



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.

