16% to $101 million for the year 2023, from $87 million last year. The increase was mainly driven by spot hire of LNG Carriers at higher rates and income from the AW Shipping JV.

Quarter-on-Quarter Performance

Revenue increased 39% to $53 million in the fourth quarter, from $38 million in the third quarter due to increased chartering-in / out of LNG Carriers.

EBITDA of $26 million in the fourth quarter was 14% higher than the $23 million achieved in the previous quarter.

Tankers

Year-on-Year Performance

Revenue from Tankers decreased 1% to $112 million in the 3-month period ended 31 December 2023, compared to $113 million in the same period last year. Revenue increased 22% to $407 million for the year 2023, from $335 million last year. This growth primarily resulted from higher charter rates, driven by robust spot market conditions and the addition of four newbuild VLCCs to the fleet in 2023.

EBITDA was down 28% to $41 million in the 3-month period ended 31 December 2023, from $57 million in the same period last year due to lower spot market rates. EBITDA increased 70% to $159 million for the year 2023, from $93 million last year, driven by higher charter rates and the additional VLCCs.

Quarter-on-Quarter Performance

Revenue increased 10% to $112 million in the quarter, from $101 million in the previous quarter, attributed to earnings from the new VLCCs and the Red Sea disruption causing diversions to longer routes and price increase in the short term.

EBITDA of $41 million in the quarter was 27% higher than the $33 million achieved in the previous quarter, driven by the same factors.

Dry-Bulk and Containers

Year-on-Year Performance

Revenue from Dry-Bulk decreased 13% to $67 million in the 3-month period ended 31 December 2023, from $76 million last year. Revenue was down 28% to $258 million for the year 2023, from $358 million last year. The drop is a direct reflection of the downward trend in market spot rates.

EBITDA was up 173% to $15 million in the 3-month period ended 31 December 2023, from $5 million in the same period last year. EBITDA decreased 37% to $60 million for the year 2023, from $95 million last year, driven by the same factors mentioned above.

Quarter-on-Quarter Performance

Revenue increased 9% to $67 million in the quarter, from $61 million in the previous quarter due to increase in spot market rates.

EBITDA of $15 million in the quarter is 5% lower versus the previous quarter due to adjustment for contracted volume discount for 2023 in Containers.

Marine Services

USD Million	FY 23	FY 22	YoY %	Q4 23	Q3 23	QoQ %	Q4 22	YoY %
Revenue	177	167	6%	44	46	(5%)	45	(3%)
Direct Costs	(138)	(139)	0%	(33)	(34)	(3%)	(41)	(19%)
EBITDA [(1)]	40	27	47%	12	10	25%	2	584%
Margin	22%	16%	6%	28%	22%	7%	4%	24%
Net Profit	20	10	92%	6	6	(4%)	(4)	N/A

[(1)] *EBITDA is calculated as profit before income tax, finance costs, finance income, depreciation and amortization*

Year-on-Year Performance

Revenue from Marine Services eased $1 million to $44 million in the 3-month period ended 31 December 2023, from $45 million in the same period last year. Revenue increased 6% to $177 million in for the year 2023, from $167 million last year. This performance was driven by one-off equipment replacement services, spot jobs performed through Oil Spill Response Centres, and higher volumes in petroleum ports operations.

EBITDA was up 584% to $12 million in the 3-month period ended 31 December 2023, from $2 million in the same period last year. This was primarily attributed to the spot jobs mentioned above in combination with improved cost efficiencies. EBITDA increased 47% to $40 million for the year 2023, from $27 million last year, driven by the same factors.

Quarter-on-Quarter Performance

Revenue was $44 million in the fourth quarter compared with $46 million in the previous quarter.

EBITDA of $12 million in the quarter was 25% higher than the $10 million achieved in the previous quarter due to spot jobs performed through Oil Spill Response Centres and higher volumes in petroleum ports operations.

Free Cash Flow

USD Million	FY 23	FY 22	YoY %	Q4 23	Q3 23	QoQ %	Q4 22	YoY %
EBITDA [1]	**876**	**453**	**93%**	**242**	**218**	**11%**	**169**	**43%**
Working Capital Adj.	(55)	(188)	(71%)	(64)	123	N/A	(6)	(1051%)
Income Tax	2	1	69%	4	1	560%	1	163%
Operating Free Cash Flow	**823**	**267**	**208%**	**182**	**341**	**(47%)**	**165**	**10%**
Capital Expenditure [2]	(774)	(300)	158%	(270)	(282)	(4%)	(80)	236%
Free Cash Flow	**49**	**(33)**	**N/A**	**(88)**	**59**	**N/A**	**85**	**N/A**

(1) *EBITDA is calculated as profit before income tax, finance costs, finance income, depreciation and amortization.*
(2) *Refer to Note 11: Property, Plant and Equipment in Financial Statements for further details.*

Full-year 2023 Operating Free Cash Flow increased 208% ($556m) to $823m, on a significant improvement in profitability. Free cash flows for the same period were $49 million, up $82 million from a negative free cash flow of $33 million in the year 2022.

During 2023, ADNOC L&S allocated $774 million towards capital expenditure to support its smart growth strategy and other ongoing offshore projects. In 2023, ADNOC L&S took delivery of four newbuild VLCCs, eight JUBs (owned and operated) coupled with the commencement of $975 million EPC project. The company added $875m in property, plant and equipment in 2023 (refer Note 11 PPE (Additions) in Financial Statements for further details).

Key Developments in 2023

ADNOC L&S continues strategic fleet growth as it took delivery of two newbuild LNG dual-fuel Very Large Crude Carrier (VLCC) in the fourth quarter in addition to the two VLCCs received in the second quarter, increasing the total delivered year-to-date to four. These vessels are market-leading and environmentally efficient due to their dual-fuel engines, which can run on Liquified Natural Gas (LNG), significantly reducing exhaust emissions.

The company took delivery of eight self-propelled JUBs in 2023, six owned and two chartered in, increasing the JUB fleet size owned and / or operated by ADNOC L&S by 25% from 31 to 39. This expansion reinforces the Company's position as one of the largest owners and operators of JUBs in the world. 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 was awarded a $975-million artificial island construction contract by ADNOC Offshore in Q2 2023. This award is a significant milestone in the company's strategy to pursue new growth opportunities. ADNOC L&S' Integrated Logistics business unit is an end-to-end, fully integrated energy logistics services provider. The provision of Engineering, Procurement and Construction (EPC) services in the integrated logistics business is a new offering by ADNOC L&S in line with its announced strategy to achieve significant ongoing growth, including expansion into new verticals. The EPC market is expected to experience substantial growth in the region in the coming years. The company aims to offer a broader range of services to its customers while facilitating the growth of ADNOC's upstream and downstream operations.

Outlook

Group

- Group Revenue: In 2024, we expect a revenue growth rate in the high teens percentage. Thereafter, we expect revenue to grow at a mid-to-high single-digit percentage over the medium term.
- Group EBITDA: Over the medium term, we target average annual EBITDA percentage growth in the low teens.
- Capital Structure: We target 2.0-2.5x net debt / EBITDA over the medium term.

Segmental Medium-Term Targets

1. <u>Integrated Logistics</u>
    - Revenue: Targeting strong double-digit (low 30%s) year-on-year growth in 2024 benefiting from the impact of the $975m EPC contract awarded last year. In the medium term, targeting mid-single digit growth rate year-on-year.
    - EBITDA: Over the medium term, we target average annual EBITDA growth in the low teens. On EPC activities, we anticipate 30% plus growth in 2024 driven in part by G-Island contribution.

2. <u>Shipping</u>
    - Revenue:
        - For Gas Carriers, we anticipate 2024 performance broadly in line with the stronger-than-anticipated performance in 2023, growth rate of 30% for three consecutive years commencing 2025
        - For Tankers, we anticipate potential strength in the near term and stabilizing in H2 2024.
        - For Dry-Bulk and Containers, we anticipate performance in 2024 in line with 2023, with rates remaining at similar levels.
    - EBITDA:
        - Over the medium term, we target average annual EBITDA growth in the high teens driven by growth investments.

3. <u>Marine Services</u>
    - Revenue: The long-term stable nature of Marine Services contracted activity in Petroleum Ports Operations and Oil Spill Response Services provides strong revenue visibility. Consequently, we expect revenues to grow in the low to mid-single digits over the medium term.
    - EBITDA: We expect Marine Services EBITDA to grow in the low to mid-single digits over the medium term.

Dividend

ADNOC L&S remains committed to delivering sustainable, profitable growth and attractive shareholder returns. In line with its approved dividend policy, the Company's Board of Directors has recommended distributing a cash dividend of $130 million (AED477 million), equivalent to 6.45 fils per share, for the second half of 2023. This recommendation will be submitted for shareholders' approval at the Annual General Assembly Meeting. Subject to shareholders' approval, the total dividend for Q2 and H2 2023 is expected to be $195 million, equivalent to 9.68 fils per share. The $65 million dividend for Q2 2023 was paid in November 2023. Payment of the dividend for H2 2023 is expected in Q2 2024, subject to shareholders' approval.

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 to take into consideration value-accretive growth opportunities. The Company intends to pay dividends on a semi-annual basis. The interim dividend for the first-half results will be paid in the fourth quarter of that year. The final dividend for the second-half results will be 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 Thursday, February 15, 2024, at 2:00 pm UAE time / 10:00 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 May 16th 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.