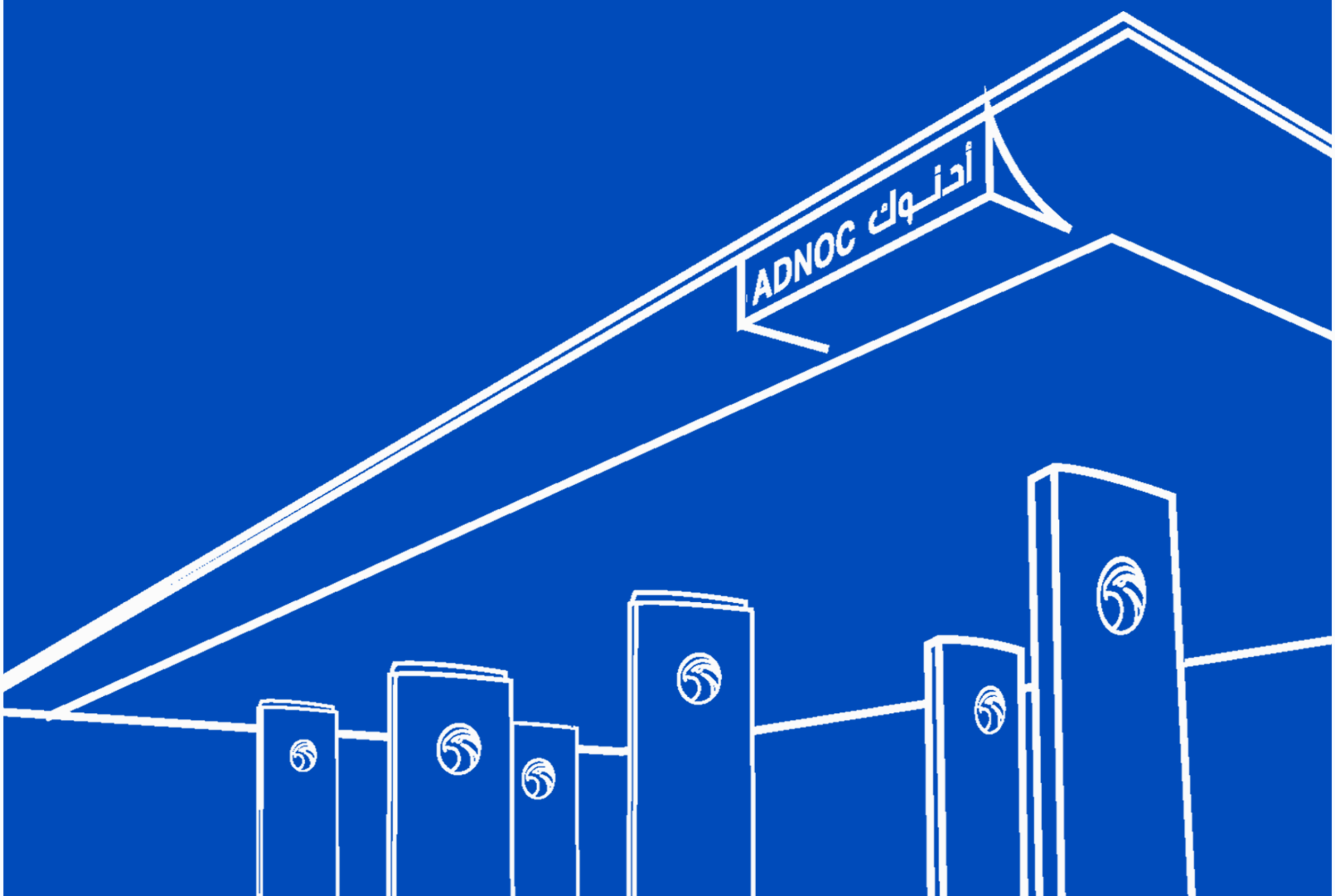
ADNOC
DISTRIBUTION

Third Quarter & Nine Months 2020 Results

Management Discussion & Analysis Report

11 November 2020



ADNOC Distribution
Third Quarter & Nine Months 2020 Results

Highlights

Demonstrating continued resilience and growth despite challenging operating environment

- Total fuel volumes sold decreased by 11.6% in 9M 2020 compared to 9M 2019, mainly due to an impact of COVID-19 starting March 2020. Retail fuel volumes declined by 13.0% year-on-year, while Commercial fuel volumes decreased by 8.9% year-on-year

- 9M 2020 revenue decreased by 24.7% compared to 9M 2019, due to lower fuel volumes, decline in non-fuel revenues as well as due to lower selling prices (as a result of fall in crude oil prices)

- 9M 2020 gross profit was AED 4,172 million, an increase of 12.1% compared to 9M 2019

  Retail segment gross profit increased by 25.1% year-on-year in 9M 2020. This was driven by Fuel Retail business, which delivered a strong performance with gross profit growth of 34.8% year-on-year driven by increase in margins as retail pump prices did not fall in line with crude oil prices

  Non-Fuel Retail gross profit decreased by 23.8% year-on-year due to lower transactions as a result of COVID-19 lockdown restrictions.

  Commercial business gross profit decreased by 15.1% year-on-year due to lower volumes/margins and one-off expenses, whereas 9M 2019 included one-off recoveries

- 9M 2020 Underlying EBITDA (EBITDA excluding inventory losses/gains and one-offs) was AED 2,554 million, a growth of 24.6% compared to 9M 2019

- 9M 2020 reported EBITDA was AED 2,134 million, a decrease of 2.2% compared to 9M 2019. EBITDA was negatively impacted by a total of AED 520 million due to one-off expenses, whereas 9M 2019 included one-off gains of AED 13 million. Above one-off expenses were partly offset by inventory gains of AED 99 million in 9M 2020 (9M 2019: AED 119 million). One-off expenses during the quarter were mainly as a result of prudent approach, which puts the company in a resilient position for a profitable growth ahead.

  The major items of one-offs booked in 9M 2020 (AED 520 million) are as below:

  - AED 191 million CWIP write-off (of which AED 164 million in Q3 2020)
    The company has performed a comprehensive review of its capital work in progress (CWIP) and took a prudent decision to write off unutilized assets from its balance sheet. The company identified legacy assets which are not being utilized as a result of upgrading the smart technology enabled fueling and payment options that were undertaken to offer increased customer convenience and safety

  - AED 84 million staff restructuring costs (full amount booked in Q3 2020)
    As part of our OPEX optimization initiatives, the company booked non-recurring staff restructuring costs leading to higher OPEX. As part of the company's ongoing transformation, we remain committed to reducing our operating costs and ensuring continued competitiveness. We expect benefits of this restructuring to be visible going forward with meaningful reduction in our staff cost, which remains our major OPEX item

  - AED 64 million provisioning on trade receivables in light of current environment (of which AED 31 million booked in Q3 2020)

- AED 181 million other one-offs (of which AED 73 million booked in Q3 2020)
  Other one-offs included additional pension costs, business transformation costs and COVID-19 related expenses

- 9M 2020 net profit was AED 1,581 million, a decline of 8.1% compared to 9M 2019, mainly due to lower volumes, one-off costs, partly offset by higher retail fuel margin. However, adjusting for inventory gains and one-offs, the company reported higher earnings despite the business impact of COVID-19

Cash flow and capital structure

- In Q3 2020, the company generated free cash flow of AED 1.6 billion, driven by strong cash flow from operations and positive working capital movement. Working capital improvement in Q3 2020 was a result of reduction in receivables and increase in payables to our supplier ADNOC, driven by higher purchases and higher oil prices compared to Q2 2020

- The company maintained strong financial position at the end of September 2020 with liquidity of AED 6.8 billion in the form of AED 4.0 billion in cash & cash equivalents 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 0.55x as of 30 September 2020

- For 9M 2020, net cash generated from operating activities remained strong, driven by robust cash flow from operations. However, our cash position reduced compared to end of 2019 due to negative working capital movement and dividend payment in Q2 2020. Negative working capital movements were mainly as a result of decrease in payables to our supplier ADNOC, driven by lower purchases and lower oil prices, partially offset by decrease in trade receivables

Free float doubling to 20% post ADNOC Private Placement of ADNOC Distribution Shares (AED 3.67 billion)

- On 14th September 2020, ADNOC has successfully completed an AED 3.67 billion placement of 1.25 billion of its shares in ADNOC Distribution with institutional investors. This represented 10% of ADNOC Distribution's total share capital, and doubled the Company's free float to 20%, broadening the Company's shareholder base and allowing for greater liquidity of its shares on the Abu Dhabi Securities Exchange. This transaction was the GCC region's largest-ever block trade transaction of a publicly listed company and leveraged significant investor demand for ADNOC Distribution shares following a robust performance with a resilient dividend since its initial public offering in 2017.

Strategy Update

The Company demonstrated a resilient and steadfast focus on smart growth in the first nine months of the year, despite continued market uncertainty caused by the COVID-19 pandemic. While upholding rigorous health and safety measures, with the safety of its customers, employees and local communities at the core of its operations, the Company accelerated the delivery of its strategic smart growth plans during the first nine months of 2020.

Fuel business

Since the end of June 2020, and following the initial COVID-19 impact on travel, ADNOC Distribution's retail fuel volumes continue to show steady recovery. Total fuel volumes for Q3 2020 increased by 24.4% as compared to the previous quarter. Compared to Q3 2019, total fuel volumes were down 10.5% in Q3 2020. In 9M 2020, total fuel volumes sold decreased by 11.6% compared to the first nine months of 2019.

Retail fuel volumes (c.67% of total fuel volumes) increased by 42.5% quarter-on-quarter, but declined by 4.6% year-on-year in Q3 2020. In addition to reopening of economy, sequential recovery in retail fuel volumes was also supported by fewer residents travelling overseas during the summer due to travel restrictions and safety concerns. Commercial fuel volumes declined by 2.6% quarter-on-quarter and 21.2% year-on-year in Q3 2020, mainly due to lower uptake from strategic aviation customers.

New Stations: Our UAE network reached 418 retail fuel stations as of 30 September 2020. In 9M 2020, we opened 37 stations in the UAE, of which 11 new stations in Dubai. We remain focused on value accretive Dubai expansion reflecting the company's commitment to delivering strong growth beyond 2020. As a result, our Dubai station network has grown from six stations by the end of last year to 17 fuel stations by the end of 9M 2020. In the month of October, we opened six additional stations (including two in Dubai), leading to 43 new stations opened year-to-date 2020.

Since announcing the new 'ADNOC On the go' concept in November 2019, 25 'On the go' neighborhood stations have been brought into operation in 9M 2020 (which includes one reconstructed site converted to On the go format). An innovative fuel and retail station, ADNOC On the go brings us closer to our customers and the communities that we serve. These new neighborhood stations offer fueling and retail facilities located in areas where traditional stations are impractical. 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.

Mobile Fuel Delivery (My Station): In the first nine months of 2020, we started providing mobile fuel delivery to our retail customers in select areas of Abu Dhabi to provide a convenient fueling service at no additional charge. During Q3 2020, we added five new trucks to our My Station fleet to expand on-demand fuel delivery service, providing our customers with a faster and reliable fueling service.

By the end of 9M 2020, we have deployed eight fuel trailers and 37 fuel trucks to serve our commercial and retail customers. In addition, we also provide mobile LPG delivery to our customers through 17 My Station trucks that further strengthens our customer offering.

Non-fuel business

Our UAE network increased to 299 convenience stores as of 30 September 2020, with the addition of 35 new convenience stores in the UAE in 9M 2020. The Company's focus throughout the year has remained on providing a superior customer experience through enhancing its offering on multiple fronts, including its C-store revitalization plans, which has seen a total of 41 convenience stores being refurbished and modernized in 9M 2020, 30 of which were successfully refurbished in Q3 2020.

In the month of October, we refurbished 19 additional Oasis convenience stores.

Such increased customer-centric initiatives, improved category management, the introduction of fresh food and premium coffee offerings, alongside the impact of COVID-19, which saw customers purchase more but visit less frequently, contributed to an increase in average gross basket size of 19.9% in the first nine months of 2020 as compared to the same period in 2019.

Cost Optimization

The benefits of cost reduction initiatives taken pre-COVID-19 are becoming visible with acceleration in like-for-like OPEX reduction of AED 26 million year-on-year in Q3 2020, after only AED 11 million decrease seen in H1 2020. This reduction in like-for-like OPEX is mainly as a result of optimization in staff cost and decrease in general & administrative expenses.

As part of the company's ongoing transformation, started at the time of its IPO in December 2017, it remains committed to reducing operating costs and ensuring continued competitiveness in the UAE fuel retail and convenience store sector. While we have been diligently focused on our COVID-19 response, ensuring the safety and wellbeing of our staff and customers, transformation efforts will continue to ensure that operating costs are market-competitive and the company is well positioned to deliver on its future growth ambitions.

Total operating expenses increased in 9M 2020 mainly due to one-off expenses related to staff restructuring costs, additional pension cost, COVID-19 related expenses, growth OPEX associated with our network expansion and owing to the cost of additional staff to implement free assisted fueling (effective 3rd November 2019).

CAPEX

In line with our guidance and plans to continue with our expansion strategy, we incurred higher CAPEX of AED 601 million in 9M 2020 compared to AED 244 million in 9M 2019. We expect 2020 CAPEX to accelerate compared to 2019 as significantly higher number of new stations are expected to be delivered this year. This reiterates our strong commitment to secure future growth and deliver convenient fuel and retail offerings to our customers across the country.

Ahmed Al Shamsi - Acting CEO:

“ADNOC Distribution’s third-quarter results have continued to advance our strategic priorities of steady and sustainable growth, enhanced customer experience, and attractive capital returns for our shareholders.

Our continued focus on innovation and accelerating our digital strategy, combined with steady recovery of fuel volumes, has bolstered our results throughout the first nine months of 2020. We continue to ensure our network has a wider reach across all Emirates, particularly in the heart of neighborhood communities, which previously did not have convenient access to refueling services.

We maintain significant capacity to deploy capital through a disciplined investment strategy aimed at continuing our efforts to expand our fuel station network, with a focus on the Dubai market, as well as investing in our non-fuel and international business expansion.”

Outlook

Economic activity has strengthened from June as lockdown measures have eased. In line with the economy reopening, our retail fuel volumes have experienced recovery by ~90% in recent months compared to the same period last year. We expect our retail fuel margins to remain relatively high in Q4 2020 as pump prices for October / November have remained stable since beginning of April 2020. Furthermore, OPEX optimization initiatives have gained momentum and we expect savings to accelerate further in Q4 2020.

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. ADNOC Distribution maintains a robust balance sheet and remains well-positioned to expand both its domestic and international portfolio in-line with its smart growth strategy. We are also exploring new growth opportunities presented by the current environment.

Fuel business

New Stations: After opening 37 new stations as of end of 9M 2020, we expect the delivery momentum to sustain in Q4 2020 with 13-23 additional station openings. This would take our 2020 station openings to 50-60 new stations in the UAE, in line with our guidance and 10x higher compared to 2019. Our focus is to ensure CAPEX is allocated more efficiently towards our growth in value-accretive Dubai expansion. After opening 11 new stations in Dubai as of end of 9M 2020, we are targeting to open additional 9-14 stations in rest of the fourth quarter 2020. This would take our 2020 station openings in Dubai to 20-25, the majority of which will be traditional stations. Of the planned stations to be opened in rest of the 2020, the majority are already under advanced stages of construction. Our new stations target includes our innovative ADNOC On the go stations, which require considerably less time to complete, is less capital intensive and allows much faster deployment of our network.

Non-fuel business

We remain focused on providing a superior customer experience and are continuing with our convenience store revitalization program. We have seen a strong momentum in the revitalization of our C-Stores with 41 C-stores revitalized in 9M 2020 (including 30 in Q3 2020). We are therefore raising our target and now expect to refurbish 80-90 C-stores in 2020 (versus 40-50 C-stores guidance earlier).

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. As a result, we expanded this service to 100 C-stores by the end of 9M 2020. We expect to further expand our coverage in Dubai and the Northern Emirates, supporting our ambition of sustaining strong growth in our non-fuel offering.

ADNOC Rewards loyalty program

Our customer-centric focus is an integral part of our digital transformation strategy, which aims to offer superior customer experience. Following successful launch of a number of customer experience initiatives, we announced an enhancement to our loyalty program 'ADNOC Rewards' in July. The enhanced ADNOC Rewards program enables customers to earn loyalty points on every purchase of fuel and non-fuel products. The points can then be redeemed for products in Oasis convenience stores as well as on a range of services including car wash and lube change. In the coming weeks, we will be announcing a number of new partnerships within the program, including leading brands from across a range of sectors, which will further enhance the reward options available to customers through the program. By offering superior customer benefits, we aim to grow our ADNOC Wallet user base that will allow us to deliver targeted promotional offers to users, thereby increasing customer loyalty and higher share of customer spend.

International Expansion

Our expansion strategy in Saudi Arabia is to grow our fuel station network organically and explore inorganic growth opportunities. We are progressing well on our Saudi expansion plans and are in advanced discussions to finalize land leases with land lords as well as to grow our network inorganically. We see the Saudi Arabian fuel market as large and fragmented with underdeveloped customer offerings. We believe that ADNOC Distribution's experience and strengths can be leveraged to introduce world-class fuel station and customer service standards in Saudi Arabia to capture growth. We are also assessing potential opportunities in the Indian lubricants market to achieve disciplined growth and operational success, while targeting the highest return on investment.

Cost efficiency

We are on track to take structural costs out and make our operations leaner and more efficient. In line with our previous guidance, we reiterate our target of like-for-like OPEX savings of up to AED 92 million in 2020 (9M 2020: AED 37 million) as we expect to see higher savings in Q4 2020.

We are now accelerating the delivery of our cost optimization and margin improvement initiatives, ensuring our margins and cash flows remain healthy. Our OPEX reduction program comprises of a significant number of initiatives across all our operations and business units, while ensuring business continuity and maintaining superior customer service levels.

As part of our OPEX optimization, we have booked one time staff restructuring cost in Q3 2020 and anticipate its benefit to be accrued over coming years. A new operating model has been implemented to optimize station and c-store staffing levels, leading to a like-for-like reduction in full time employees per station and reduction in our operating expenses per liter. The new operating model along with other initiatives are expected to result in material benefits in Q4 2020 and 2021. We therefore expect to deliver AED 367 million in OPEX savings over 2020-23, in line with our guidance.

CAPEX

We are committed to pursuing our expansion plans, in a disciplined manner and remain on track to deliver a significantly higher number of stations in 2020. We expect CAPEX of up to AED 1.1 billion in 2020. 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.

Dividend Policy

During the General Assembly on 31 March 2020, the company confirmed its 2020 dividend policy and announced an amendment to its dividend policy for 2021 onwards. Our updated dividend policy is as follows:

- 2020 dividend policy 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. The company paid dividend of 10.285 fils per share for the first six months of 2020 in October 2020. The final dividend of 10.285 fils per share for the last six months of 2020 is expected to be paid in April 2021, subject to board and shareholders' approval.
- Amended dividend policy sets an expected dividend of AED 2.57 billion for 2021 (compared to minimum 75% of distributable profits as per previous policy) and an expected dividend equal to at least 75% of distributable profits from 2022 onwards.

We are committed to our dividend policy backed by the company's strong financial position (cash & equivalent of AED 4.0 billion, retained earnings of AED 1.4 billion and net debt to EBITDA of 0.55x at the end of 9M 2020) and confidence in the company's growth prospects and cash-flow generation ability going forward. The new dividend policy demonstrates the Company's strong track record of progressively increasing its dividends to its shareholders.

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.

Financial summary

AED millions	Q3-20	Q2-20	*QoQ %*	Q3-19	*YoY %*	9M 2020	9M 2019	*YoY %*
Revenue	4,030	3,016	*33.6%*	5,637	*-28.5%*	11,986	15,911	*-24.7%*
Gross profit	1,726	1,336	*29.2%*	1,245	*38.7%*	4,172	3,723	*12.1%*
Margin	*42.8%*	*44.3%*		*22.1%*		*34.8%*	*23.4%*	
EBITDA	879	699	*25.8%*	698	*25.9%*	2,134	2,181	*-2.2%*
Margin	*21.8%*	*23.2%*		*12.4%*		*17.8%*	*13.7%*	
Underlying EBITDA[1]	1,132	793	*42.9%*	728	*55.5%*	2,554	2,049	24.6%
Operating profit	710	562	*26.3%*	565	*25.7%*	1,694	1,792	*-5.4%*
Net Profit for the period	671	511	*31.3%*	549	*22.3%*	1,581	1,721	*-8.1%*
Margin	*16.6%*	*16.9%*		*9.7%*		*13.2%*	*10.8%*	
Earnings per share (AED/share)	0.054	0.041	*31.3%*	0.044	*22.3%*	0.126	0.138	*-8.1%*
Net cash generated from operating activities	1,773	-1,369	*NM*	511	*247.3%*	1,161	1,483	*-21.7%*
Capital expenditures	217	199	*8.8%*	106	*103.9%*	601	244	*146.0%*
Free Cash Flow[2]	1,574	-1,559	NM	343	NM	548	1,080	*-49.3%*
Total equity	2,778	3,443	*-19.3%*	3,233	*-14.1%*	2,839	3,233	*-14.1%*
Net debt[3]	1,524	3,058	*-50.2%*	-311	NM	1,524	-311	NM
Capital employed	8,955	9,546	*-6.2%*	9,117	*-1.8%*	8,981	9,117	*-1.8%*
Return on capital employed (ROCE)	24.6%	21.6%		24.8%		24.6%	24.8%	
Return on equity (ROE)	74.8%	56.8%		67.0%		74.8%	67.0%	
Net debt to EBITDA ratio[3]	0.55x	1.17x		-0.11x		0.55x	-0.11x	
Leverage ratio[3]	35.4%	47.0%		-10.6%		35.4%	-10.6%	

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) Net debt to equity, 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 9M 2020 Results and previous year numbers have been restated to align with new reporting segment. 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

Q3 2020 total fuel volumes sold reached 2,246 million liters, down 10.5% compared to Q3 2019 and up 24.4% compared to Q2 2020. In Q3 2020, Retail fuel volumes sold decreased by 4.6% y-o-y mainly owing to the business impact of COVID-19 movement restriction. Corporate fuel volumes sold decreased by 12.4% y-o-y. Aviation fuel volumes sold to strategic customers decreased by 49.3% y-o-y.

9M 2020 total fuel volumes sold decreased by 11.6% compared to the 9M 2019, mainly due to an impact of COVID-19 starting March 2020. Retail fuel volumes declined by 13.0% in 9M 2020 compared to the same period last year, while Commercial fuel volumes decreased by 8.9% year-on-year.

Fuel volumes by segment *(million liters)*	**Q3-20**	**Q2-20**	***QoQ %***	**Q3-19**	***YoY %***	**9M 2020**	**9M 2019**	***YoY %***
Retail (B2C)	**1,538**	**1,079**	***42.5%***	**1,612**	***-4.6%***	**4,195**	**4,819**	***-13.0%***
Commercial (B2B)	**708**	**727**	***-2.6%***	**899**	***-21.2%***	**2,164**	**2,375**	***-8.9%***
Of which Corporate	598	588	*1.8%*	683	*-12.4%*	1,737	1,788	*-2.9%*
Of which Aviation	109	139	*-21.3%*	216	*-49.3%*	427	586	*-27.2%*
Total	**2,246**	**1,806**	***24.4%***	**2,510**	***-10.5%***	**6,359**	**7,194**	***-11.6%***

Fuel volumes by product *(million liters)*	**Q3-20**	**Q2-20**	***QoQ %***	**Q3-19**	***YoY %***	**9M 2020**	**9M 2019**	***YoY %***
Gasoline (1)	1,406	965	*45.8%*	1,435	*-2.0%*	3,779	4,264	*-11.4%*
Diesel	591	566	*4.5%*	716	*-17.4%*	1,709	1,855	*-7.8%*
Aviation products	109	139	*-21.3%*	216	*-49.3%*	427	586	*-27.2%*
Others (2)	139	137	*1.9%*	144	*-3.3%*	443	489	*-9.3%*
Total	**2,246**	**1,806**	***24.4%***	**2,510**	***-10.5%***	**6,359**	**7,194**	***-11.6%***

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

Results

Q3 2020 revenue was AED 4,030 million, a decrease of 28.5% compared to Q3 2019. The decrease in revenue was driven by lower fuel volumes and non-fuel revenues as well as due to the lower oil prices compared to Q3 2019.

Q3 2020 gross profit was AED 1,726 million, an increase of 38.7% compared to Q3 2019 supported by higher fuel margins in the retail fuel business, inventory gains and reduction in fuel cost following renegotiation of our fuel supply contract effective November 2019, partially offset by lower gross profit in Non-Fuel Retail and Commercial businesses.

Q3 2020 Underlying EBITDA (EBITDA excluding inventory losses/gains and one-offs) was AED 1,132 million, a growth of 55.5% compared to Q3 2019.

Q3 2020 reported EBITDA was AED 879 million, an increase of 25.9% compared to Q3 2019, supported by higher retail fuel margin and inventory gains, partially offset by one-off expenses of AED 352 million related to prudent write-off of capital work-in-process and provisioning on trade receivables, non-recurring staff restructuring cost, additional pension costs and COVID-19 expenses.

Q3 2020 net profit was AED 671 million, increasing by 22.3% compared to Q3 2019 mainly due to increase in EBITDA as explained above, partially offset by higher depreciation and lower interest income.

9M 2020 revenue decreased by 24.7% compared to 9M 2019, due to an impact of COVID-19 on fuel volumes and non-fuel revenues as well as due to the lower oil prices. 9M 2020 gross profit was AED 4,172 million, an increase of 12.1% compared to 9M 2019 driven by higher retail fuel margin.

9M 2020 Underlying EBITDA (EBITDA excluding inventory losses/gains and one-offs) was AED 2,554 million, a growth of 24.6% compared to 9M 2019.

9M 2020 reported EBITDA was AED 2,134 million, a decrease of 2.2% compared to 9M 2019. 9M 2020 EBITDA was negatively impacted by a total of AED 520 million due to one-off expenses related to prudent write-off of capital work-in-process and provisioning on trade receivables, non-recurring staff restructuring cost, additional pension costs and COVID-19 expenses, whereas 9M 2019 included one-off gains (recoveries/reversal of prior period accruals) of AED 13 million and inventory gains of AED 119 million.

9M 2020 net profit was AED 1,581 million, a decline of 8.1% compared to 9M 2019, mainly due to lower volumes and non-fuel revenues, one-off expenses, partially offset by higher retail fuel margin as well as due to the presence of one-off gains in 9M 2019 as discussed above. However, adjusting for inventory losses/gains and one-offs, the company reported higher earnings despite the business impact of COVID-19.

Revenue by segment *(AED millions)*	**Q3-20**	**Q2-20**	***QoQ %***	**Q3-19**	***YoY %***	**9M 2020**	**9M 2019**	***YoY %***
Retail (B2C)	**2,916**	**2,033**	***43.4%***	**3,698**	***-21.2%***	**8,395**	**10,764**	***-22.0%***
Of which Fuel Retail	2,681	1,871	*43.3%*	3,411	*-21.4%*	7,737	9,925	*-22.0%*
Of which Non-Fuel Retail	234	162	*44.3%*	287	*-18.2%*	657	839	*-21.7%*
Commercial (B2B)	**1,115**	**983**	***13.4%***	**1,939**	***-42.5%***	**3,592**	**5,146**	***-30.2%***
Of which Corporate	871	761	14.4%	1,377	*-36.8%*	2,683	3,588	*-25.2%*
Of which Aviation	244	222	9.9%	561	*-56.6%*	909	1,558	*-41.7%*
Total	**4,030**	**3,016**	***33.6%***	**5,637**	***-28.5%***	**11,986**	**15,911**	***-24.7%***

Gross Profit by segment *(AED millions)*	**Q3-20**	**Q2-20**	***QoQ %***	**Q3-19**	***YoY %***	**9M 2020**	**9M 2019**	***YoY %***
Retail (B2C)	**1,321**	**988**	*33.7%*	**821**	*60.9%*	**3,150**	**2,519**	*25.1%*
Of which Fuel Retail	1,196	918	*30.3%*	676	*77.0%*	2,829	2,098	*34.8%*
Of which Non-Fuel Retail	125	70	*77.4%*	145	*-13.8%*	320	420	*-23.8%*
Commercial (B2B)	**405**	**347**	**16.5%**	**424**	***-4.5%***	**1,022**	**1,204**	***-15.1%***
Of which Corporate	262	208	25.7%	231	*13.1%*	600	669	*-10.3%*
Of which Aviation	143	139	2.7%	192	*-25.7%*	422	535	*-21.2%*
Total	**1,726**	**1,336**	***29.2%***	**1,245**	***38.7%***	**4,172**	**3,723**	***12.1%***

EBITDA by Segment *(AED millions)*	**Q3-20**	**Q2-20**	***QoQ %***	**Q3-19**	***YoY %***	**9M 2020**	**9M 2019**	***YoY %***
Retail (B2C)	**815**	**536**	***52.0%***	**420**	***94.1%***	**1,770**	**1,375**	***28.8%***
Commercial (B2B)	**226**	**185**	**22.3%**	**276**	***-18.2%***	**550**	**829**	***-33.6%***
Of which Corporate	177	134	*32.0%*	179	*-0.9%*	385	555	*-30.7%*
Of which Aviation	49	51	*-3.4%*	98	*-49.9%*	166	274	*-39.6%*
Unallocated[1]	-162	-22	*NM*	2	*NM*	-187	-23	NM
Total	**879**	**699**	***25.8%***	**698**	***25.9%***	**2,134**	**2,181**	***-2.2%***

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

Distribution and administrative expenses

Q3 2020 distribution and administrative expenses were AED 858 million, an increase of 22.1% compared to Q3 2019 distribution and administrative expenses of AED 702 million. This increase was mainly due to one-off expenses related to staff restructuring cost and COVID-19 expenses, as well as due to growth OPEX associated with our network expansion and cost of additional staff to implement free assisted fueling (effective 3rd November 2019).

On a like-for-like basis, cash OPEX reduced by AED 26 million in Q3 2020, mainly as a result of optimization in staff cost and decrease in other general & administrative expenses.

9M 2020 distribution and administrative expenses were AED 2,303 million, an increase of 15.4% compared to the same period of 2019, mainly due to one-off expenses related to staff restructuring cost, additional pension cost, COVID-19 related expenses, growth OPEX associated with our network expansion and owing to the cost of additional staff to implement free assisted fueling (effective 3rd November 2019), while 9M 2019 had benefited from a presence of one-off OPEX reversals.

On a like-for-like basis, cash OPEX reduced by AED 37 million in 9M 2020.

AED millions	**Q3-20**	**Q2-20**	***QoQ %***	**Q3-19**	***YoY %***	**9M 2020**	**9M 2019**	***YoY %***
Staff costs	509	460	*10.7%*	410	*24.2%*	1,374	1,226	*12.0%*
Depreciation	169	136	*23.9%*	133	*26.8%*	439	389	*12.9%*
Repairs, maintenance and consumables	47	45	*3.3%*	28	*67.6%*	134	82	*63.1%*
Distribution and marketing expenses	29	22	*32.6%*	15	*86.5%*	70	49	*42.0%*
Utilities	36	45	*-20.5%*	46	*-22.4%*	123	110	*12.1%*
Insurance	3.2	4.9	*-34.7%*	3.0	*6.7%*	11	7.0	*61.4%*
Others[1]	66	33	*97.6%*	67	*-1.9%*	152	132	*14.9%*
Total	**858**	**746**	***15.1%***	**702**	***22.1%***	**2,303**	**1,996**	**15.4%**

(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 purchase of machinery and equipment, and (iii) other capital expenditures related to our properties, including structural upgrades, technology infrastructure upgrades and other improvements.

In 9M 2020, the majority of our capital expenditure (about 80% of the total) was incurred for the development and construction of new service stations. Industrial and other projects capital expenditure increased due to higher spending on accelerated convenience stores refurbishment, My Station assets and new vehicle inspections sites. 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	**Q3-20**	**Q2-20**	***QoQ %***	**Q3-19**	***YoY %***	**9M 2020**	**9M 2019**	***YoY %***
Service stations projects	162	163	*-0.9%*	69	*134.2%*	479	146	*228.1%*
Industrial & other projects	32	13	*155.1%*	0.6	*NM*	47	36	*32.4%*
Machinery & Equipment	3.7	5.0	*-26.0%*	7.0	*-47.1%*	17	28	*-38.7%*
Distribution fleet	0.6	2.2	*-72.7%*	0.3	*100.0%*	10	1.0	*NM*
Technology infrastructure	18	15	*15.6%*	28	*-36.4%*	47	30	*54.0%*
Office furniture and equipment	0.4	0.6	*-33.3%*	1.2	*-66.7%*	1.1	3.4	*-67.6%*
Total	**217**	**199**	***8.8%***	**106**	***103.9%***	**601**	**244**	***146.0%***

NM: Not meaningful

Business segments operating review

Retail Segment – B2C (Fuel and Non-Fuel)

Volumes

Q3 2020 retail fuel volumes declined by 4.6% compared Q3 2019. Compared to Q2 2020, volumes increased by 42.5% driven by the easing of movement restrictions.

In 9M 2020, retail fuel volumes declined by 13.0% compared to 9M 2019. The decline in Retail fuel volumes in Q3 and 9M 2020 was mainly owing to the impact of COVID-19.

Retail Segment volumes (million liters)	Q3-20	Q2-20	*QoQ %*	Q3-19	*YoY %*	9M 2020	9M 2019	*YoY %*
Gasoline	1,371	937	*46.3%*	1,408	*-2.7%*	3,688	4,203	*-12.3%*
Diesel	132	114	*15.8%*	172	*-23.4%*	412	522	*-21.0%*
Other (1)	36	28	*26.2%*	31	*13.7%*	95	95	*0.2%*
Total	**1,538**	**1,079**	***42.5%***	**1,612**	***-4.6%***	**4,195**	**4,819**	***-13.0%***

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

Results

Q3 2020 Retail segment revenue decreased by 21.2% compared to Q3 2019, primarily due to lower fuel volumes, lower pump prices and lower Non-Fuel Retail revenues.

Q3 2020 Retail segment gross profit increased by 60.9% y-o-y compared to Q3 2019, driven by Fuel Retail business. Fuel Retail gross profit increased by 77.0% 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, partially offset by lower retail volumes.

Q3 2020 Retail segment EBITDA increased by 94.1% compared to Q3 2019, mainly driven by higher retail margins, partially offset by lower fuel volumes, decline in non-fuel gross profit and increase in one-off OPEX.

9M 2020 retail segment gross profit increased by 25.1% y-o-y. Fuel Retail business posted strong operating performance with gross profit growth of 34.8% y-o-y, mainly supported by higher retail fuel margins and reduction in fuel cost, partially offset by lower retail fuel volumes. Non-fuel retail gross profit decreased by 23.8% compared to 9M 2019 due to lower transactions as a result of COVID-19 lockdown restrictions as well as due to the absence of voucher redemption after implementing free assisted fueling.

9M 2020 Retail segment EBITDA increased by 28.8% y-o-y, driven by higher retail margins, offset by lower fuel volumes, decline in non-fuel gross profit and increase in one-off OPEX.

Retail Segment (AED million)	Q3-20	Q2-20	*QoQ %*	Q3-19	*YoY %*	9M 2020	9M 2019	*YoY %*
Revenue	2,916	**2,033**	*43.4%*	**3,698**	*-21.2%*	**8,395**	**10,764**	*-22.0%*
Of which Fuel Retail	2,681	1,871	*43.3%*	3,411	*-21.4%*	7,737	9,925	*-22.0%*
Of which Non-Fuel Retail	234	162	*44.3%*	287	*-18.2%*	657	839	*-21.7%*
Gross profit	**1,321**	**988**	*33.7%*	**821**	*60.9%*	**3,150**	**2,519**	*25.1%*
Of which Fuel Retail	1,196	918	*30.3%*	676	*77.0%*	2,829	2,098	*34.8%*
Of which Non-Fuel Retail	125	70	*77.4%*	145	*-13.8%*	320	420	*-23.8%*
EBITDA	**815**	**536**	***52.0%***	**420**	***94.1%***	**1,770**	**1,375**	***28.8%***
Operating profit	663	417	*59.1%*	305	*117.6%*	1,381	1,038	*33.1%*
Capital expenditures	190	190	*-0.2%*	78	*142.1%*	542	193	*181.2%*

Other operating metrics

Q3 2020 fuel transactions decreased by 9.7% compared to Q3 2019, primarily due to COVID-19 business impact. Whereas, fuel transactions increased by 43.9% when compared to Q2 2020.

Fuel operating metrics	Q3-20	Q2-20	*QoQ %*	Q3-19	*YoY %*	9M 2020	9M 2019	*YoY %*
Number of service stations – UAE (1)	418	406	*3.0%*	382	*9.4%*	418	382	*9.4%*
Number of service stations - Saudi Arabia (1) (2)	2	2	*0.0%*	2	*0.0%*	2	2	*0.0%*
Throughput per station (million liters)	3.6	2.6	*38.5%*	4.1	*-12.2%*	9.8	12.3	*-20.3%*
Number of fuel transactions (millions)	36.4	25.3	*43.9%*	40.3	*-9.7%*	99.9	117.2	*-14.8%*

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

Q3 2020 Non-fuel transactions decreased by 31.6% compared to Q3 2019, and by 33.6% in 9M 2020 compared to 9M 2019, mainly due to COVID-19 which has resulted in a decline in customer visits as well as due to the absence of vouchers after implementing free assisted fueling (effective November 2019). However, non-fuel transactions witnessed strong recovery with growth of 37.9% in Q3 2020 compared to Q2 2020.

Our convenience stores generated lower revenues in Q3 2020 compared to Q3 2019, mainly due to lower transactions. However, average gross basket size sustained growth and increased by 20.4% y-o-y in Q3 2020, driven by COVID-19 impact, whereby customers are visiting less frequently but buying more during each visit. This was also supported by our customer centric initiatives like improvement in category management and online delivery.

We continue to transition our tenancy business to a revenue sharing model to maximize revenue and profitability. The number of occupied properties decreased compared to previous year due to portfolio optimization by some of our tenants.

The number of vehicles inspected (fresh tests) in our vehicle inspection centers were stable in Q3 2020 compared to Q3 2019, but show strong recovery compared to Q2 2020 driven by the easing of lockdown restrictions.

Non-Fuel operating metrics	**Q3-20**	**Q2-20**	***QoQ %***	**Q3-19**	***YoY %***	**9M 2020**	**9M 2019**	***YoY %***
Total number of non-fuel transactions (millions) (2)	8.0	5.8	*37.9%*	11.7	*-31.6%*	23.5	35.4	*-33.6%*
Number of convenience stores - UAE (1)	299	288	*3.8%*	264	*13.3%*	299	264	*13.3%*
Convenience stores revenue (AED million)	155	125	*24.6%*	204	*-23.9%*	464	598	*-22.4%*
Convenience stores gross profit (AED million)	48	35	*37.7%*	64	*-25.8%*	131	183	*-28.0%*
Margin	*30.6%*	*27.7%*		*31.3%*		*28.4%*	*30.6%*	
Conversion rate % (3)	18%	19%		26%		20%	27%	
Average basket size (AED) (4)	23.1	25.5	*-9.4%*	19.6	*17.9%*	23.0	18.8	*22.3%*
Average gross basket size (AED)(5)	27.7	31.3	*-11.5%*	23.0	*20.4%*	28.3	23.6	*19.9%*
Number of Property Management tenants (1)	253	273	*-7.3%*	268	*-5.6%*	253	268	*-5.6%*
Number of occupied properties for rent (1)	863	895	*-3.6%*	926	*-6.8%*	863	926	*-6.8%*
Number of vehicle inspection centers (1) (6)	29	27	*7.4%*	26	*11.5%*	29	26	*11.5%*
Number of vehicles inspected (fresh tests) (thousands)	192	32	*500.6%*	191	*0.2%*	402	561	*-28.4%*
Other vehicle inspection transactions (thousands)7	54	11	*395.4%*	57	*-5.8%*	127	172	*-26.3%*

(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

Q3 2020 Commercial Fuel volumes were down by 21.2% compared to Q3 2019, driven by a decrease of 12.4% y-o-y in Corporate volumes and 49.3% y-o-y decline in Aviation volumes sold to our strategic customers.

9M 2020 Commercial Fuel volumes were down by 8.9% compared to 9M 2019. 9M 2020 Corporate volumes decreased by 2.9% y-o-y, while decrease of 27.2% y-o-y in Aviation volumes sold to our strategic customers.

Commercial Segment volumes (million liters)	Q3-20	Q2-20	QoQ %	Q3-19	YoY %	9M 2020	9M 2019	YoY %
Gasoline	35	28	*28.7%*	26	*33.6%*	91	61	*49.2%*
Diesel	459	452	*1.7%*	544	*-15.5%*	1,297	1,333	*-2.7%*
Aviation	109	139	*-21.3%*	216	*-49.3%*	427	586	*-27.2%*
Other (1)	104	108	*-4.4%*	113	*-7.9%*	348	394	*-11.6%*
Total	**708**	**727**	***-2.6%***	**899**	***-21.2%***	**2,164**	**2,375**	***-8.9%***

(1) Includes LPG, lubricants and base oil.

Results

Q3 2020 Commercial segment revenue decreased by 42.5% compared to Q3 2019, mainly due to lower volumes and lower oil prices.

Q3 2020 Commercial segment gross profit declined by 4.5% driven by lower volumes, partially offset by higher margins.

Q3 2020 Commercial segment EBITDA declined by 18.2% compared Q3 2019, due to lower volumes, prudent bad debt provision in light of COVID-19 situation and increase in one-off OPEX.

9M 2020 Commercial segment revenue decreased by 30.2% compared to 9M 2019.

9M 2020 Commercial segment gross profit declined by 15.1%, due to lower volumes as well as negative one-off items, whereas 9M 2019 included one-off recoveries.

9M 2020 Commercial EBITDA declined by 33.6% y-o-y due to lower volumes, prudent bad debt provision and negative one-off items in the Commercial business, whereas 9M 2019 included one-off receivables recoveries.

Commercial Segment (AED million)	Q3-20	Q2-20	QoQ %	Q3-19	YoY %	9M 2020	9M 2019	YoY %
Revenue	**1,115**	**983**	***13.4%***	**1,939**	***-42.5%***	**3,592**	**5,146**	***-30.2%***
Of which Corporate	871	761	14.4%	1,377	*-36.8%*	2,683	3,588	*-25.2%*
Of which Aviation	244	222	9.9%	561	*-56.6%*	909	1,558	*-41.7%*
Gross profit	**405**	**347**	**16.5%**	**424**	***-4.5%***	**1,022**	**1,204**	***-15.1%***
Of which Corporate	262	208	25.7%	231	*13.1%*	600	669	*-10.3%*
Of which Aviation	143	139	2.7%	192	*-25.7%*	422	535	*-21.2%*
EBITDA	**226**	**185**	**22.3%**	**276**	***-18.2%***	**550**	**829**	***-33.6%***
Operating profit	209	169	24.2%	259	*-19.1%*	500	778	*-35.7%*
Capital expenditures	1.3	3.0	-56.7%	1.6	*-18.8%*	13	4.6	*171.7%*

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 30 September 2020 was AED 3.52. In the period from 1 January 2020 through 30 September 2020, the share price has ranged from AED 2.40 to AED 3.52 at close. Our market capitalization was AED 44 billion as of 30 September 2020, and an average of 3.4 million shares have traded daily in 9M 2020 (+79% versus 2019). In 9M 2020, the average daily traded value of our shares was USD 2.8 million (+111% versus 2019).

As of 30 September 2020, ADNOC owned 80% of our outstanding shares.

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.

Reporting date for the fourth quarter and full year 2020

We expect to announce our fourth quarter and full year 2020 results on or around February 11, 2021.

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November 11, 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.