First Quarter 2020 Results

Management Discussion & Analysis Report

12 May 2020

ADNOC Distribution
First Quarter 2020 Results

Highlights

- **Resilient operating performance in Q1 2020…**

- Total fuel volumes sold decreased by 1.2% in the first quarter of 2020 compared to the first quarter of 2019, while commercial fuel volumes remained stable year-on-year. Retail fuel volumes declined by 1.9% compared to the same period last year, despite growth acceleration in the first two months of 2020, mainly owing to the business impact of COVID-19 in the month of March.

- Q1 2020 revenue increased by 3.6% compared to Q1 2019, driven by an increase in Fuel Retail revenues (as a result of higher pump prices) and higher Corporate volumes, partially offset by lower volumes in our Retail and Aviation businesses and lower Non-Fuel Retail revenues.

- Q1 2020 gross profit was AED 1,110 million, a decrease of 3.1% compared to Q1 2019. Fuel Retail business posted a strong operating performance with gross profit growth of 13.1% year-on-year in Q1 2020. However, total gross profit was negatively impacted due to lower Non-Fuel and Commercial business profitability. Commercial business Q1 2020 gross profit was negatively impacted by AED 59 million due to revaluation of inventory stock (AED 37 million) following lower oil prices and one-off items (AED 22 million), whereas Q1 2019 included one-off recoveries (AED 54 million). Excluding inventory losses and one-offs in the Commercial business, Q1 2020 total gross profit grew 7.1% compared to Q1 2019.

- Q1 2020 EBITDA was AED 556 million, a decrease of 24.1% compared to Q1 2019. Q1 2020 EBITDA was negatively impacted by a total AED 73 million due to inventory losses (AED 37 million), one-off items (AED 22 million) and additional prudent provisioning (AED 14 million) on trade receivables in Commercial business, whereas Q1 2019 included one-off reversals of prior period accruals and recoveries totaling AED 132 million (including AED 54 million recoveries in gross profit).

- Q1 2020 Underlying EBITDA (EBITDA excluding inventory losses and one-offs) of AED 629 million remained resilient with a growth of 4.7% compared to Q1 2019.

- Q1 2020 net profit was AED 400 million, a decline of 30.9% compared to Q1 2019, mainly due to inventory losses and one-off losses in Q1 2020, as well as due to the presence of one-off gains in Q1 2019 as discussed above. However, adjusting for inventory losses and one-offs, the company reported higher earnings despite the business impact of COVID-19 in the month of March.

- **Cash flows and capital structure**

- The company maintained strong financial position at the end of March 2020 with ample liquidity to help us weather the impact of COVID-19 on our long-term strategic targets. As of 31 March 2020, liquidity was at AED 8.0 billion in the form of AED 5.2 billion in cash and AED 2.8 billion in unutilized credit facility. Our existing term debt matures at the end of 2022 with no covenants in place. Our balance sheet remains strong with a net debt to EBITDA ratio of 0.1x as of 31 March 2020.

- Net cash generated from operating activities was AED 757 million in Q1 2020 compared to negative AED 899 million in Q1 2019, mainly due to stable cash flows from operations and positive working capital movements. In Q1 2020, our free cash flow after capital expenditure reached AED 533 million compared to negative AED 964 million in Q1 2019.

Strategy Update

The company remains focused on ensuring the safety of employees, customers and local communities and protecting business through robust business continuity measures as we respond to COVID-19. Despite the challenging operating environment, the company remains resilient with a strong balance sheet, continuing to deliver on its smart growth strategy with 7 new stations opened in Q1 2020 and 3 additional stations opened in April 2020.

We also remain focused on our growth strategy, bringing further efficiencies in our operations and capital discipline and delivering attractive shareholders returns, backed by a long-term sustainable growth plan, progressive dividend policy and our strong balance sheet.

COVID-19 Response

The company responded swiftly to the evolving needs of employees, customers and local communities by introducing a number of health and safety measures, to protect staff and customers during the current COVID-19 pandemic. These measures include daily cleaning of sites and providing personal protective equipment such as face masks, gloves and hand sanitizers to frontline staff. To recognize efforts of healthcare workers, who are working tirelessly around the clock to keep our country and communities safe during the pandemic, we extended our support for ambulance services as well as free coffee and thank you snack packs for medical staff.

In these unprecedented times, we have strengthened our focus on understanding customers' needs by engaging and staying connected. We quickly adapted our products and services to accelerate our digital transformation strategy by providing customers with a seamless digital experience and enhancing the company's position as a best-in-class fuel retailer. A key element of this has been enhancing the use of advanced Mobile Pay technology, which allows totally contactless refueling and payment. As a result, customer uptake of the ADNOC Distribution Wallet, which includes Mobile Pay and the ADNOC Rewards program, increased by more than 100,000 users in the first quarter of the year to more than 730,000 users. We widened our portfolio of services such as offering grocery essentials at our ADNOC Oasis stores at low cost, online home delivery of more than 1,000 Oasis products, mobile fuel delivery (including LPG) and complimentary car interior sanitization with every auto carwash.

Fuel business

New Stations: Our UAE network reached 389 retail fuel stations as of 31 March 2020, including ten fuel stations in Dubai. We opened seven stations in the UAE in Q1 2020, including four in Dubai, reflecting the company's strong commitment to delivering convenient fuel and retail offerings to customers across the country, combined with the highest safety and hygiene standards. Since announcing new 'ADNOC On the go' concept in November 2019, four 'On the go' stations have been brought into operation in Q1 2020 in Abu Dhabi (which includes three new On the go stations and one existing traditional station converted to On the go format).

In April, we opened three additional stations (including one On the go), leading to 10 new stations opened year-to-date 2020.

An innovative fuel and retail station, ADNOC On the go station brings us closer to our customers and the communities that we serve. Smart technology enabled, it allows customers to shop at the ADNOC Oasis convenience store, ordering on a tablet from the comfort of their vehicle, before collecting their items from the drive-thru. ADNOC On the go stations comprise varying designs to reflect the customer needs in the individual neighborhood in terms of size, number of pumps, and type of ADNOC Oasis store. This initiative is a result of our drive to effectively tackle competition with faster, more efficient deployment of our fuel stations, while also optimizing CAPEX. ADNOC On the go stations are being launched as part of an extensive roll-out plan in 2020.

Mobile Fuel Delivery (My Station): We continue to innovate and seek new ways to grow our fuel business. In this context, we have already deployed 8 Trailers and 22 Trucks to provide an on-demand fuel delivery service to serve our large commercial customers, providing them with a faster and reliable fueling service. Each trailer can deliver throughput equivalent to an ADNOC On the go station, while each truck at full utilization can deliver throughput ranging from one-third to half of an ADNOC On the go station.

During the first quarter, we started providing mobile fuel delivery to our retail customers in select areas of Abu Dhabi to provide a convenient fueling service at a location and time of a customer's choosing to further enhance customer experience.

Non-fuel business

Our UAE network increased to 269 convenience stores as of 31 March 2020, with the addition of 5 new convenience stores in the UAE in Q1 2020. Our convenience store revitalization program, offering customers an improved shopping experience, is under way with a focus on improved category management and introduction of high margin fresh food/premium coffee products. In Q1 2020, we refurbished one Oasis convenience stores, with an additional one in April.

The company responded to new social distancing measures by launching a new 'essential products' range in its ADNOC Oasis stores, including fresh food, household and healthcare products, at a low cost to help customers across the UAE. More recently, the company launched an online home delivery service with a leading online providers, of more than 1,000 Oasis products, including groceries and hot beverages for the convenience and safety of customers. The service is already proving popular and has resulted in an increase in basket size for participating stations. We have 12 pilot stores up and running with encouraging results and positive customer feedback.

Cost Optimization (OPEX)

In Q1 2020, there was an increase in like-for-like operating expenses by AED 13 million compared to Q1 2019. This increase was mainly due to an increase in maintenance and SMART technology utilities costs. In addition, total OPEX increased in Q1 2020 due to the cost of additional staff to implement free assisted fueling (effective 3rd November 2019), in line with our guidance and pertaining to our growth and new stations' OPEX.

CAPEX

In line with our guidance and plans to continue with our expansion strategy, we incurred higher CAPEX of AED 185 million in Q1 2020 compared to AED 46 million in Q1 2019. We expect to see acceleration in CAPEX as more new stations are delivered over Q2 and rest of the year. This reiterates our strong commitment to secure future growth and deliver convenient fuel and retail offerings to our customers across the country.

Dividend Policy

During the General Assembly on 31 March 2020, the company's shareholders approved:

- A second and final dividend payment of AED 1.194 billion (9.55 fils per share) for the year ended 31 December 2019 (paid in April 2020). This dividend payment came on top of an interim AED 1.194 billion (9.55 fils per share) dividend payment for the year, which was paid in October 2019, resulting in a full-year dividend of AED 2.39 billion (19.10 fils per share), consistent with our dividend policy approved by shareholders in 2019, and representing an increase of 62% compared to 2018.
- Maintaining the company's 2020 dividend policy, which is set to continue with an expected dividend of AED 2.57 billion (20.57 fils per share), an increase of 7.5% compared to 2019.
- Amendments to the dividend policy for 2021 onwards, with an expected dividend of AED 2.57 billion for 2021 (compared to minimum 75% of distributable profits as per previous policy) and a dividend equal to at least 75% of distributable profits from 2022 onwards, in recognition of the Company's strong financial position at the end of 2019 and confidence in the Company's growth prospects and cash-flow generation ability going forward.

In accordance with our dividend policy, we expect to continue to pay half of the annual dividend in October of the relevant year and half in April of the following year. The payment of dividends is subject to the discretion of our Board of Directors and shareholders' approval.

Ahmed Al Shamsi - Acting CEO:

“In Q1 2020, we have shown strength and agility as a business. We are especially thankful to our dedicated frontline colleagues who have played a vital role in this effort by providing a lifeline to communities around the country that rely on our services every day to meet their essential fuel, food and grocery needs. In turn, we have taken and will continue to take, every step to ensure their health, safety and well-being.”

“By understanding our customers’ needs and adapting our products and services, while they adhere to social distancing, we have built a stronger relationship with our communities, one that we hope will last long into the future after this pandemic is over,” added Al Shamsi. “We also remain committed to our shareholders by protecting our business through the application of robust business continuity measures and the strengthening of our business resilience, in readiness to return in a position of strength and continue our growth trajectory when the effects of the pandemic subside.”

“We remain confident that we will responsibly manage the impact of Coronavirus on our long-term strategic commitments. While we remain nimble to adapt to this rapidly changing environment, we also remain focused on our business strategy of smart growth and bringing further efficiencies in our operations. As a company, we will continue to deliver long term attractive shareholder returns, underpinned by progressive dividend policy, smart growth and disciplined capital allocation, well supported by a solid balance sheet.”

Outlook

The global economy is facing unprecedented challenges due to COVID-19. In the UAE, as schools, retail malls, offices started to close in the month of March, we saw an impact on demand, including both fuel and non-fuel sales. Full impact of the lockdown was visible in the month of April and as a result of COVID-19 restrictions, our Retail fuel sales volume declined by around 40% and Commercial fuel sales volume by around 20% in April. However, the UAE began easing restrictions towards the last week of April, owing to the government's swift action to contain the spread of the virus, thereby moving in the direction of gradual opening.

Despite the unprecedented market conditions and the uncertainties ahead, our core business fundamentals remain robust and resilient and we are well placed to navigate the challenges posed by COVID-19. We remain nimble to adapt to this rapidly changing environment and are taking this as an opportunity to accelerate our cost optimization initiatives while widening our portfolio of services such as offering a new 'essential products' range and online home delivery at our ADNOC Oasis C-Stores and mobile fuel delivery. In this context, we expect decline in fuel volumes to be partially mitigated by proactive management initiatives and higher retail fuel margins in the short term.

We remain committed to pursue our expansion plans, in a disciplined manner, and to deliver an enhanced customer experience, both of which are expected to drive future earnings growth. We are also exploring new growth opportunities presented by the current environment.

While demand for fuel and non-fuel products may take time to recover to a normalized level, our ability in managing our capital expenditures and cost base, as well as our diverse product platform and strong balance sheet, provide us with important flexibility to respond in this volatile operating environment.

ADNOC Rewards

We aim to further grow our ADNOC Wallet user base that will allow us to deliver targeted promotional offers to users, thereby increasing customer loyalty. In Q2 2020, we will introduce a new points-based system to our 'ADNOC Rewards' loyalty programme enabling customers to redeem points against ADNOC Oasis products and services at ADNOC stations.

Fuel business

New Stations: After opening 10 new stations as of April 2020, we expect to open around 15 additional stations by H1 2020. We saw significant construction progress at the beginning of 2020 and new stations planned to be delivered in Q2 2020 have achieved an average completion rate of c.75%, which gives us confidence in achieving our target.

Despite the current environment and subsequent impact on construction, we expect to open 50-60 new stations in the UAE in 2020. Our focus is to ensure CAPEX is allocated more efficiently towards our growth in value-accretive Dubai expansion. Therefore, we are still targeting to open 20-25 new stations in Dubai in 2020, the majority of which will be traditional stations. Of the planned stations to be opened in the UAE in 2020, the majority are already under construction. Our new stations target includes our innovative ADNOC On the go stations, which require considerably less time to complete and thus allows much faster deployment of our network.

Mobile Fuel Delivery (MyStation):

In addition to the 30 mobile assets serving our B2B business, we continue to see opportunities to grow our mobile fuel delivery service in both B2B and B2C segments with 15 new trucks set to join our existing fleet during 2020. We would look to utilize some of the new trucks planned to be delivered this year to expand our B2C mobile fuel delivery services.

Non-fuel business

We remain focused on providing a superior customer experience and are continuing with our convenience store revitalization programme. Our planned refurbishment program was expected to pick pace starting Q2 2020. However, given the current environment, we are now targeting 40-50 C-stores to be refurbished by the end of 2020, which will be phased over rest of the year.

We are also continuing to make improvements in category management, with greater focus on higher margin fresh food and premium coffee products.

We see a great opportunity in our recently launched online food and grocery delivery service from our ADNOC Oasis convenience stores. Currently, we launched this service in 12 pilot C-stores, however, we expect to expand this to more C-stores by the end of this year, supporting our ambition of sustaining strong growth in our non-fuel offering.

International Expansion

Delivering on our international expansion remains integral to our ambitious smart growth strategy. We continue to assess potential opportunities to achieve disciplined growth and operational success, while targeting the highest return on investment.

Cost efficiency

In line with our previous guidance, we are accelerating the delivery of our cost optimization and margin improvement initiatives, ensuring our margins and cash flows remain healthy. We reiterate our target of like-for-like OPEX savings of approximately AED 92 million in 2020, which is part of our guidance to deliver AED 367 million in OPEX savings over 2020-23. We are now moving to a more efficient and effective retail site operating model. We are focusing on staffing optimization as well as staff redeployment, leading to a like-for-like reduction in full time employees per station as well as accelerating operating efficiency initiatives and asset optimization across our operations and businesses.

CAPEX

We have assessed the impact of COVID-19 on our business plan and capital structure. Given the strong balance sheet and access to liquidity, we are on track to deliver a significantly higher number of stations in 2020 and maintain our CAPEX guidance between AED 1.1 - 1.5 billion for 2020, reiterating our commitment to deliver smart growth beyond 2020 and provide best-in-class services to our customers. We will continue to improve CAPEX efficiency, including the rolling out of less capital intensive new station formats, such as ADNOC On the go and My Station. We retain flexibility to optimize or accelerate CAPEX and see many levers to achieve this, including the ability to quickly adjust CAPEX on our flexible ADNOC On the go station model.

Financial summary

AED millions	Q1-20	Q4-19	*QoQ %*	Q1-19	*YoY %*	FY 2019
Revenue	4,939	5,426	*-9.0%*	4,770	*3.6%*	21,337
Gross profit	1,110	1,255	*-11.6%*	1,146	*-3.1%*	4,978
Margin	*22.5%*	*23.1%*	-	*24.0%*	-	*23.3%*
EBITDA	556	658	*-15.5%*	733	*-24.1%*	2,839
Margin	*11.3%*	*12.1%*	-	*15.4%*	-	*13.3%*
Underlying EBITDA[1]	629	707	*-11.0%*	601	*4.7%*	2,756
Operating profit	421	509	*-17.3%*	605	*-30.3%*	2,301
Net Profit for the period	400	496	*-19.5%*	578	*-30.9%*	2,218
Margin	*8.1%*	*9.1%*	-	*12.1%*	-	*10.4%*
Earnings per share (AED/share)	0.032	0.040	*-19.5%*	0.046	*-30.9%*	0.177
Net cash generated from operating activities	757	261	*NM*	-899	*NM*	1,745
Capital expenditures	185	264	*-29.8%*	46	*301.3%*	508
Free Cash Flow[2]	533	202	163.9%	-964	NM	1,282
Total equity	2,863	3,749	*-23.6%*	4,067	*-29.6%*	3,749
Net debt[3]	259	744	*-65.2%*	974	*-73.4%*	744
Capital employed	8,921	9,675	*-7.8%*	9,928	*-10.1%*	9,675
Return on capital employed (ROCE)	23.7%	23.8%	-	22.9%	-	23.8%
Return on equity (ROE)	71.2%	59.2%	-	53.2%	-	59.2%
Net debt to EBITDA ratio[3]	0.10x	0.26x	-	0.35x	-	0.26x
Leverage ratio[3]	8.3%	16.5%	-	19.3%	-	16.5%

NM: Not meaningful
(1) Underlying EBITDA is defined as EBITDA excluding Inventory gains/losses and one-off gains/losses
(2) Free Cash Flow is defined as Net cash generated from operating activities less payments for purchase of property, plant & equipment and advances to contractors
(3) Cash and bank balances used for Net Debt calculation includes term deposits with banks
Notes:
See the Glossary for the calculation of certain metrics referred to above

New Reporting Segments

Our Board of Directors approved changes with respect to our segment reporting effective 1 January 2020. These changes have been reflected in our Q1 2020 Results. The new reporting structure aligns our segmentation with management's categorization of our customers into Retail (B2C) and Commercial (B2B) categories.

Our new Retail reporting segment includes the sale of gasoline and other petroleum products, convenience store sales, car wash and other car care services, oil change services, vehicle inspection services, and property leasing and management through our retail sites. Our new Commercial segment includes the sale of petroleum products and ancillary products to commercial and government customers, the provision of aviation fuel and fueling services to strategic customers, and the provision of fueling services to our parent company's civil aviation customers.

Headlines

Fuel Volumes

In Q1 2020, total fuel volumes sold reached 2,306 million liters, down 1.2% compared to Q1 2019 and down 7.0% compared to Q4 2019. Year-on-Year (y-o-y) decline in total fuel volumes sold was due to lower retail and aviation fuel volumes, partially supported by an increase in corporate fuel volumes. In Q1 2020, Retail fuel volumes sold decreased by 1.9% y-o-y despite higher growth seen in the first two months of the quarter, mainly owing to the business impact of COVID-19 in the month of March. Corporate fuel volumes sold maintained growth with an increase of 1.9% y-o-y. Aviation fuel volumes sold to strategic customers decreased by 4.9% y-o-y.

Fuel volumes by segment *(million liters)*	**Q1-20**	**Q4-19**	***QoQ %***	**Q1-19**	***YoY %***	**FY 2019**
Retail (B2C)	**1,577**	**1,705**	***-7.5%***	**1,607**	***-1.9%***	**6,525**
Commercial (B2B)	**729**	**775**	***-5.9%***	**728**	***0.1%***	**3,150**
Of which Corporate	551	585	*-5.8%*	541	*1.9%*	2,373
Of which Aviation	178	190	*-6.3%*	188	*-4.9%*	777
Total	**2,306**	**2,481**	***-7.0%***	**2,336**	***-1.2%***	**9,674**

Fuel volumes by product *(million liters)*	**Q1-20**	**Q4-19**	***QoQ %***	**Q1-19**	***YoY %***	**FY 2019**
Gasoline (1)	1,408	1,518	*-7.3%*	1,414	*-0.5%*	5,782
Diesel	552	614	*-10.1%*	562	*-1.7%*	2,469
Aviation products	178	190	*-6.3%*	188	*-4.9%*	777
Others (2)	168	157	*6.4%*	171	*-2.3%*	646
Total	**2,306**	**2,481**	***-7.0%***	**2,336**	***-1.2%***	**9,674**

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

Results

Q1 2020 revenue was AED 4,939 million, an increase of 3.6% compared to Q1 2019 revenue of AED 4,770 million. The increase in revenue was due to higher retail pump prices as a result of an increase in oil prices and higher corporate volumes, partially offset by lower volumes in our Retail and Aviation businesses and lower non-fuel revenues.

Q1 2020 gross profit was AED 1,110 million, a decrease of 3.1% compared to Q1 2019 gross profit of AED 1,146 million. Despite strong operating performance of Fuel Retail, Q1 2020 gross profit declined due to lower gross profit in Non-Fuel and Commercial businesses. Commercial business gross profit was impacted due to inventory loss and one-off items in Q1 2020 as well as one-off recoveries present in Q1 2019. Excluding inventory losses and one-offs in the Commercial business, Q1 2020 gross profit grew 7.1% compared to Q1 2019, on the back of strong growth in Fuel Retail.

Q1 2020 EBITDA was AED 556 million, a decrease of 24.1% compared to Q1 2019 EBITDA of AED 733 million. EBITDA was negatively impacted by AED 73 million due to inventory losses, one-off items in Q1 2020, whereas Q1 2019 included one-off OPEX reversals and recoveries of AED 132 million. Underlying EBITDA (EBITDA excluding inventory losses and one-offs) at AED 629 million remained resilient with growth of 4.7% compared to Q1 2019.

Q1 2020 net profit was AED 400 million, declining by 30.9% compared to Q1 2019, mainly due to inventory losses and one-off items in Q1 2020 as well as due to presence of one-off gains in Q1 2019.

Revenue by segment ***(AED millions)***	**Q1-20**	**Q4-19**	***QoQ %***	**Q1-19**	***YoY %***	**FY 2019**
Retail (B2C)	**3,446**	**3,773**	***-8.7%***	**3,256**	***5.8%***	**14,537**
Of which Fuel Retail	3,185	3,483	*-8.6%*	2,981	*6.9%*	13,408
Of which Non-Fuel Retail	260	290	*-10.2%*	275	*-5.5%*	1,129
Commercial (B2B)	**1,494**	**1,653**	***-9.6%***	**1,514**	***-1.3%***	**6,800**
Of which Corporate	1,051	1,151	*-8.7%*	1,026	*2.4%*	4,739
Of which Aviation	443	502	*-11.7%*	488	*-9.2%*	2,061
Total	**4,939**	**5,426**	***-9.0%***	**4,770**	***3.6%***	**21,337**

Gross Profit by segment ***(AED millions)***	**Q1-20**	**Q4-19**	***QoQ %***	**Q1-19**	***YoY %***	**FY 2019**
Retail (B2C)	**840**	**885**	**-5.2%**	**767**	**9.5%**	**3,404**
Of which Fuel Retail	715	740	-3.4%	632	13.1%	2,838
Of which Non-Fuel Retail	125	146	-14.4%	135	-7.5%	566
Commercial (B2B)	**270**	**370**	**-27.0%**	**379**	**-28.6%**	**1,574**
Of which Corporate	130	200	-35.1%	206	-37.0%	869
Of which Aviation	140	170	-17.3%	172	-18.6%	705
Total	**1,110**	**1,255**	**-11.6%**	**1,146**	**-3.1%**	**4,978**

EBITDA by Segment ***(AED millions)***	**Q1-20**	**Q4-19**	***QoQ %***	**Q1-19**	***YoY %***	**FY 2019**
Retail (B2C)	**419**	**428**	***-2.1%***	**436**	***-3.9%***	**1,803**
Commercial (B2B)	**140**	**251**	*-44.5%*	**294**	*-52.6%*	**1,081**
Of which Corporate	73	159	*-54.0%*	202	*-63.6%*	715
Of which Aviation	66	92	*-28.0%*	93	*-28.6%*	366
Unallocated[1]	-3	-22	*NM*	3	*NM*	-45
Total	**556**	**658**	***-15.5%***	**733**	***-24.1%***	**2,839**

(1) Unallocated includes other operating income/expenses not allocated to specific segment

Distribution and administrative expenses

Q1 2020 distribution and administrative expenses were AED 700 million, an increase of 18.1% compared to Q1 2019 distribution and administrative expenses of AED 592 million. While cost of additional staff (to implement free assisted fueling for our new stations), higher maintenance activity and SMART technology utility costs during the quarter contributed to an increase in distribution and administrative expenses, the majority of the y-o-y increase is attributable to the presence of one-off OPEX reversals in Q1 2019 (mainly included in Others in below table).

On a like-for-like basis, cash OPEX increased marginally by AED 13 million or 2.5% y-o-y.

AED millions	**Q1-20**	**Q4-19**	***QoQ %***	**Q1-19**	***YoY %***	**FY 2019**
Staff costs	405	368	*10.0%*	395	*2.5%*	1,594
Depreciation	135	148	*-9.2%*	128	*5.0%*	538
Repairs, maintenance and consumables	42	63	*-33.4%*	25	*69.0%*	145
Distribution and marketing expenses	19	41	*-53.0%*	19	*-0.5%*	90
Utilities	43	51	*-15.2%*	35	*23.6%*	161
Insurance	3.2	4.9	*-34.7%*	2.3	*39.1%*	12
Others[1]	53	95	*-44.2%*	-12	*-554.7%*	228
Total	**700**	**771**	***-9.2%***	**592**	***18.1%***	**2,766**

(1) Others include lease cost, bank charges, consultancies etc.

Capital expenditures

Our capital expenditures primarily consist of (i) investments related to the development and construction of new service stations and fuel terminal projects and capitalized maintenance costs related to our properties, (ii) the apurchase of machinery and equipment, and (iii) other capital expenditures related to our properties, including structural upgrades, technology infrastructure upgrades and other improvements.

In Q1 2020, the majority of our capital expenditure (about 85% of the total) was incurred for the development and construction of new service stations. Increase in Technology infrastructure capital expenditure pertains to digital transformation and automation of back end functions. The table below presents the breakdown of our capital expenditures for the reviewed period:

AED millions	**Q1-20**	**Q4-19**	***QoQ %***	**Q1-19**	***YoY %***	**FY 2019**
Service stations projects	154	199	*-22.6%*	9	*NM*	345
Industrial projects	2.3	0.5	*NM*	25	*-90.8%*	36
Machinery and equipment	8.4	2.3	*NM*	11	*-24.3%*	30
Distribution fleet	7.1	4.5	*57.8%*	0.7	*NM*	5.6
Technology infrastructure	13	56	*-76.0%*	0	*NM*	86
Office furniture and equipment	0.2	1.7	*-88.2%*	0.2	*0.0%*	5
Total	**185**	**264**	***-29.8%***	**46**	***301.3%***	**508**

NM: Not meaningful

Cash flow and capital structure

Net cash generated from operating activities was AED 757 million in Q1 2020 compared to negative AED 899 million in Q1 2019, mainly due to stable cash flows from operations and positive working capital movements. Working capital requirement reduces as a result of a decrease in trade receivables and inventories, partially offset by a decrease in trade payables. In Q1 2020, our free cash flow after capital expenditure reached AED 533 million compared to negative AED 964 million in Q1 2019.

The ratio of interest bearing net debt to EBITDA at the end of 31 March 2020 was 0.1x. There are no financial covenants in our credit facilities.

We have maintained strong financial position with ample liquidity to help us weather the impact of COVID-19 on our long-term strategic targets. As of 31 March 2020, liquidity was at AED 8.0 billion in the form of AED 5.2 billion in cash and AED 2.8 billion in unutilized credit facility. Our existing term debt matures at the end of 2022.

Business segments operating review

Retail Segment – B2C (Fuel and Non-Fuel)

Volumes

In Q1 2020, retail fuel volumes declined by 1.9% compared to the same period last year, despite higher than expected growth in the first two months of 2020, mainly owing to the business impact of COVID-19 in the month of March.

Retail Segment volumes (million liters)	Q1-20	Q4-19	QoQ%	Q1-19	YoY%	FY 2019
Gasoline	1,380	1,491	-7.5%	1,399	-1.4%	5,694
Diesel	167	182	-8.4%	177	-5.7%	703
Other (1)	31	33	-4.3%	31	-1.0%	127
Total	**1,577**	**1,705**	**-7.5%**	**1,607**	**-1.9%**	**6,525**

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

Results

Q1 2020 Retail segment revenue increased by 5.8% compared to Q1 2019, driven by the Fuel Retail business, partially offset by lower revenues from the Non-Fuel Retail business. The increase in Fuel Retail revenues was primarily due to higher retail pump prices as a result of an increase in oil prices, partially offset by lower volumes. Non-fuel retail revenues declined due to lower transactions resulting from an absence of voucher redemptions after we started offering free assisted fueling to all our customers effective November 2019.

Q1 2020 Retail segment gross profit increased by 9.5% y-o-y, driven by Fuel Retail business. Fuel Retail gross profit increased by 13.1% y-o-y, on the back of higher retail fuel margins, reduction in fuel cost following renegotiation of our fuel supply contract, effective November 2019, and higher retail volumes in the first two months of the year.

Q1 2020 Retail segment EBITDA declined by 3.9% compared to Q1 2019, mainly due to additional staff cost to implement free assisted fueling, OPEX related to new stations and due to the positive impact of prior year OPEX reversals on Q1 2019.

Retail Segment (AED million)	Q1-20	Q4-19	QoQ%	Q1-19	YoY%	FY 2019
Revenue	**3,446**	**3,773**	***-8.7%***	**3,256**	***5.8%***	**14,537**
Of which Fuel Retail	3,185	3,483	-8.6%	2,981	6.9%	13,408
Of which Non-Fuel Retail	260	290	-10.2%	275	-5.5%	1,129
Gross profit	**840**	**885**	***-5.2%***	**767**	***9.5%***	**3,404**
Of which Fuel Retail	715	740	*-3.4%*	632	*13.1%*	2,838
Of which Non-Fuel Retail	125	146	*-14.4%*	135	*-7.5%*	566
EBITDA	**419**	**428**	***-2.1%***	**436**	***-3.9%***	**1,803**
Operating profit	302	297	*1.9%*	325	*-7.1%*	1,335
Capital expenditures	163	242	*-33.0%*	38	*NM*	435

Other operating metrics

In Q1 2020, fuel transactions increased by 3.5% compared to Q1 2019 despite COVID-19 impact in the month of March. Increase was mainly driven by higher growth in the first two months of 2020.

Fuel operating metrics	Q1-20	Q4-19	*QoQ %*	Q1-19	*YoY %*	FY 2019
Number of service stations – UAE [(1)]	389	382	*1.8%*	379	*2.6%*	382
Number of service stations - Saudi Arabia [(1)(2)]	2	2	*0.0%*	2	*0.0%*	2
Throughput per station (million liters)	4.0	4.4	*-9.1%*	4.1	*-2.4%*	16.7
Number of fuel transactions (millions)	38.2	41.4	*-7.7%*	36.9	*3.5%*	158.5

(1) At end of period.
(2) Includes one franchised site.

In Q1 2020, Non-fuel transactions decreased by 17.1% compared to Q1 2019 due to absence of voucher redemption after implementing free assisted fueling (effective November 2019) and the impact of COVID-19 in the month of March.

Our convenience stores generated lower revenues in Q1 2020 compared to Q1 2019, mainly due to lower transactions. However, average gross basket size sustained growth and increased by 12.0% y-o-y, driven by our focus on improved category management and introduction of fresh food / premium coffee products as well as due to COVID-19 impact, whereby customers are visting less frequently but buying more during each visit.

We continue to transition our tenancy business to a revenue sharing model to maximize revenue and profitability.

The number of occupied properties was impacted due to continued portfolio optimization by some of our tenants.

The number of vehicles inspected (fresh tests) in our vehicle inspection centers decreased by 1.1% in Q1 2020 compared to Q1 2019.

Non-Fuel operating metrics	Q1-20	Q4-19	QoQ %	Q1-19	YoY %	FY 2019
Total number of non-fuel transactions (millions) (2)	9.7	11.6	*-16.4%*	11.7	*-17.1%*	46.9
Number of convenience stores - UAE (1)	269	264	*1.9%*	252	*6.7%*	264
Convenience stores revenue (AED million)	184	204	*-9.9%*	197	*-6.8%*	801
Convenience stores gross profit (AED million)	49	61	*-19.3%*	58	*-14.4%*	244
Margin	26.9%	30.0%		29.3%		30.4%
Conversion rate % (3)	22%	25%	-	28%	-	27%
Average basket size (AED) (4)	21.5	19.5	*10.3%*	18.9	*13.8%*	19.0
Average gross basket size (AED)(5)	27.1	24.8	*9.3%*	24.2	*12.0%*	23.9
Number of Property Management tenants (1)	277	277	*0.0%*	258	*7.4%*	277
Number of occupied properties for rent (1)	892	909	*-1.9%*	927	*-3.8%*	909
Number of vehicle inspection centers (1) (6)	26	26	*0.0%*	25	*4.0%*	26
Number of vehicles inspected (fresh tests) (thousands)	178	187	*-4.9%*	180	*-1.1%*	749
Other vehicle inspection transactions (thousands)7	63	77	*-19.3%*	58	*8.1%*	249

(1) At end of period.
(2) Includes convenience stores, car wash and oil change transactions.
(3) Number of convenience stores transactions divided by number of fuel transactions.
(4) Average basket size is calculated as convenience store revenue divided by number of convenience store transactions
(5) Average gross basket size is calculated as convenience store revenue (including revenue from consignment items shown under other operating income) divided by number of convenience store transactions.
(6) Includes one permitting center.
(7) Other vehicle inspection transactions includes the number of vehicles inspected (re-tests) and sale of safety items at our vehicles inspection centers

Commercial Segment – B2B (Corporate and Aviation)

Volumes

In Q1 2020, Commercial Fuel volumes were up marginally by 0.1% compared to Q1 2019, driven by a 1.9% year-on-year increase in corporate volumes, partially offset by a decrease of 4.9% in Aviation volumes sold to our strategic customers.

Commercial Segment volumes (million liters)	Q1-20	Q4-19	QoQ%	Q1-19	YoY%	FY 2019
Gasoline	28	27	*4.4%*	15	*85.6%*	88
Diesel	386	433	*-10.8%*	385	*0.1%*	1,766
Aviation	178	190	*-6.3%*	188	*-4.9%*	777
Other (1)	136	125	*9.3%*	140	*-2.5%*	519
Total	**729**	**775**	***-5.9%***	**728**	***0.1%***	**3,150**

(1) Includes LPG, lubricants and base oil.

Results

Q1 2020, Commercial segment revenue decreased by 1.3% compared to Q1 2019 mainly due to lower Aviation business fuel volumes.

Q1 2020 Commercial gross profit was lower compared to same period of last year, due to lower Aviation volumes, inventory losses in Q1 2020 following lower oil prices and one-off inventory impairment recovery present in Q1 2019. Excluding inventory losses and one-offs, Commercial gross profit would have grown by 1.6% y-o-y.

Q1 2020 Commercial segment EBITDA declined following lower gross profit and additional one-off prudent provisioning on trade receivables in light of the current environment as well as one-off receivables revovery present in Q1 2019.

Commercial Segment (AED million)	Q1-20	Q4-19	QoQ%	Q1-19	YoY%	FY 2019
Revenue	**1,494**	**1,653**	***-9.6%***	**1,514**	***-1.3%***	**6,800**
Of which Corporate	1,051	1,151	*-8.7%*	1,026	*2.4%*	4,739
Of which Aviation	443	502	*-11.7%*	488	*-9.2%*	2,061
Gross profit	**270**	**370**	***-27.0%***	**379**	***-28.6%***	**1,574**
Of which Corporate	130	200	*-35.1%*	206	*-37.0%*	869
Of which Aviation	140	170	*-17.3%*	172	*-18.6%*	705
EBITDA	**140**	**251**	***-44.5%***	**294**	***-52.6%***	**1,081**
Operating profit	122	235	*-48.0%*	277	*-55.8%*	1,013
Capital expenditures	8.2	0.6	*NM*	0.4	*NM*	5.2

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 March 2020 was AED 2.70. In the period from 1 January 2020 through 31 March 2020, the share price has ranged from AED 2.40 to AED 3.15 at close. Our market capitalization was AED 33.75 billion as of 31 March 2020, and an average of 2.55 million shares have traded daily in Q1 2020 (+35% versus 2019). In Q1 2020, the average daily traded value of our shares was USD 2.0 million (+50% versus 2019).

As of 31 March 2020, our parent company, ADNOC, owned 90% of our outstanding shares. Of the 10% free float, UAE and other regional institutions owned 54%, international institutional investors 24% and individual retail shareholders 21%.

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.

Q1 2020 Earnings conference call details

A conference call in English for investors and analysts will be held on Tuesday, May 12, 2020, at 4 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 '**9929073'**.

UAE Toll free: 800 08903

UK Toll free: 0800 279 7231

USA Toll free: 800-776-0937

For other countries, please dial UK Toll: +44 (0)330 336 9099, or US Toll: +1 646-828-8095

The conference call will also be webcast live on the company web site. To register for the webcast please follow the link and enter password 'adnoc'. 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 90 days.

The presentation materials will be available for download in English on Tuesday, May 12, 2020 at adnocdistribution.ae/conferencecall.

Reporting date for the second quarter of 2020

We expect to announce our second quarter 2020 results on or around August 11, 2020.

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May 12, 2020
ABU DHABI NATIONAL OIL COMPANY FOR DISTRIBUTION PJSC

Glossary

- Net debt is calculated as total interest bearing debt less cash and bank balances (including term deposits with banks).
- Free cash flow is calculated as Net cash generated from operating activities less payments for purchase of property, plant & equipment and advances to contractors.
- 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 convenience store revenue divided by number of convenience store transactions
- Average gross basket size is calculated as total convenience store sales revenue (including revenue from consignment items shown under other operating income) 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.