# ADNOC DRILLING COMPANY P.J.S.C.

## Fourth Quarter 2023 Earnings

### Webcast & Conference Call Transcript

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## CORPORATE PARTICIPANTS

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

**Christopher McDonald -** *ADNOC Drilling - Chief Operating Officer*

**Youssef Salem -** *ADNOC Drilling - Chief Financial Officer*

## CONFERENCE CALL PARTICIPANTS

**Ricardo Rezende -** *Morgan Stanley*

**Faisal Al Azmeh** - *Goldman Sachs*

**Abdulelah Hakami** - *Hassana Investment Company*

**Sashank Lanka -** *Bank of America*

**Alex Comer -** *J.P. Morgan*

**Aakarsh Tomar -** *SICO*

**Amir Badran -** *NBK Wealth*

**Nour Sherif -** *Arqaam Capital*

## PRESENTATION

**Massimiliano Cominelli -** *ADNOC Drilling - Vice President, Investor Relations*

Ladies and gentlemen,

Welcome to the ADNOC Drilling fourth quarter and full year 2023 earnings webcast and conference call.

My name is Massimiliano Cominelli, Vice President of Investor Relations.

Before handing the floor over to the main speakers, I would like to draw your attention to the disclaimer that you find in the second slide, which I encourage you to read carefully.

The text contains important information. We advise caution on the interpretation and limits of historical data and forward-looking statements.

I would like to remind you that this presentation and the recording of this call will be available on our website shortly after the end of the call.

Today's presenters are our Chief Executive Officer, Abdulrahman Al Seiari, our Chief Operating Officer, Christopher McDonald, and our CFO, Youssef Salem.

As always, after the presentation we will have a Q&A session where we will be happy to answer your questions.

I will now hand over the call to our CEO, Mr. Abdulrahman, who will lead you through the key highlights of the year.

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

As-salamu alaykum, thank you Max and welcome all, good day.

It is my pleasure to be here with you today to discuss our fourth quarter and full year 2023 results.

As a strategic partner at the heart of ADNOC Upstream, we continue to execute our strategy, delivering long-term value to our clients, shareholders, and the UAE.

The ambitious journey of becoming one of the world's largest owned and operated drilling fleets is well on the way, as we continuously expand our fleet.

This development is driven by our firm commitment to allow our client to deliver the 5 million barrels per day of oil production capacity by 2027. Now, we are working firmly to deliver this, as it remains our top priority.

Moreover, building on our successful track record, we continue to seek opportunities inside and outside of Abu Dhabi.

We keep growing profitably, as financial results and targets are showing, while expanding operations, as highlighted by the first rig being outside of UAE and the growing focus on developing unconventional resources.

Operational excellence supports this growth and drives performance through efficiency, technological advancement, resulting in continuous customer satisfaction.

We operate sustainably and responsibly as an integral part of ADNOC's 2045 net zero journey.

ADNOC Drilling is a national champion, and we are proud of our role in developing the Nation's top talent and capabilities by advancing the local industry.

Excellence sits at the core of what we do, as our people do. We remain committed to deliver beyond 100% in all we do.

Next Slide.

We have constantly delivered strong results and significant shareholder returns, with the outmost attention to Safety and the environment.

For the full year 2023 our total recordable incident rate was 0.44 against a target of 0.7. The strong commitment to the highest standards of HSE remains our number one priority.

Additionally, we are also on track on our Greenhouse gases emissions target.

Our strategy of expanding our fleet and integrating oilfield services continues to pay off and leads to improving margins through strong cost performance.

Full year revenue grew 14% year-on-year to over $3 billion, with an industry-leading EBITDA margin of 49%.

We also experienced excellent growth in our net profit which increased 29% year-on-year to over $1 billion.

During the year we have added additional 14 rigs to our fleet, out of which 10 were land rigs and 4 jack-ups.

With these additions, the owned fleet at the end of December stood at 129 rigs.

We continue to expect our owned fleet will reach 142 units during the year.

Following a record year, I would like to reaffirm our path to further growth with the full year 2024 and medium-term guidance.

I will now hand over to Chris to provide more details on the operations side.

**Christopher McDonald -** *ADNOC Drilling - Chief Operating Officer*

Thank you, Mr. Abdulrahman. I will now walk you through our operational developments.

As our CEO mentioned earlier, we continue to execute our strategy and deliver value to our clients, shareholders, and the UAE.

ADNOC's plans to increase production capacity to 5 million barrels per day continues to drive our rig fleet expansion. During the fourth quarter, we added five hybrid land rigs to the fleet count. Two of these rigs started operations during the last week of the year, while three are expected to gradually start operations in the first quarter of 2024.

As part of our journey to become an integrated drilling services provider, we now have 48 IDS capable rigs.

Turning to unconventional and the growth opportunity presented by the development of these resources, we had five rigs drilling unconventional wells in the fourth quarter, with scope for more as we aim to become a regional leader in this field.

Also, our recent joint venture with Alpha Dhabi will support and accelerate ADNOC Drilling's OFS offerings by building our IP portfolio, evolving from a buyer of technology to an owner and enabler of technology, futureproofing our business for the long-term.

Bottom line, we are executing on our strategy and paving the way for further successful and profitable growth.

Next slide please.

We are one of the world's largest integrated drilling services companies by rig fleet size. We added to the fleet a total of 14 rigs over the year, 4 jack-ups and 10 land rigs including 4 lease-to-own land rigs, an impressive annual growth.

The four jack-ups that joined the fleet in the third quarter commenced operations in December, and they will bring full benefit in terms of revenue and profitability from 2024.

Drilling activity remained robust in the fourth quarter, as we drilled 161 wells in the quarter for a total of 613 wells in 2023.

In terms of drilling average duration, the Onshore segment maintained its outstanding 43 days, while performing batch drilling. The Offshore segment had good performance as well, further improving sequentially with lower drilling duration.

The OFS business accelerated with 15.5% improvement in Integrated Drilling Services drilling efficiency versus last year's benchmark. Moreover, we added new services to our OFS offering, and performed IDS on 48 rigs, 8 more compared to the previous year.

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Moving on to the joint venture. As you know, we made the first announcement in November, to invest up to $1.5 billion in technology-enabled oilfield and energy service companies with attractive financial profiles.

Then, on January 9, 2024, we announced the successful incorporation of the joint venture, "Enersol", along with the successful completion of its first investment to acquire a 25% stake in Gordon Technologies, a leading provider of MWD 'Measurement While Drilling' based in the United States.

This acquisition, as stated in our previous call, has strong potential for shareholders with excellent deal dynamics, and more importantly serves as the first steppingstone in our journey to build a portfolio of tech-enabled businesses through value-added transactions.

To this end, we will continue to evaluate, execute, and integrate transactions in line with the investment mandate from the 10+ or circa $1.3 billion pipeline of value-accretive investments, supporting ADNOC Drilling's futureproofing strategy and decarbonization plans.

Speaking of the future, I would like to update you on our decarbonization initiatives, next slide please.

Starting with camps emission abatement. There has been good progress in Q4, with our Madinat Zayed camp obtaining final approval for power energization, while our Tarif camp is scheduled for connection by the first quarter of 2024.

Moreover, we installed our first solar panels to power a mobile camp.

As you know, we ordered new hybrid land rigs, while also implementing a Battery Energy Storage System.

At year end, the total number of acquired hybrid rigs stood at 16. Of these newbuild hybrid rigs, two have been deployed last December while the other 14 are set to follow throughout 2024.

With regards to sustainability initiatives, we are optimizing the number of personnel at rig sites and developing a digitally focused workforce utilizing new technologies to unlock new efficiencies across our operations. On electrification, further initiatives are under evaluation, some of which are for example applicable to our island rigs.

Finally, with respect to diesel consumption, we continue to work on improving our combustion efficiency with trials on a fuel additive underway.

I'll now hand over to Youssef to walk you through our financials.

**Youssef Salem -** *ADNOC Drilling - Chief Financial Officer*

Thank you, Chris.

We had a record fourth quarter to bring 2023 to an end, we delivered our highest ever quarterly revenue of $841 million, up 15% year-on-year. This then translated into EBITDA growth of 20% year-on-year to $424 million and net profit growth of 41% to $329 million.

For the full year 2023, total revenue was well over $3 billion, a 14% year-on-year increase. EBITDA increased 20% year-on-year to about $1.48 billion. Our cost management initiatives continued to deliver results, evidenced by industry leading EBITDA margin of 49% for the year, a 3-percentage points margin expansion year-on-year. Net profit also grew 29% year-on-year, surpassing $1 billion.

Our net profit for 2023 was positively impacted by around $55 million reduction in depreciation in the fourth quarter. This came on the back of a change in remaining useful life and residual value estimates of assets, along with a more granular approach in asset recognition. For full year 2024, we expect depreciation expense to be around $440 million.

Cash from operations stood at around $1.36 billion, slightly lower than last year which benefited from one-off collections. Working capital performance was good as it stood at 8% of revenue in 2023, well below our indication of being around the top-end of our 10-to-11% target.

This was due to a strong recovery in the fourth quarter, driven by improved collections and phasing related to capital expenditure. Net of this phasing, the normalized ratio would have been 12%. As our growth plans materialize, we expect to maintain a net working capital on revenue ratio of around 12% in the medium term.

Moving on to Capex, as anticipated we saw a ramp-up versus 2022 as we continue to deliver our rig acquisition program. Our CapEx for the full year was $1.3 billion, up from $942 million in the previous year and in line with the expected ramp-up in rig acquisitions and our 2023 guidance. The capex number you see on the slide for 2023, $1,062 million, refers to the actual cash out, excluding the accruals. Including the accruals was just above $1.3 billion, in line with our guidance.

As we continue on our growth program, we expect CapEx to remain elevated through the first half of 2024, given the payment profile of our rig acquisitions. For 2024, we are targeting a CapEx between $750 and $950 million.

The balance sheet remained healthy with net debt of around $1.8 billion at the end of December, leading to a leverage ratio at 1.2 times EBITDA.

Next slide please.

Let’s take a look at revenue for the different segments, with all of them delivering year-on-year growth.

In Onshore, fourth quarter revenue increased 10% year-on-year to $416 million from $379 million, mainly due to increased activity. Sequentially, 4Q revenue was also up 10% driven by the full contribution of the four lease-to-own rigs and supported by long-range rig moves for certain rigs in the quarter. For the full year 2023, revenue was $1.5 billion, up 3% year-on-year, due to the contribution of new rigs starting operations which more than offset lower reimbursement of cost escalation claims.

Offshore Jack-up had another remarkable quarter and year. Fourth quarter revenue increased 25% year-on-year to $225 million from $180 million mainly due to higher activity and lower major maintenance compared to the same period last year. Quarter-on-quarter, revenue increased 13% driven by jack-ups starting operations. For the full-year 2023, the segment delivered strong revenue growth, up 31% to $800 million from $611 in the prior year, driven by new rigs starting operations.

Moving to Offshore Island, fourth quarter revenue increased 2% year-on-year reaching $52 million, driven by increased activity. Sequentially, revenue decreased 4% due to one rig undergoing major maintenance in the quarter. Full year revenue increased 2% versus 2022 to $209 million, driven by mobilization revenue for the re-activated island rig.

In Oilfield Services, fourth quarter revenue increased 20% to $148 million from $123 million in the same period last year, driven by increased activity from pressure pumping, drilling fluids, and directional drilling. Quarter-on-quarter revenue increased 2%, benefiting from the addition of seven IDS rigs close to year-end.

For the full year, revenue was $553 million, up 37% year-on-year on the back of increased activity volume across the entire portfolio.

Now, let’s see in the next slide what revenue performance meant for EBITDA.

Over to next slide please.

Starting again with Onshore, EBITDA for the fourth quarter increased by 8% year-on-year to $203 million with an EBITDA margin of 49% supported by the realized cost-efficiency measures. Sequentially, EBITDA increased 7%, also benefiting from the cost-efficiency measures. For the full year, EBITDA was up 3% year-on-year at $724 million, growing in line with revenue.

Offshore jack-up EBITDA in the fourth quarter grew by 37% year-on-year to $148 million, with a healthy margin of around 66%.

Sequentially, EBITDA was up 13%. For the year, Offshore jack-up EBITDA increased 55% year-on-year to $510 million from $329 million, driven by significant revenue growth and lower major maintenance activity.

In Offshore Island, fourth-quarter EBITDA increased by 18% to $33 million due to lower operating expenses which was driven by the successful implementation of cost efficiency measures. Quarter-on-quarter, EBITDA decreased 14% due to one rig undergoing major maintenance. For the year, EBITDA increased 11% year-on-year to $134 million.

Lastly, OFS EBITDA for the fourth quarter increased 38% to $40 million driven by the growth in top-line. Sequentially, EBITDA grew 38% and the quarter was characterized by a larger contribution of higher margin product lines, which allowed for a recovery of margin versus Q3. For the full year, EBITDA increased 49% to $115 million, reflecting increased activity across the segment and leading to a year-on-year EBITDA margin expansion to around 21%.

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Before going into the details of the guidance, I'd like to highlight that The Board of Directors recommends a final dividend payment of $358 million for 2023 (8.22 fils per share), in line with the interim 2023 dividend.

The final 2023 dividend is expected to be distributed in the first half of April 2024.

The total dividend for 2023 equals to $717 million (16.45 fils per share), representing a 5% year-on-year increase.

Moving on to guidance…

Following a record quarter and year and on the back of increased visibility on earnings and profitability, we have issued full year 2024 and mid-term guidance.

To enable ADNOC's strategic imperative of expanding production capacity from four to five million barrels per day by 2027, we continue to deliver on our accelerated growth plans and to expect our owned rig count to increase to 142, including 4 lease-to-own land rigs, by the end of 2024.

We expect total revenue between $3.6-to-3.8 billion, with the contribution of existing rigs and the addition of new rigs. This target includes the first phase of our unconventional development.

As we grow our business, we expect an EBITDA between $1.7 and $1.9 billion, with a margin range of 48-to-50%, as OFS growth with a relatively lower margins will be offset by the delivery of more efficiencies.

Depreciation and Amortization for 2024 is expected to be above the level of 2022 and 2023, or around $440 million, as the natural increase related to the rig fleet expansion will be partly offset by the change in the remaining useful life and residual value estimates of the assets, along with a more granular approach in asset recognition.

As a result of the above, Net Profit is expected in between $1.05-$1.25 billion, with a margin range between 30 and 33%.

CapEx for 2024 is expected to be between $750 and $950 million, while maintaining a leverage ratio "Net debt-to-EBITDA" below 2x in 2024, excluding material M&A.

The growth projected in our guidance will be visible from the first quarter.

We expect the first quarter to grow around mid-single digit versus 4Q in both revenue and EBITDA terms, as increased activity is partly offset by fewer calendar days and rig moves. This sequential growth will be skewed towards offshore, given jack-ups starting activity towards the end of 4Q.

In terms of EBITDA margin, we expect to start the year with levels around the full year 2023 and gradually improve it over time towards the 50% mid-term target, as we continue to deliver on efficiencies.

As a proxy for net income margin, we expect it to be around the Q3 2023 levels, as 4Q had a positive one-off in D&A.

As a general trend, for Q1 to Q3 we project broadly similar sequential growth between quarters, as we deliver on the rig fleet program. For this reason, we expect a second half with revenue and EBITDA higher than the first half.

Finally, our mid-term guidance has been refreshed as well. We expect:

- Revenue CAGR in the 12%-to-16% range from 2023 base.
- EBITDA Margin around 50% with drilling margin exceeding 50% and OFS Margin in a range of 22%-to-26% in the

medium term.

- Conservative long-term leverage target of up to 2x net debt-to-EBITDA, excluding material M&A.
- Net working capital as percentage of revenue target of around 12%
- And finally, maintenance CapEx post-2024 of $200-to-$250 million per annum.

That concludes my remarks, thank you everyone, and now I will hand over to Mr. Abdulrahman for his closing remarks.

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

Thank you, Youssef, and the team.

To recap, we have delivered another strong year. Fleet expansion, growth across the key lines of our business, supported by strong cost performance across the organization and resulting in leading margins in the industry.

We are also delivering on the growth strategy with the creation of the JV Enersol, to futureproof our business.

Our objective to enabling our client's capacity growth through safe, efficient, and sustainable operations has supported the delivery of our ESG agenda.

I would like to thank the ADNOC Drilling team again for this strong performance.

Thank you for joining us today, and I will now hand over to the moderator to open the Q&A session… thank you!

## QUESTIONS AND ANSWERS

**Operator -**

Thank you. If you would like to ask a question, please press star-one on your telephone keypad now or press star-two if you would like to withdraw your question. Our first question comes from Ricardo Rezende from Morgan Stanley. Please go ahead.

**Ricardo Rezende -** *Morgan Stanley*

Hello, good afternoon and thanks for taking my questions. The first question is on dividends. If we look at the current guidance for dividends and also your 2024 guidance and medium-term guidance, it looks like you're going to have quite a lot of room for increased dividend payments. My question would be whether there's potential for a special dividend at some point, or if you would rather wait until 2026 and maybe then having a structural change on your dividend payment strategy.

Then the second question, more in the shorter term, if we look at the rigs due to be deployed this year, should we assume then most of the rigs will be deployed in the first half? Thank you.

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

Thank you, Ricardo, appreciate the questions. I'm sure the team will be providing some more details of both dividends and the rig deployment. On the dividend part, I would say we have so many programs in the pipeline that we are continuing with, so definitely it's an area that continuously will be questioned in different investor calls or different meetings that we are having. Definitely we have a program that we want to continue with, especially in the growth side, whether it is internal or external and probably you have seen some progress that we have made in acquisitions also and there is so much in the pipeline. Youssef will add more to this.

Also the deployment part, I think the majority of the rigs expected in the first half, except one or two may slip but definitely it will more in the first half of the year. Chris will add also more details into that also. Youssef.

**Youssef Salem -** *ADNOC Drilling - Chief Financial Officer*

Thank you, Abdulrahman. Thank you, Ricardo. As you highlighted, we do have ample headroom, whether you look at this from a 2x net debt to EBITDA kind of long-term thing. Below that as you can see on page 23, that lease delivers with $1.8 billion of headroom. Whether you look at this from the existing committed facilities undrawn, we have $1.25 billion committed undrawn facilities that we can draw on, or whether you look at that from a free cash flow perspective looking at our 2024 guidance even with $750 million to $950 million CapEx that we have, we still have ample free cash flow, so that definitely gives us flexibility. I think our existing dividend policy already bakes in this flexibility with a growth in dividend of at least 5%, that flexibility is baked in.

To your point, we are currently focusing this year on finalizing reaching the 142 rigs and having that expansion phase, but will obviously continue to optimize capital allocation, not only waiting until 2026 but this is something that we do on an ongoing basis, continuing to refresh and optimize our capital allocation.

I think Chris will expand on the rig deployment, but to give you the financial side of it, as we've guided we'd expect relatively uniform growth between Q1, Q2, Q3 of this year around mid-single digit. That effectively reflects that you can have relative uniform nature of the rigs coming in in the first half and then as Mr. Abdulrahman mentioned, potentially a few into Q3. Chris, if you'd like to add.

**Christopher McDonald -** *ADNOC Drilling - Chief Operating Officer*

Yes, hi Ricardo. Most of the land rigs are either in the UAE or on their way to the UAE and therefore in various stages of commissioning. So, I echo the CEO's comments that most of them will go to work in the first half. We've got two jack-ups that will probably be in the tail end of the year, of third or fourth quarter, depending on the scope. We're in discussions with our client to finalize that scope and once that's finalized then we'll have a better view on the timing of those two jack-ups entering the fleet.

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

I hope that answers, Ricardo, your questions.

**Ricardo Rezende -** *Morgan Stanley*

That was very clear, thank you so much.

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

Appreciate it.

**Operator -**

The next question comes from Faisal Al Azmeh from Goldman Sachs. Please go ahead.

**Faisal Al Azmeh -** *Goldman Sachs*

Hi and congratulations on the numbers. Maybe a few questions from my end. Maybe just starting off with your mid-term guidance, I guess when looking at the numbers you've phrased them on a medium-term basis. Let me try and understand what is driving this, just if you can provide some color there.

My second question relates to the number of wells. Maybe when looking at the number of wells this year they're mostly flat versus last year, despite the higher number of rigs. Maybe if you can just shed some color on how we should think about the number of wells drilled and how the dynamics evolve over the coming years, thank you.

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

Thank you, Faisal. I think I will take the second then first. Now with regard to the number of wells, the type of wells which are being done by the operators, some of them are development, some of them are workovers and there are different categories so that may vary. But the plan for 2024 will be beyond 700 wells also.

Again, the total operating rig years, whether it was 2023 or 2024, because of the deliveries of the rigs late 2023, early 2024 or half 2023, half 2024. I think 2025 will be more clear numbers, or more accurate numbers, because they will not be fractions of wells that are going to be picked up. Some of the, the thing is we count the number of wells on completion, not on percentage of the wells, so that is there. On the guidance, Youssef can provide more updates here.

**Youssef Salem -** *ADNOC Drilling - Chief Financial Officer*

Thank you, Mr. Abdulrahman. Thank you, Faisal. I think in terms of your question of what does the midterm guidance reflect, (1) it reflects the fleet expansion, so going to 142 rigs by the end of this year and then any further expansion required to achieve the five million barrels per day for ADNOC by 2027.

Second, it reflects continued expansion of our oil field services business, so now that we've reached 48 rigs we've been adding on average 8 to 10 rigs per year to our OFS fleet, so the continued expansion of that fleet. Third, it reflects the first phase of our unconventional drilling and associated services, which is just over 100 wells over this year and the next couple of years.

That is what is in the guidance. Obviously, what is not in the guidance is any investments from Enersol, our oil fleet services joint venture investment platform, as well as any other potential M&A and then any other incremental plans for ADNOC, whether on the conventional or unconventional side, above the five million barrels per day and any potential regional expansion.

**Faisal Al Azmeh -** *Goldman Sachs*

Maybe just a quick follow-up from my side. When you say maintenance CapEx post-2024 of $200 million to $250 million, you don't need to have some growth CapEx to achieve the unconventional side that you've mentioned as part of the medium-term guidance? Shouldn't we make an assumption relating to some growth CapEx in there?

**Youssef Salem -** *ADNOC Drilling - Chief Financial Officer*

There will be nothing substantial there because we already have five rigs which are working on the unconventional as we speak. There may be a handful more rigs that will be added for phase 1 between utilizing the existing fleet and potential minor addition, but there is nothing substantial there. The other potential addition above the maintenance CapEx is as the OFS business continues to add rigs beyond the 48 rigs, there may also be some - again nothing substantial there, but some of the CapEx that is associated with OFS equipment.

We definitely do expect that the CapEx, the actual CapEx level, will end up being above that kind of level that you see post-2024, any potential also incremental rigs required for the five million barrels per day for ADNOC. But that will continue to become clearer as we go through the year. The number will end up being higher than that number as a total CapEx, but it will not be substantially higher as things stand today.

**Faisal Al Azmeh -** *Goldman Sachs*

Thank you very much.

**Operator -**

Our next question comes from Abdulelah Hakami from Hassana Investment Company. Please go ahead.

**Abdulelah Hakami - Hassana Investment Company**

As-salamu alaykum. First of all, congratulations on the very strong set of results. I have one question from my side. Are you still interested in expanding into the GCC market, particularly given where the downside risk to dayrates following the recent Aramco news?

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

Thank you, Abdulelah. I think a question which is again very interesting. Definitely we are interested in going out within the region, let's say. If you recall, we went out to Jordan and we are in Jordan now, operating a rig. Hopefully that will be also the tool which will help us to expedite our regional expansion, at least having the international experience also, which is part of the prequalification requirement in the GCC.

This will help us and definitely we are at different stages in the prequalification. Some of the GCC we are very close to the end, some are almost ready to go and I'm expecting during 2024 we will be participating in some of the tenders that will be coming out. Now I will not say the whole GCC, but there are certain places we are ready to tender, certain places we are at the final stage and certain countries we are I would say in the midway, kind of thing. I hope that answers, if you want to add anything, please.

**Youssef Salem -** *ADNOC Drilling - Chief Financial Officer*

I think, Abdulelah, also on your question on the day rate, I think if you look at our 2024 guidance in terms of the jack-up revenue and you look at the number of jack-ups we have and you look at the implied dayrate from that, you will see that we are currently below what the market rates are in the GCC. That demonstrates that we can be quite competitive, even in a dayrate environment that is lower than what exists today in the GCC.

On these dayrates we're able to achieve, still achieve quite substantial margin. We are also able to be quite competitive from an overall package perspective because of our integrated drilling services capability, hence even in a potentially lower dayrate environment in GCC we think between our existing dayrates in the UAE and between our capability offering we can still be value additive and competitive in the rest of the GCC.

**Abdulelah Hakami - Hassana Investment Company**

Okay, thank you very much.

**Operator -**

Thank you. Our next question is from Sashank Lanka from Bank of America. Please go ahead.

**Sashank Lanka -** *Bank of America*

Thank you very much for the presentation and the opportunity to ask questions. Firstly, congratulations on a strong set of results. Just going back to one of the questions that my colleagues asked in terms of the 142 rigs that you've guided for, have you already acquired these rigs? They additional rigs, or the incremental 13 rigs that you are guiding for? That's the first question.

Just in terms of the price that you're seeing in the market now, we obviously did see a lot of drilling activity happen in the US and as well we've seen a lot happen in the GCC, which has led to pretty high dayrates for offshore. So just wanted your view there and the availability of offshore rigs going forward. Thank you.

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

Thank you, Sashank. On the 142 rigs, yes, we have committed all 142 rigs, or we have committed the rigs that will take us towards the 142, different phase of delivery. We've been updating as we go. Whenever we are getting rigs delivered to Abu Dhabi commissioned, integrated and we start counting them. Though today as we talk, we do own 142 rigs, but the numbers are getting adjusted as we are integrating them into the business. Is there are any more to come, there is potential but it depends on different projects that are being discussed today. Chris, if you would like to add.

**Christopher McDonald -** *ADNOC Drilling - Chief Operating Officer*

Yes, all 142 are spoken for. We've contracted them, sales purchase agreements or for new builds with the suppliers. With respect to offshore and jack-ups, the utilization of the worldwide fleet is at historic highs. There are very few jack-ups available in the market and the second-hand value of those jack-ups has increased. I think that's benefited us given that we went out and purchased 17 of them at the bottom of the market.

We don't see a lot of new-building activity, so we think even though it's balanced today the supply is still short. There's not a lot of marketed rigs at the moment and even though in the Middle East in the next few years it's probably plateauing, there are fixtures now in Asia and in other places. Those are all significantly higher than what's going forward in the GCC.

**Youssef Salem –** *ADNOC Drilling – Chief Financial Officer*

I think another benefit we have from that is given our contractual mechanism, as our jack-ups exit the initial 10 to 15 years base term, we do have an indexation to market and hence as market rates are tighter (1) we can be a more competitive driller and (2) as effectively these rigs exit the base term, there is an upward indexation on them which is a post to the rates and the financials.

**Sashank Lanka -** *Bank of America*

Thank you very much.

**Operator -**

Our next question comes from Alex Comer from JP Morgan. Please go ahead.

**Alex Comer -** *J.P. Morgan*

I just wondered if you might give an update on your tax status and any changes you might see going forward.

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

Thank you, Alex. I think we started communicating on this subject of tax. We are today working with our clients and Youssef can update on this.

**Youssef Salem -** *ADNOC Drilling - Chief Financial Officer*

Thank you. As Abdulrahman mentioned, we have initiated the process for the recovery. As we've shared previously, our contracts do bake in escalations for tax the same way they do – and we've been utilizing these escalations historically for diesel and certain manpower positions. Accordingly, since the start of the year, since 1 January when that 9% tax has officially kicked in, we have basically initiated the contracting process for the billing and recovery and required approvals from the client side for that. This process is currently underway. At the end of Q1, which is going to be first quarter where effectively this tax is reflected in our financials, we'll be providing a further update on where we are in that recovery process.

**Alex Comer -** *J.P. Morgan*

I'm failing to sort of understand this. If you can recover the tax effectively from the Government through the contracts, what was the point of them taxing you?

**Youssef Salem -** *ADNOC Drilling - Chief Financial Officer*

The recovery is not from the Government; the recovery is from the clients. The clients have different shareholding structures so some of our clients, for example, ADNOC Onshore and ADNOC Offshore, are majority owned by ADNOC and then they have independent international companies as minority shareholders.

Some of the other smaller clients we operate for in the UAE have different shareholding structured international companies and hence the tax is not reimbursed by the Government; it's reimbursed by the client, which has varying shareholding structures.

**Alex Comer -** *J.P. Morgan*

Okay, but as you stand today you're effectively saying that the net impact of this tax is minimal, is that correct?

**Youssef Salem -** *ADNOC Drilling - Chief Financial Officer*

Correct.

**Alex Comer -** *J.P. Morgan*

Okay, thanks.

**Operator -**

Our next question is from Aakarsh Tomar from SICO. Please go ahead.

**Aakarsh Tomar -** *SICO*

Hi, thank you for the call and congratulations on your results. My first question is can you elaborate on your lease-to-own rigs, what is the contractual framework there?

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

Thank you, Aakarsh. We have the lease-to-own, the plan is we lease for two years and we own the rigs. Basically this was the fastest way to expedite delivery of the rigs because of the programs of our clients. We can see some of them we are renting without that option because based on the long-term plans we saw four are good to be on the lease-to-own program. We are almost completing the first one year and hopefully will be in the process of owning them after that. Chris, do you want to add something?

**Christopher McDonald -** *ADNOC Drilling - Chief Operating Officer*

No, that's perfect.

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

I hope that answers, Aakarsh.

**Aakarsh Tomar -** *SICO*

Yes, just to follow up on that, so currently you have 129 rigs and you said that 14 onshore are already contracted which will remain and two offshore. Will you be retiring three rigs based on your target of 142, or will there be more rigs? If you can provide more clarity on that.

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

Now, on the 142 rigs this is what we have counted. We have some of the old rigs we are anticipating that we will be retiring. Now, as we go along plans may change and those three rigs which you are referring to, probably they will continue for a slightly longer period. Again there is so much to be done to bring the capabilities required by different clients.

Now, some of that maybe will continue with some of the old rigs, but on the lighter work, some of the workover kinds of activities, or even we are looking at opportunities utilizing those assets for what we call in our industry something that we prepare the wells for pre-spud kind of services, whether we do certain sections of the well or certain services.

So the bigger rigs, when it comes to utilize it to the best and it's more efficient, it's a win-win from both ends, the client wins and everybody's happy. So, we are still counting 142 but there is potential and that may stretch to 145 and may go beyond also, but not - as mentioned by Youssef - it's not something substantial. I hope that answers Aakarsh.

**Aakarsh Tomar -** *SICO*

Thank you, yes, that's very helpful. Congratulations on the results and all the best for the future. Thank you.

**Operator -**

The next question comes from Amir Badran from NBK Wealth. Please go ahead.

**Amir Badran** - *NBK Wealth*

Hi, thank you. Good afternoon, gentlemen and thank you so much for taking my question and congratulations on the strong set of numbers. Just one question from my end regarding your net profit guidance. I was wondering if it already includes the recovery of tax from your customers, or that's pre-recovery. Thank you so much.

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

Thanks, Amir. Go ahead, Youssef.

**Youssef Salem -** *ADNOC Drilling - Chief Financial Officer*

Thank you, yes, that is inclusive of recovery, so there is not another further upside on top of this for recovery. That is inclusive of recovery.

**Amir Badran** - *NBK Wealth*

Very clear, thank you so much.

**Operator -**

The next question is from Nour Sherif from Arqaam Capital. Please go ahead.

**Nour Sherif** - *Arqaam Capital*

Yes, thank you for the call and for the opportunity to ask questions. Just a couple of questions from me, if I may. First, on the unconventional drilling, can you share some of the results of the wells being drilled there? There could be an upside from there in terms of number of rigs if you kick off phase 2 or 3.

My second question on the Jordanian expansion, can you share with us some details about the commercial terms or plans for further expansion there? Thank you.

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

Thank you, Nour. I think on the unconventional we are today, I would say, at the stage where we are exploring, appraising and de-risking. It's really at a very early stage that we can't have more details into this and actually more information is with the operators on what they are finding out. But the way we have the plans with our clients, today we have up to five rigs, potential to go probably to eight to 10 rigs in the process of doing phase 1 of the program of the 140-plus wells that we are planning. But again there is a bigger plan which goes all the way to probably 7,000 wells. So, in terms of long-term plans, they are very promising. Today where we are, at the stage where we are exploring and appraising.

The other part, on the Jordan, I think as we are very active there now we are also participating in a tender which is being issued by the Jordanian Government. Beyond that I would say it's still too early to give any information because we are on the first well, almost at the end of the first well, it's not we have completed so probably next quarter we will have more update into that area. I hope that answers, Nour.

**Nour Sherif** - *Arqaam Capital*

That's clear, thank you.

**Operator -**

Our next question is from Faisal Al Azmeh from Goldman Sachs. Please go ahead.

**Faisal Al Azmeh -** *Goldman Sachs*

A quick follow-up from my end. Just in terms of your medium-term guidance, does that include maybe the adjustment on the dayrate for the taxes, or that excludes it? Thank you.

**Youssef Salem -** *ADNOC Drilling - Chief Financial Officer*

Yes, that is included as well. The dayrate in terms of impact of tax is included in both top line and bottom line.

**Faisal Al Azmeh -** *Goldman Sachs*

Thank you very much.

**Operator -**

For any further questions please press star-one on your telephone keypad now. It appears we don't have any further questions, so I will now hand the floor back to wrap up the call.

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

Thank you very much. I appreciate this session and I think we have very interesting questions this time. Again this shapes up our plans for the next phase. Thank you very much and we wish you all the best, guys, thank you.