Retail Business

ADNOC Distribution's Retail Business is separated into fuel (covering gasoline, diesel, CNG and LPG), convenience stores, and car care services such as car wash and lube changes.

Service stations

2016		335
2017	+7.2%	359

359

Convenience stores

2016		226
2017	+4.0%	235

235

Retail Business

Business Overview

ADNOC Distribution's Retail Business is separated into fuel (gasoline, diesel, CNG and LPG), convenience stores, and car care services such as car wash and lube changes. The core business is highly cash-generative, with stable, regulated unit fuel margins, strong top-line volume growth potential and iconic branding at strategically located sites.

Retail segment

Fuel – gasoline, diesel, CNG and LPG

With 359 owned and operated retail fuel service stations, we are the number one retail fuel brand in the UAE. Our market share is approximately 67 percent by number of service stations at 31 December 2017. We are the sole operator of retail fuel service stations in Abu Dhabi and Sharjah, and operate over 80 percent of service stations in the Northern Emirates. Products include various grades of gasoline (91, 95 and 98 octane), diesel, LPG, CNG and our proprietary Voyager brand of lubricants.

The volumes sold through our service stations (gasoline, diesel, LPG, CNG and lubricants) are among the highest in the world, and have continually increased over the past five years, amounting to 6,829.6 million liters in 2017.

Since the elimination of retail fuel subsidies in the UAE in August 2015, we have enjoyed steady and consistent profitability as a result of the UAE's stable and predictable fuel pricing policy, and a five-year fuel supply agreement with ADNOC, our parent company.

We benefit from high barriers to entry into our markets due to the relationship with our parent and our extensive fuel distribution infrastructure, which would require significant time, investment and government approval to replicate.

Our current and future growth is driven by a number of market and business factors:

Market-driven growth

- A growing population with increasing disposable income
- Growth in gross domestic product (GDP) in the UAE
- Increases in passenger car fleet sizes
- Longer journey times, leading to more miles traveled
- Growing demand for premium fuels

Business-driven growth

- 'ADNOC Flex' mixed-mode refueling model
- Strategic expansion into Dubai and Saudi Arabia

CNG and LPG

Market estimates put the number of natural gas vehicles (NGVs) in the UAE at about 7,500. Approximately 71 percent of these are taxis, 17 percent are ADNOC or Government vehicles, 11 percent are commercial and privately-owned vehicles, and 1 percent are buses. The number of NGVs is forecast to more than double by 2022, resulting in increased demand for CNG, which is currently 30 percent less expensive than gasoline.

LPG is the primary cooking fuel in the UAE and is also used for other commercial and industrial applications. We sell LPG in 25 and 50 lbs. cylinders primarily to residential customers for home cooking use, and in bulk to residential and corporate customers.

Demand for LPG in the UAE was expected to hit 1 billion liters in 2017, and forecasts put that demand by 2022 at 1.5 billion liters, mainly as a result of growth in demand for commercial applications and government deregulation of the sector.

Lubricants

We market various lubricant products under our propietary Voyager brand. The quality of our Voyager lubricants is recognized by the American Petroleum Institute, the European Automobile Manufacturers' Association, the US military authorities and the British Defence Force.

Convenience Stores

We operate 235 ADNOC Oasis convenience stores offering groceries, refreshments and snacks, confectionery, tobacco, and various services. All of our convenience stores are located at our service stations, making us the largest retailer in the UAE by number of stores.

To capitalize on our market-leading position, we are implementing a number of initiatives to improve service, choice and convenience for our customers, and increase revenue and profitability.

The main growth drivers for our convenience stores and car care include:

Market-driven growth

- Store growth
- Sales per store growth

Business-driven growth

- Network expansion
- Program of convenience store revitalization

We believe we can substantially increase our revenue by capitalizing on the strong market that exists for top-up shopping, where fuel customers combine a refueling stop at one of our service stations with supplementing the larger weekly shopping at one of our Oasis convenience stores.

We are implementing this through a combination of customer-driven product mix optimization, clearer pricing strategies, and offering our customers popular products at the pump as well as in our stores.

Car Care

Car washes and lube changes are among the non-fuel services we offer motorists at many of our service station locations. In addition, various services are provided by our partners and tenants, such as vehicle servicing and repairs and tire changes.

Allied Services segment

Property management

Our Allied Services segment manages and leases retail space at our service stations. Our tenants occupy over 600 properties, offering quick-service restaurants and ancillary products and services, such as banking services and automobile insurance, to our fuel and convenience store customers.

Major tenants include well-known global brands such as McDonald's, Starbucks, KFC, Burger King, Costa and Tim Hortons.

Vehicle Inspection

Our 21 Vehicle Inspection Centers are the only authorized providers of government-mandated annual vehicle inspections on behalf of the Abu Dhabi police.

Growth drivers in our Allied Services segment include:

Market-driven growth
- Growth in rent per site
- Growth in the number of transactions
- Increases in car fleet sizes

Business-driven growth
- Revenue sharing leasing model
- Price rationalization

ADNOC Distribution is the largest retailer in the UAE by number of stores

Retail Business

Higher fuel margins and cost efficiencies have resulted in higher profitability

Retail fuel transactions (million)

164.8m

Operational Review

Our extensive physical presence, the strength and reputation of the ADNOC brand, and an established fuel distribution infrastructure well position the Company for further growth and strategic expansion nationally and internationally. In addition, we have introduced further measures to increase our revenue and profitability from the many fuel and non-fuel services that we offer to our customers.

Retail segment

Fuel – gasoline, diesel, CNG and LPG

We have a highly skilled management team whose members average more than 25 years' experience in the retail fuels, oil and gas and related markets. Our management team has a proven track record of implementing initiatives to improve operating efficiency and profit margins.

Our Retail segment's fuel operations are the subject of four areas of focus: increasing sales, optimizing operating expenses, managing capital expenditure, and optimizing manpower deployment. We will continue this focus in 2018 thanks to value engineering and without compromising the ADNOC brand. In the case of capital expenditure, for example, minor changes to our service station specifications are expected to result in significant reductions in construction costs.

In comparison with industry averages, we maintained our high level of operational efficiency in 2017, with average annual fuel throughput per station of 18.8 million liters. We also maintain a commitment to creating and applying the most stringent health and safety regime across all areas of our operations, and are pleased to report no fatalities during a year that involved more than 164.8 million fuel transactions.

We have undertaken an extensive analysis of our service station operations and identified significant opportunities to rationalize staffing levels and reduce other operating expenses, without compromising the customer experience. For example, we have identified a number of service stations where current levels of operations, or the level of operations at certain hours, did not justify current staffing levels.

Our reputation as the UAE's premier fuel retail brand was endorsed with the award of 'Brand of the Year' in the petrol station category at the World Branding Awards in London, the third year running that ADNOC Distribution has received this accolade.

CNG and LPG

Following the expansion of our CNG infrastructure and focused marketing efforts, our customers have welcomed this greener fuel option to help drive sales of 27.39 million metric standard cubic meters (MMSCM), a 21 percent increase on the previous year.

NGV numbers in Abu Dhabi grew by about one-third in 2017 and more than 70 percent of Abu Dhabi's taxi fleet now use CNG as their primary fuel. We are currently servicing customers via a network of 21 CNG stations, the largest number in the GCC region.

Our customers currently buy LPG cylinders from our service stations or from third-party distributors supplied by us. As part of our strategy of generating incremental revenue by bringing the service station to the customer, we have begun to allow our customers to purchase LPG cylinders online for delivery direct to their homes.

Retail non-fuel transactions (million)

2016		46.9
2017	+2.0%	47.8

47.8m

Responding to the dangers inherent in the use and transportation of LPG cylinders, the government has introduced regulations that restrict the use of cylinders in homes that have access to bulk LPG, and is also considering prohibiting the transportation of cylinders in private vehicles. We believe that these measures will improve the safety of LPG and will also provide us opportunities to generate increased revenues from sales and deliveries of LPG.

Convenience Stores
We have undertaken a number of initiatives to boost revenue and profitability at our convenience stores while optimizing our operating costs and efficiency. These have included improving product mix, rationalizing prices, and enhancing customer service and store layouts. We have also begun to retrain our store employees, incentivizing and encouraging them to adopt a more customer-focused mindset, and have introduced online e-vouchers for mobile phone customers to top-up their mobile phones in our convenience stores in order to increase customer footfall.

Car Care
We recently increased prices at our 121 car wash locations to be more in line with those of our regional competitors. We also introduced wash facilities for lorries, buses and pick-up trucks in the Northern Emirates.

Convenience store basket size (AED)

2016		14.95
2017	+3.5%	15.47

15.47 AED

Allied Services segment

Property Management
Leasing activity has grown by 25 percent between 2012 and 2017, partly driven by the increased number of service stations, as well as an increase in occupancy rates during this period. Four key tenant types – food and beverage, car care providers, ATMs and insurers – accounted for most of our lease revenue in 2017.

We have begun transitioning some of our quick-service restaurant tenants at our service stations from a rent-only basis to a revenue-sharing lease model, which we believe will contribute incremental revenue and profitability. The task of selling advertising space at our 359 service stations, many of them in high-visibility locations throughout Abu Dhabi, was rationalized during the year and we intend to unlock the advertising and promotional value of these sites in 2018.

Vehicle Inspection
653,000 vehicles were tested at our 21 government approved inspection centers (fresh tests). In June 2017, we increased prices following approval by the Abu Dhabi Police, which generated incremental revenue during the second half of 2017 and the full-year impact of which will be realized in 2018.

Staying Smart

SMART Technology
Innovation is vital to keeping our customer experience fresh. We have introduced our proprietary SMART technology, incorporating RFID technology that allows pump activation and seamless payment processing without the involvement of employees, at nearly 58 percent of our service station locations, and intend to install this technology at the remainder of our service stations in 2018. We also have expanded our SMART tag installation facilities to facilitate installation of Smart RFID tags on customer vehicles and have introduced cashless ADNOC Wallet-linked payment options.

The new smart technology speeds up vehicle refueling, reducing the potential for delays at peak travel times or during periods of high congestion.

Loyalty Cards
We intend to harness the strength of the ADNOC brand, our extensive distribution infrastructure and our innovative technology to drive customer-focused initiatives. In 2018, we plan to launch a new customer program to build loyalty and generate incremental revenue.

Retail Business

Financial Performance*

Retail segment

Revenue

Retail segment revenue for 2017 was AED 13,746.3 million, an increase of 11.8 percent compared to 2016. Excluding the impact of the Emarat Dubai transaction, Retail segment revenue for 2017 would have been 15.6 percent higher than in 2016.

Retail segment fuel revenue for the 2017 was AED 12,990.9 million, an increase of 12.1 percent compared to 2016. Excluding the impact of the Emarat Dubai transaction, Retail segment fuel revenue for 2017 would have been 16.3 percent higher than in 2016, mainly due to higher oil prices than in 2016. Retail segment non-fuel revenue for 2017 was AED 755.4 million, an increase of 5.6 percent compared to 2016, mainly due to increased revenue in our convenience stores.

Gross profit

Retail segment gross profit for 2017 was AED 2,869.3 million, an increase of 4.9 percent compared to 2016. Excluding the impact of the Emarat Dubai transaction, Retail segment gross profit for 2017 would have been 8.2 percent higher than in 2016, mainly as a result of the positive impact experienced in the fourth quarter resulting primarily from our new supply agreement with ADNOC.

EBITDA

Retail segment EBITDA for 2017 was AED 1,253.6 million, an increase of 17.8 percent compared to 2016. Excluding the impact of the Emarat Dubai transaction, EBITDA for 2017 would have been 20.4 percent higher than in 2016, mainly due to higher fuel margins.

Allied Services segment

Revenue

Allied Services segment revenue for 2017 was AED 183.7 million, an 18.8 percent increase compared to 2016. The increase in Allied Services segment revenue resulted mainly from an increase in vehicle inspection prices which took effect in June 2017.

EBITDA

Allied Services segment EBITDA in 2017 was AED 84.5 million, an increase of 87.4 percent compared to 2016. The increase in Allied Services segment EBITDA resulted mainly from the increase in vehicle inspection prices.

Retail segment

Key Financials (AED million)	2017	2016	Percent change
Revenue	**13,746.3**	12,299.8	11.8%
Gross profit – fuel	**2,603.2**	2,497.4	4.2%
Gross profit – non-fuel	**266.1**	238.0	11.8%
EBITDA	**1,253.6**	1,064.1	17.8%
Operating profit	**901.3**	810.4	11.2%
Capital expenditure	**437.8**	852.4	-48.6%

Allied Services segment

Key Financials (AED million)	2017	2016	Percent change
Revenue	**183.7**	154.6	18.8%
Gross profit	**183.7**	154.6	18.8%
EBITDA	**84.5**	45.1	87.4%
Operating profit	**63.1**	25.1	151.4%
Capital expenditure	**21.8**	0.6	3,361.6%

Convencience store sales revenue (AED million)

660.7m

Allied Services segment gross profit (AED million)

183.7m

* Refer to page 21: Key Factors Affecting the Results and Comparability of 2017 Operations

Outlook

Retail segment

We have an exceptional retail platform, with retail fuels benefiting from regulated and fixed margins, and a supply contract guarantee from our parent company that significantly reduces commodity risk. We have ambitious plans to further expand our service station network, including into Dubai and Saudi Arabia, over the next five years. We plan to open three new service stations in prime locations in Dubai and to open one services station in Saudi Arabia using a franchise model in 2018.

Looking ahead, we intend to leverage our retail fuel leadership position to introduce a range of new services that will build customer loyalty and satisfaction, while driving increases in revenue and profitability. For example, in 2018 we will introduce our 'ADNOC Flex' fueling model in which the customer can choose either self-service refueling, or a premium full-service offer for which we will charge a service fee.

We also believe we can continue the trend of 'Premiumization', with motorists opting for premium fuels for better vehicle performance. Sales of premium fuels generate higher margins, and thus we will continue to encourage customers to trade up to these higher quality fuels.

We will also continue to expand our CNG network throughout the UAE, with the addition of 13 new CNG stations by the end of 2018.

Changing lifestyles and customer spending habits are expected to contribute to steady growth in the UAE convenience store sector, which research suggests remains under-penetrated.

Other factors that we believe will contribute to increased sales at our convenience stores include growth in the participation of women in the workplace; time-poor, two-adult households; less time to plan for weekly shopping in hypermarkets; the growing trend towards convenience store shopping; and the familiarity of the UAE's largely expatriate community with convenience shopping in their home countries.

We are in advanced discussions with a number of branded convenience store operators about supporting the operation of our convenience stores on a joint-venture basis. These include possible revenue- and cost-sharing arrangements with a mix of international consumer brands and high-quality local businesses. The experience of these operators in pricing, promotion, and product category and supply chain management will help us encourage an increasing number of our retail fuel customers to shop and spend more at our convenience stores.

Allied Services segment

Property Management

In 2018, we will continue to transition certain tenants – mainly quick-service restaurants – to longer-term leases and a revenue-sharing model, where tenants will pay a base rent plus a percentage of revenue generated at our service stations. While we are still in the early phases of this process, we expect it to drive incremental revenue. Further revenue will be derived by expanding our tenant profile to include vending machines and other new businesses.

Vehicle Inspection

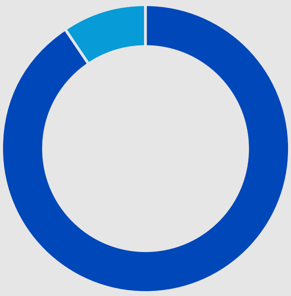
The price increases for vehicle inspections implemented in June 2017 will have a continuing positive impact on revenues in 2018 and beyond. We also expect that the growth in vehicle fleets will drive greater demand for vehicle inspections with corresponding increases in vehicle inspection revenue.

We also plan to add premium service offerings at our vehicle inspection centers, such as VIP lanes and mobile inspection services, which also is expected to generate additional revenue. We also plan to launch vehicle inspections in the Northern Emirates, and to increase our capacity by licensing third parties to conduct vehicle inspections on our behalf.

Retail segment gross profit (AED)

2,869.3m

Retail segment gross profit breakdown

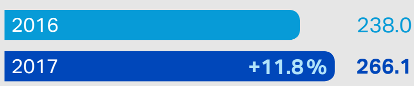


Gross profit – fuel	90.7%
Gross profit – non-fuel	9.3%

Retail segment fuel gross profit (AED million)

2,603.2m

Retail segment non-fuel gross profit (AED million)



266.1m