ADNOC DISTRIBUTION Fourth quarter and full year 2018 results

14 February 2019

ADNOC Distribution
Fourth quarter and full year 2018 Results

Highlights – Strong 2018 results despite lower volumes; Entry into Dubai and KSA

- **Retail volumes showing recovery in Q4 2018 compared to Q3 2018**

- 2018 EBITDA increased by 21.6% to AED 2,774 million and net profit by 18.0% to AED 2,128 million.

- Q4 2018 total fuel volume sold increased by 0.6% compared to Q3 2018 supported by 5.9% growth in retail volumes (approximately 70% of total volumes sold). Q3 2018 was impacted by higher oil prices and longer public holidays (Eid).

- Q4 2018 EBITDA decreased by 7.1% year-on-year to AED 617 million driven by a 7.7% decline in total fuel volumes, declining oil prices and the absence of inventory gains compared Q4 2017. The decline in EBITDA was partially offset by the implementation of growth and cost efficiency initiatives. Excluding inventory gains for Q4 2017 and inventory losses for Q4 2018, Q4 2018 Underlying EBITDA increased by 12.0% year-on-year.

- Compared to Q3 2018, EBITDA in Q4 2018 decreased by 13.5% despite a slight recovery in fuel volumes (+0.6% quarter-on-quarter), mainly driven by the absence of inventory gains during the quarter. Despite falling oil prices in Q4 2018, we maintained our minimum guaranteed margin for our retail fuel business pursuant to the margin guarantee provisions of our supply contract. Total inventory gains for full year 2018 were AED 238 million, compared to AED 293 million for the first nine months of 2018 after inventory losses in the Corporate business due to declining oil prices.

- 2018 witnessed lower retail fuel volumes and non-fuel transactions compared 2017. However, in Q4 2018, and in line with Q3 2018 trend, our convenience stores recorded higher transactions, conversion rates (to 26% from 23%) and gross profit growth compared both to Q3 2018 and Q4 2017. This was led by management initiatives to improve the customer experience, driving higher footfall in our convenience stores. Q4 2018 non-fuel gross profit (non-fuel retail and allied services) increased by 9.0% compared to Q4 2017.

- **Strong earnings and cash flow**

- 2018 earnings per share increased by 18.0% to AED 0.17 compared to 2017. Q4 2018 earnings per share decreased by 9.4% to AED 0.036 compared to Q4 2017.

- In 2018, net cash generated from operating activities increased by 45.3% to AED 4,914 million compared to 2017 driven by strong cash flow from operations and proactive working capital management. Strong free cash flow generation resulted in a net debt to EBITDA ratio of 0x at year-end 2018. Free cash flow (EBITDA minus capital expenditures) increased by 31.8% in 2018 to AED 2,002 million compared to 2017 adjusted free cash flow.

- **Strategy update:**

- **Fuel business.** Our UAE network reached 376 stations at year-end 2018, which includes three new stations in Dubai and the transfer of two Emarat stations in the Northern Emirates as part of an earlier acquisition. We also opened our first two stations in Saudi Arabia in Q4 2018. We have successfully rolled out ADNOC Flex across our service station network providing our retail customers with the choice of premium and self-service fueling.

- **Non-fuel business.** Our UAE network reached 250 convenience store at year-end 2018, which includes three new stores in Dubai. Our convenience store revitalization program, which offers customers an improved shopping experience, is on track and is contributing to improvements in gross margins and an uplift in average basket size by 10.8% in Q4 2018 compared to Q4 2017. At year-end 2018, our first 13 Géant Express convenience stores were operational and have been showing positive results. We also have expanded our new coffee and fresh bakery concept through a branded Oasis Café with 12 outlets at year-end 2018.

- **Cost efficiency.** We continue to achieve good progress in managing our cost base. Adjusted for depreciation, the impact of the Civil Aviation Supply Carve-out, operating costs of new stations, the non-recurring Year-of-Zayed staff bonus paid in Q2 2018 and non-recurring restructuring costs related to the implementation of our strategic initiatives and business transformation, distribution and administrative expenses for 2018 were 7.8% lower compared 2017, with total OPEX savings of AED 193 million compared to our run-rate guidance of AED 180 million.

- In line with our guidance, our 2018 CAPEX was AED 772 million, consistent with 2017 CAPEX. To date, we have achieved an approximate 10% reduction in construction costs for new service stations.

Saeed Mubarak Al Rashdi - Acting CEO:

“Our 2018 results confirm our ambition to deliver and sustain superior financial performance through operational excellence, customer service and cost efficiency. In 2018, we have made significant progress across all three pillars of our strategy: fuel, non-fuel and cost-efficiency initiatives. I am pleased that our continued focus on customer satisfaction and financial performance have generated positive momentum with strong 2018 results, driven by greater fuel offerings and service, an enhanced convenience store experience and improved quality of service.

ADNOC Distribution’s recent entry into Dubai is our opportunity to showcase to customers our great service and products and serve all the seven emirates in the UAE. This is the beginning of our journey in Dubai, with further expansion to come inside the UAE and internationally in 2019.

While we are continuing to strengthen our competitive positioning, we remain committed to our shareholders by pursuing our ambition to transform the company into a more performance-driven and commercially minded business through our disciplined, return-driven capital allocation strategy.”

Financial summary

AED millions	Q4-18	Q3-18	QoQ %	Q4-17	YoY %	2018	2017	YoY %
Revenue	5,972	5,955	0.3%	5,535	7.9%	22,893	19,756	15.9%
Gross profit	1,184	1,277	-7.3%	1,310	-9.6%	5,069	4,426	14.5%
EBITDA	617	714	-13.5%	665	-7.1%	2,774	2,281	21.6%
Operating profit	465	587	-20.8%	511	-9.0%	2,242	1,820	23.2%
Profit for the period	446	558	-20.1%	492	-9.4%	2,128	1,804	18.0%
Earnings per share (AED/share)	0.036	0.045	-20.1%	0.039	-9.4%	0.170	0.144	18.0%
Capital expenditures*	245	195	25.2%	118	108.3%	772	1458*	-47.0%
Free cash flow **	373	518	-28.1%	547	-31.9%	2,002	1,519**	31.8%
Net cash generated from operating activities	--	--	--	--	--	4,914	3,381	45.3%
Total equity	--	--	--	--	--	3,588	2,848	26.0%
Net debt	--	--	--	--	--	11	2,694	-99.6%
Capital employed	--	--	--	--	--	9,284	8,551	8.6%
Return on capital employed (ROCE)	--	--	--	--	--	24.2%	21.3%	--
Return on equity (ROE)	--	--	--	--	--	59.3%	63.4%	--
Net debt to EBITDA ratio	--	--	--	--	--	0.0x	1.18x	--
Leverage ratio	--	--	--	--	--	0.3%	48.6%	--

*Includes AED 696 million of assets acquired from ADNOC Refining in connection with the ADNOC Refining perimeter reorganization.
**Free cash flow for 2017 has been adjusted to exclude capital expenditures related to the ADNOC Refining perimeter reorganization described above.

See the Glossary for the calculation of certain metrics referred to above.

Headlines

Volumes

Total fuel sales volume for Q4 2018 was 2,432 million liters, a decrease of 7.7% compared to Q4 2017, mainly driven by lower commercial volumes. Total volumes were up 0.6% in Q4 2018 compared to Q3 2018; Q3 2018 was impacted by higher oil prices and longer public holidays (Eid). Retail volumes (approximately 70% of total volumes sold) increased by 5.9% in Q4 2018 compared to Q3 2018 driven by these same factors.

Total fuel sales volume for 2018 reached 9,611 million liters, a decrease of 3.7% compared to 2017.

Fuel product Mix (million liters)	Q4-18	Q3-18	QoQ %	Q4-17	YoY %	2018	2017	YoY %
Gasoline (1)	1,483	1,422	4.3%	1,531	-3.1%	5,838	6,004	-2.8%
Diesel	578	670	-13.7%	699	-17.3%	2,450	2,623	-6.6%
Aviation products	199	181	10.0%	218	-8.7%	748	811	-7.7%
Other (2)	172	144	19.6%	188	-8.5%	575	544	5.7%
Total	**2,432**	**2,416**	**0.6%**	**2,635**	**-7.7%**	**9,611**	**9,982**	**-3.7%**

(1) Includes grade 91, 95 and 98 unleaded gasoline.
(2) Includes CNG, LPG, kerosene, lubricants and base oil.

Results

Q4 2018 revenue was AED 5,972 million, an increase of 7.9% compared Q4 2017. Q4 2018 gross profit was AED 1,184 million, a decrease of 9.6% compared Q4 2017. Q4 2018 EBITDA was AED 617 million, a decrease of 7.1% compared Q4 2017. The decrease in EBITDA was driven by the absence of inventory gains and lower commercial margins in Q4 2018.

Q4 2018 net profit was AED 446 million, a decrease of 9.4% compared Q4 2017 driven by the absence of inventory gains, lower commercial margins and higher finance costs and depreciation in Q4 2018.

2018 revenue reached AED 22,893 million, an increase of 15.9% compared to 2017. The increase in revenue was primarily due to higher fuel prices, partially offset by the decrease in total fuel sales volume. 2018 gross profit reached AED 5,069 million, an increase of 14.5% compared to 2017. 2018 EBITDA reached AED 2,774 million, an increase of 21.6% compared 2017. The increase in gross profit and EBITDA was primarily the result of the pricing of fuels under our Refined Products Supply Agreement with ADNOC. Additionally, in our Retail fuel business, where market prices are regulated by the UAE Ministry of Energy, higher oil prices had a positive impact on gross profit and EBITDA in the form of inventory gains in first nine months.

2018 net profit reached AED 2,128 million, an increase of 18.0% compared to 2017 despite AED 160 million increase in net finance costs driven by the USD 1.5 billion term loan we entered into in November 2017.

Distribution and administrative expenses

We continue to achieve good progress in managing our cost base. Adjusted for depreciation, the impact of the Civil Aviation Supply Carve-out, operating costs of new stations, the non-recurring Year-of-Zayed staff bonus paid in Q2 2018 and non-recurring restructuring costs related to the implementation of our strategic initiatives and business transformation, distribution and administrative expenses for 2018 were 7.8% lower compared 2017, with total OPEX savings of AED 193 million compared to our run-rate guidance of AED 180 million.

The increase in reported distribution and administrative expenses is primarily due to (a) the inclusion of expenses related to the operation of the civil aviation services business beginning 1 October 2017, (b) the operation of additional service stations, (c) development and consultancy costs related to the implementation of initiatives announced at the time of our IPO, including the introduction of our ADNOC Flex offering, and (d) restructuring costs. Included in distribution and administrative expenses is approximately AED 73 million that was recorded in 2018 to reduce headcount costs in 2019 and beyond.

In addition, depreciation expense increased as a result of the assets acquired as part of the ADNOC Refining perimeter reorganization and the impact of new service station openings.

AED millions	Q4-18	Q3-18	QoQ %	Q4-17	YoY %	2018	2017	YoY %
Staff costs	480	470	2.1%	447	7.3%	1,826	1,824	0.1%
Depreciation	153	127	20.3%	153	-0.1%	532	457	16.4%
Repairs, maintenance and consumables	40	34	16.8%	46	-12.6%	138	155	-10.9%
Distribution and marketing expenses	33	27	24.0%	23	43.9%	125	120	3.7%
Utilities	44	37	17.7%	37	19.0%	166	96	72.6%
Insurance	1.3	1.8	-27.8%	3.5	-62.9%	9.6	11	-14.3%
Others	65	21	214.4%	101	-35.3%	232	258	-10.0%
Recoverable expenses (1)	-	-	-	-	-	-	-198	-
Total	**816**	**718**	**13.7%**	**811**	**0.7%**	**3,028**	**2,723**	**11.2%**

(1) Recoverable expenses reflect expenses incurred in connection with the civil aviation business that was transferred to ADNOC in connection with our IPO. Effective 1 October 2017, ADNOC compensates us on a cost-plus-8% basis for providing sales and marketing and fuel distribution services and aircraft re-fueling operations to ADNOC's civil aviation customers, and for operating and maintaining certain aviation fuel distribution assets transferred to a subsidiary of ADNOC. Commencing 1 October 2017, this amount is reflected in our revenue and the corresponding operating expenses are no longer classified as recoverable expenses.

Capital expenditures

In line with our guidance, our 2018 CAPEX was AED 772 million. Our CAPEX primarily consist of (i) capital expenditures related to the development and construction of new service stations and fuel terminal projects and capitalized maintenance costs related to our properties, (ii) purchase of machinery and equipment, and (iii) other capital expenditures related to our properties, including structural upgrades, technology infrastructure upgrades and other improvements. The table below presents our capital expenditures for the periods presented:

AED millions	Q4-18	Q3-18	QoQ %	Q4-17	YoY %	2018	2017	YoY %
Service stations projects	86	44	95.9%	6.1	1303.3%	232	417	-44.3%
Industrial projects	39	58	-32.1%	66	-40.4%	209	911[(1)]	-77.0%
Machinery and equipment	21	10	102.9%	39	-45.7%	109	67	62.1%
Distribution fleet	13	1.4	807.1%	0	N/A	20	7.5	161.3%
Technology infrastructure	85	78	9.1%	5.9	1337.3%	195	46	322.6%
Office furniture and equipment	1.5	4.6	-67.4%	1.3	15.4%	7	9.0	-18.9%
Total	**245**	**195**	**25.2%**	**118**	**108.3%**	**772**	**1,458[(1)]**	**-47.0%**

(1) Includes AED 696 million of assets acquired from ADNOC Refining in connection with the ADNOC Refining perimeter reorganization.

Cash flow and leverage

Q4 2018 free cash flow (EBITDA minus capital expenditures) decreased by 31.9% to AED 373 million compared to Q4 2017. Free cash flow generation totaled AED 2,002 million in 2018, an increase of 31.8% compared to AED 1,519 million (excluding the impact of AED 696 million of assets acquired from ADNOC Refining in connection with the ADNOC Refining perimeter reorganization) in 2017. The increase in 2018 was driven by the increase in EBITDA and reduction in capital expenditures.

Our ratio of interest bearing net debt at year-end 2018 to EBITDA for 2018 was 0.0x. There are no financial covenants in our credit facilities.

Dividends

On 14 October 2018, our shareholders approved the recommendation of our Board of Directors to pay an interim dividend of AED 735 million (AED 0.0588 per share) related to our 2018 fiscal year, which was paid on 1 November 2018. To date, we have paid a total of AED 1,470 million (AED 0.1176 per share) in dividends to our shareholders in 2018 which includes AED 735 million for 2017.

On February 13, 2019, our Board of Directors decided to propose to the Shareholders' Meeting final dividend payment of AED 735 million (AED 0.0588 per share) with respect to 2018, resulting in a total annual dividend of AED 1,470 million (AED 0.1176 per share) for fiscal year 2018. If approved by our shareholders at our Annual General Meeting, we expect to pay this dividend in April 2019.

Business segments operating review

Our business is grouped into four segments: Retail, Corporate, Aviation and Allied Services.

Retail (Fuel and Non-Fuel)

Volumes

Q4 2018 retail segment volumes decreased 3.3% compared to Q4 2017 in line with the market. Compared to Q3 2018, our Q4 2018 volumes increased 5.9%, driven in part by a favorable base effect as Q3 2018 was impacted by higher oil prices and longer public holidays (Eid).

Retail volumes (million liters)	Q4-18	Q3-18	QoQ %	Q4-17	YoY %	2018	2017	YoY %
Gasoline	1,467	1,384	6.0%	1,515	-3.2%	5,753	5,950	-3.3%
Diesel	188	178	5.5%	206	-8.8%	740	788	-6.0%
Other (1)	31	30	2.7%	22	36.6%	106	92	15.5%
Total	**1,685**	**1,591**	**5.9%**	**1,743**	**-3.3%**	**6,600**	**6,830**	**-3.4%**

(1) Includes CNG, LPG, kerosene and lubricants.

Results

The increase in Retail segment fuel revenue for 2018 compared to 2017 was primarily due to higher oil prices, offset in part by the lower fuel volumes sold during the period.

The increase in Retail segment gross profit for 2018 was mainly due to higher fuel margins resulting from our Refined Products Supply Agreement with ADNOC. As previously disclosed, our agreement with ADNOC provides a guaranteed minimum margin per liter sold while allowing ADNOC Distribution to benefit from inventory gains. Q4 2018 witnessed a lower gross profit due to the absence of inventory gains in the falling oil price market.

The increase in Retail segment EBITDA for 2018 was mainly due to higher gross profits and operating cost efficiencies.

Retail financials (AED millions)	Q4-18	Q3-18	QoQ %	Q4-17	YoY %	2018	2017	YoY %
Revenue	4,089	3,964	3.1%	3,699	10.6%	15,704	13,746	14.2%
Gross profit	766	836	-8.4%	812	-5.6%	3,307	2869	15.3%
Of which fuel retail	693	765	-9.4%	744	-6.8%	3,016	2603	15.9%
Of which non-fuel retail	73	72	2.4%	68	8.0%	291	266	9.4%
EBITDA	309	434	-28.8%	390	-20.8%	1,639	1254	30.8%
Operating profit	183	327	-44.0%	273	-32.9%	1,215	901	34.8%
Capital expenditures	135	158	-14.3%	13	954.7%	423	438	-3.4%

Other operating metrics

We witnessed a decrease in fuel transactions during Q4 2018 compared to Q4 2017 and Q3 2018.

Our non-fuel segment (mainly convenience stores) generated higher revenues driven by higher transaction and conversion rates in Q4 2018 compared to Q3 2018. This improvement was driven by management initiatives to improve the customer experience, including a more focused stores revitalization program and the introduction of Flex Rewards, which offers users of our Premium refueling rewards that may be redeemed in our convenience stores.

Non-fuel transactions increased by 1.7% in Q4 2018 compared to Q4 2017 in spite of the introduction of VAT (5%) in January 2018 in the UAE.

Fuel operating metrics	**Q4-18**	**Q3-18**	**QoQ %**	**Q4-17**	**YoY %**	**2018**	**2017**	**YoY %**
Number of service stations - UAE(1)	376	364	3.3%	359	4.7%	376	359	4.7%
Throughput per station (million liters)	4.4	4.3	2.3%	4.8	-8.3%	17.3	18.8	-8.0%
Number of fuel transactions (millions)	40.8	41.3	-1.2%	42.7	-4.4%	167.8	164.8	1.8%
Number of service stations - Saudi Arabia (1)	2	-	-	-	-	2	-	-
Non-fuel operating metrics	**Q4-18**	**Q3-18**	**QoQ %**	**Q4-17**	**YoY %**	**2018**	**2017**	**YoY %**
Number of convenience stores - UAE (1)	250	241	3.7%	235	6.4%	250	235	6.4%
Convenience store sales revenue (AED million)	193	176	10.0%	170	13.3%	679	661	2.8%
Number of non-fuel transactions (millions)	11.7	10.8	8.3%	11.5	1.7%	42.7	47.8	-10.7%
Conversion rate (2)	26%	23%	-	24%	-	22%	26%	-
Average basket size (AED) (3)	18.5	18.4	0.5%	16.7	10.8%	18.1	15.5	16.8%
Average basket size (USD) (3)	5.0	5.0	0.5%	4.5	10.8%	4.9	4.2	16.8%

(1) At end of period.
(2) Number of convenience stores transactions over fuel transactions.
(3) Average basket size is calculated as convenience store sales revenue divided by number of convenience store transactions.

Corporate

Volumes

Our Q4 2018 Corporate segment volumes decreased 14.9% compared to Q3 2018 and 17.1% compared to Q4 2017, mainly driven by higher competition in diesel. The year-on-year decrease was also driven by lower demand for diesel from power generation customers, which use diesel fuel as a backup fuel for power plants.

Corporate volumes (million liters)	Q4-18	Q3-18	QoQ %	Q4-17	YoY %	2018	2017	YoY %
Gasoline	16	38	-58.3%	16	2.6%	85	53	58.9%
Diesel	391	492	-20.6%	493	-20.8%	1,709	1,836	-6.9%
Other (1)	142	114	24.1%	153	-7.3%	445	411	8.2%
Total	**548**	**644**	**-14.9%**	**661**	**-17.1%**	**2,239**	**2301**	**-2.7%**

(1) Includes LPG, lubricants and base oil.

Results

Q4 2018 Corporate segment revenue increased slightly compared to Q4 2017, while gross profit decreased 18.5% mainly driven by lower volumes and declining oil prices.

Q4 2018 Corporate segment EBITDA increased 32.6% compared to Q4 2017, partially driven by a one-off receivables impairment recovery.

Corporate financials (AED millions)	Q4-18	Q3-18	QoQ %	Q4-17	YoY %	2018	2017	YoY %
Revenue	1,227	1398	-12.2%	1,211	1.3%	4,733	4,050	16.9%
Gross profit	178	217	-18.0%	218	-18.5%	785	772	1.7%
EBITDA	189	168	12.2%	143	32.6%	648	599	8.2%
Operating profit	178	162	10.4%	136	31.2%	618	581	6.4%
Capital expenditures	0.5	1.3	-61.5%	0	*	16.2	0.9	1700.0%

* Not meaningful

Aviation

Volumes

Q4 2018 Aviation segment volumes decreased compared to Q4 2017 due to a decrease in fuel sales to our strategic customers. Compared to Q3 2018, Aviation segment volumes increased by 10%.

Aviation volumes (million liters)	Q4-18	Q3-18	QoQ %	Q4-17	YoY %	2018	2017	YoY %
Aviation products	199	181	10.0%	218	-8.7%	748	811	-7.7%

Results

The increase in Aviation segment revenue for 2018 compared to 2017 was due to the inclusion in 2018 of revenue derived under our Aviation Services Agreement with ADNOC, as well as higher average selling prices due to increased oil prices. Under the Aviation Services Agreement, ADNOC compensates us on a cost-plus-8% basis for refueling services we provide to ADNOC's civil aviation customers.

The increase in 2018 gross profit was mainly due to the impact of the Aviation Services Agreement, offset in part by the lower fuel volumes.

The decrease in Aviation segment EBITDA for 2018 was mainly due to lower volumes and the inclusion of recoverable operating cost related to civil aviation fueling services.

Aviation financials (AED millions)	Q4-18	Q3-18	QoQ %	Q4-17	YoY %	2018	2017	YoY %
Revenue	598	537	11.4%	551	8.6%	2,194	1,697	29.3%
Gross profit	182	166	9.4%	210	-13.1%	724	539	34.4%
EBITDA	84	79	6.9%	112	-24.9%	340	350	-2.7%
Operating profit	74	70	6.5%	105	-29.6%	305	335	-9.0%
Capital expenditures	1.1	0.3	266.7%	4.9	-77.6%	3.9	16	-75.9%

Allied Services

Results

Allied services (vehicle inspection and property management) segment revenue for Q4 2018 increased due to a higher number of vehicles inspected and a higher number of tenants compared to Q4 2017.

2018 Allied services results were also positively impacted by the full year impact of an increase in vehicle inspection fees effected in June 2017.

Allied Services financials (AED millions)	Q4-18	Q3-18	QoQ %	Q4-17	YoY %	2018	2017	YoY %
Revenue	57	57	0.9%	52	10.4%	221	184	20.4%
Gross profit	57	57	0.9%	52	10.4%	221	184	20.4%
EBITDA	24	28	-14.1%	30	-19.9%	105	85	24.0%
Operating profit	18	23	-22.8%	20	-13.7%	83	63	31.9%
Capital expenditures	0.5	0.0	N/A	2.8	-82.1%	3.0	22	-86.2%

* Not meaningful

Other operating metrics

We have actively driven tenancy occupancy across our network despite a challenging rental market. We also are transitioning our tenancy business to a revenue sharing model to maximize revenue and profitability. In addition, in 2018 we signed an agreement with Etisalat for 100 digital advertising screens creating a new revenue stream.

Number of vehicles inspected (fresh tests) during Q4 2018 increased by 3.1% compared to Q3 2018 due to a lower base effect, as Q3 2018 was impacted by summer vacations and longer public holidays (Eid).

Allied Services operating metrics	Q4-18	Q3-18	QoQ %	Q4-17	YoY %	2018	2017	YoY %
Number of tenants (1)	244	227	7.5%	187	30.5%	244	187	30.5%
Number of occupied properties for rent (1)	917	862	6.4%	672	36.5%	917	672	36.5%
Number of vehicle inspection centers(1) (2)	24	22	9.1%	21	14.3%	24	21	14.3%
Number of vehicles inspected (fresh tests) (thousands)	177	172	3.2%	172	3.1%	710	654	8.7%
Other vehicle inspection transactions (thousands)	58	57	2.1%	65	-10.7%	240	237	1.3%

(1) At end of period.
(2) Includes one permitting center.

Key factors affecting comparability of the results for 2018 to 2017

1- Fuel Supply Agreement with ADNOC

We entered into a Refined Products Supply Agreement with ADNOC, effective 1 October 2017, pursuant to which we purchase all of our refined petroleum products from ADNOC, and new pricing formulae for fuels purchased from ADNOC are being applied. For further information, please refer to Note 8 of our audited financial statements for the year ended 31 December 2017.

2- LPG Supply Agreement with ADNOC

We entered into an LPG Supply Agreement with ADNOC, effective 1 October 2017, pursuant to which we purchase all of our LPG from ADNOC. Under the LPG Supply Agreement, the price we pay ADNOC for LPG is ADNOC's official selling price, provided that, for so long as LPG cylinder prices are regulated, the price we pay ADNOC for LPG to be distributed in subsidized cylinders is equal to the regulated retail price of such LPG cylinders minus 108% of our operating expenses for distributing these LPG cylinders. For further information, please refer to Note 8 of our audited financial statements for the year ended 31 December 2017.

3- New debt facility

In November 2017, we entered into a five-year USD 1,500 million unsecured term loan facility and a five-year USD 750 million revolving credit facility (or, in each case, the AED equivalent). We also drew down the term loan facility in full and used the net proceeds therefrom, together with available cash and bank balances, to repay a capital contribution to ADNOC in the amount of AED 6,304 million, and to pay an extraordinary interim dividend to ADNOC in the amount of AED 2,135 million.

4- Carve-out of our civil aviation fuels supply business

In September 2017, we completed the Civil Aviation Supply Carve-out whereby all of our contracts for the sale and supply of jet fuel to the civil aviation sector, and related receivables and jet fuel inventories, were transferred to ADNOC. As described in Note 1 and Note 3 of our audited financial statements for the year ended 31 December 2017, our financial statements for the three and nine months ended 30 September 2017 and the year ended 31 December 2017 give effect for all periods presented to the Civil Aviation Supply Carve-out. In connection with the Civil Aviation Supply Carve-out, we entered into an Aviation Services Agreement pursuant to which ADNOC compensates us on a cost-plus-8% basis for providing sales and marketing and fuel distribution services and aircraft refueling operations to ADNOC's civil aviation customers, and for operating and maintaining certain aviation fuel distribution assets transferred to a subsidiary of ADNOC. The revenue derived from, and the operating expenses associated with, providing services under the Aviation Services Agreement have been reflected in our results of operations beginning 1 October 2017. Our Aviation division continues to directly handle sales of fuels and refueling and related services to our strategic customers.

5- ADNOC Refining perimeter reorganization

On 30 September 2017, we entered into an asset purchase agreement with ADNOC Refining (formerly known as Takreer), a wholly owned subsidiary to ADNOC, pursuant to which we purchased certain fuel terminal and distribution assets at book value. Depreciation expense related to the purchased assets has been reflected in our results of operations effective 1 October 2017.

Share trading and ownership

Our shares are traded on the Abu Dhabi Securities Exchange (ADX) under the symbol ADNOCDIST. The closing share price as of 31 December 2018 was AED 2.32. In the period from 13 December 2017 (the closing date of our IPO) through 31 December 2018, the share price has ranged from AED 2.17 to AED 2.74 at close. Our market capitalization was AED 29 billion as of 31 December 2018, and an average of 1.4 million shares have traded daily since our IPO.

As of 31 December 2018, our parent company, ADNOC, owned 90.0% of our outstanding shares. Of the free float (10%), UAE and other regional institutions owned 50%, international institutional investors owned 35%, and private retail shareholders owned 15%.

Potential risks

Key risks potentially affecting ADNOC Distribution's financial and operational results include supply chain risks, asset integrity and information technology risks. The company has identified and implemented several key controls and mitigation strategies to ensure business continuity, including engineered controls and managed controls as well as contractual safeguards to limit its financial exposure to these risks. For more detailed information on risks and risk management, please refer to the Risk Factors section of the international offering memorandum dated 26 November 2017 relating to our IPO, which is available on our website at www.adnocdistribution.ae.

Outlook

We expect low single digit growth in our fuel volumes in 2019 driven by management initiatives and an expansion of our network in Dubai, which remains an attractive market with high throughputs.

We opened our first three retail fuel service stations in Dubai in Q4 2018, which are showing positive results, and will continue our Dubai expansion in 2019. We also expect that our previously announced expansion into other new geographies will contribute to increases in fuel sales volumes in the near to medium term. We have recently signed a memorandum of understanding with a partner in Saudi Arabia to support our network expansion in the Kingdom, and have also signed a memorandum of understanding with a partner in India for the marketing and distribution of our lubricant products in India. In 2019, we expect to invest up to AED 1,100 million (USD 300 million) in capex to boost our network expansion in UAE (especially in Dubai) and internationally, and to invest in our digital initiatives.

The International Monetary Fund (IMF) has forecasted GDP growth for the UAE to strengthen, supported by accelerated government spending and stronger private sector growth, with 3.7% real GDP growth in 2019 (2018: 2.8%). Contributing to this conclusion are a number of significant investments in the Abu Dhabi economy that have been announced. We believe that these combined USD 18.6 billion of investments in the Abu Dhabi economy (USD 13.6 billion spending stimulus and USD 5 billion Ghadan 21 plan to sustain competitiveness and entrepreneurship over a three-year period) will have a positive impact across our businesses. In addition, Dubai had announced plans to liberalise regulations in various sectors including free zones to bolster its appeal to foreign investors and visitors. Dubai also continues to invest heavily, with approximately USD 7 billion allocated to infrastructure development related to hosting Expo 2020, an event that is expected to draw a large number of visitors to the country and to boost private consumption and services exports. Finally, the UAE government recently announced several long-term visa initiatives with the goal of attracting human capital and creating an encouraging environment for long-term business growth.

We will continue to roll-out our growth strategies in our fuel and non-fuel offerings and implementation of our planned cost initiatives.

We have rolled-out our ADNOC Flex offering, whereby our retail customers have the choice of premium or self-service refueling, across our service station network at a fee of AED 10 for our premium refueling service. This fundamental change to the UAE fuel retail market highlights our objective of moving to a smarter, technology-driven, customer-centric model which offers customers choice, convenience and better quality goods and services. To date, we have experienced penetration levels for our premium refueling service that varies by location between 15-20%.

We believe that we have been, and will continue to be, successful in reducing operating and capital costs without sacrificing safety, quality, and our overall customer experience. In 2018, we spent approximately AED 73 million to reduce headcount costs in 2019 and beyond, which we believe will have a pay-back period of less than two years.

Earnings conference call details

A conference call in English for investors and analysts will be held on Thursday, February 14, 2019, at 5 p.m. UAE / 1 p.m. London / 8 a.m. New York. To access the conference call, followed by a Q&A session, please dial one of the toll free numbers listed below and enter the conference call access code '**9327783'.**

UAE Toll free: 8000 3570 2653

UK Toll free: 0800 358 6377

USA Toll free: 800 289 0438

Egypt Toll Free: 0800 000 9067

KSA Toll Free: 800 844 8805

For other countries, please dial the Standard International Access number +44 (0) 330 336 9105.

The conference call will also be webcast live on the company web site. To register for the webcast please follow the link . Please note that participants joining by webcast will be able to ask questions via a chat box within the webcast player. The webcast will remain available for playback for 14 days.

The presentation materials will be available for download in English on Thursday, February 14, 2019 at adnocdistribution.ae/conferencecall.

Reporting date for the first quarter of 2019

We expect to announce our first quarter 2019 results on or around 14 May 2019.

Contacts

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14 February 2019
ABU DHABI NATIONAL OIL COMPANY FOR DISTRIBUTION PJSC

Glossary

- Net debt is calculated as total interest bearing debt less cash and bank balances.
- Free cash flow is calculated as EBITDA less capital expenditures.
- Capital employed is calculated as the sum of total assets minus non-interest bearing current liabilities.
- Return on capital employed is calculated as operating profit for the twelve months ended divided by capital employed on the last day of the period presented.
- Return on equity is calculated as profit for the period for the twelve months ended divided by total equity on the last day of the period presented.
- Net debt to EBITDA ratio is calculated interest bearing net debt as of the end of the period presented, divided by EBITDA for the twelve months ended on the last day of the period presented.
- Leverage ratio is calculated as (a) interest bearing net debt, divided by (b) the sum of interest bearing net debt plus total equity.
- Average basket size is calculated as total convenience store sales revenue divided by number of convenience store transactions.

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 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 reliance on ADNOC to supply us with substantially all of the fuel products that we sell; an interruption in the supply of fuels to us by ADNOC; changes in the prices that we pay ADNOC for our fuels and to the prices that we are allowed to charge our retail customers in the UAE; failure to successfully implement our operating initiatives and growth plans, including our mixed-mode service offering, our convenience store optimization initiatives, our cost savings initiatives, and our growth plans; competition in our markets; decrease in demand for the fuels we sell, including due to general economic conditions, improvements in fuel efficiency and increased consumer preference for alternative fuels; the dangers inherent in the storage and transportation of the products we sell; our reliance on information technology to manage our business; laws and regulations pertaining to environmental protection, operational safety, and product quality; the extent of our related party transactions with ADNOC and our reliance on ADNOC to operate our business; the introduction of VAT and other 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 26 November 2017 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.