

ABU DHABI NATIONAL ENERGY COMPANY "TAQA"  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
August 9, 2010

Table of Contents

1. Summary of Quarterly Results.....	1
2. Business Environment .....	1
3. Significant Activities in the Period.....	2
4. Results of Operations .....	3
5. Capital Structure and Liquidity.....	8
6. Operational Data.....	9

**1. Summary of Quarterly Results**

(AED millions, except per share amounts)	Jun 30 2010	Mar 31 2010	Dec 31 2009	Three months ended				
				Sep 30 2009	Jun 30 2009	Mar 31 2009	Dec 31 2008	Sep 30 2008
Total assets	91,834	94,133	91,845	93,120	90,165	86,953	86,388	85,401
Shareholders' equity	11,814	13,110	12,410	11,313	9,925	7,949	7,747	13,721
Revenues	5,141	4,776	4,377	3,898	4,380	4,200	3,733	4,516
Profit for the period	358	440	44	278	315	136	340	840
Attributable to minority interests	187	153	128	188	179	96	108	117
Attributable to equity holders of the parent	171	287	(84)	90	136	40	232	723
Earnings per share	0.028	0.047	(0.018)	0.020	0.022	0.006	0.020	0.130

- The year on year increase in net income resulted primarily from increased commodity prices, partly offset by lower production in the Upstream business, higher fuel revenue in the domestic Power & Water business and the income from the Sohar aluminium plant
- The international Power business continued to provide stable revenues and net income.

**2. Business Environment**

Average prices		Jun 30 2010	Mar 31 2010	Three months ended			
				Dec 31 2009	Sep 30 2009	Jun 30 2009	Mar 31 2009
WTI crude oil	US\$/bbl	78.05	78.88	76.13	68.24	59.79	43.31
Brent crude oil	US\$/bbl	79.41	68.43	75.54	68.87	59.90	45.72
NYMEX natural gas	US\$/mmbtu	4.35	4.99	4.93	3.44	3.81	4.47
AECO natural gas	CA\$/GJ	3.70	4.67	4.38	2.87	3.30	4.67

US \$/Cdn \$ exchange rate	US\$	Exchange rates as of					
		Jun 30 2010	Mar 31 2010	Dec 31 2009	Sep 30 2009	Jun 30 2009	Mar 31 2009
		0.940	0.985	0.950	0.935	0.860	0.792

US \$/British pound exchange rate	US\$	1.494	1.518	1.617	1.598	1.647	1.427
US \$/Euro exchange rate	US\$	1.224	1.315	1.430	1.464	1.404	1.320
US \$/Moroccan dirham exchange rate	US\$	0.111	0.121	0.127	0.129	0.124	0.118

### **Crude Oil & Natural Gas Prices**

TAQA's operating results are partially dependent on crude oil and natural gas prices, which have recently been volatile. Prices for oil are based on world supply and demand and are subject to large fluctuations in response to relatively minor changes to the demand for oil, whether the result of uncertainty or a variety of additional factors beyond the control of TAQA, including actions taken by the Organization of Oil Producing and Exporting Countries ("OPEC").

Revenues for TAQA's oil production are primarily driven by changes in the price of West Texas Intermediate ("WTI") at TAQA NORTH and changes in the price of Brent in Europe. Crude oil prices were volatile throughout the second quarter but, on average, improved over the first quarter.

Revenues for TAQA's natural gas production in North America are primarily driven by changes in NYMEX natural gas priced at Henry Hub but are subject to market factors which can affect the basis price between the Nymex benchmark and prices received in Western Canada. Natural gas prices traded lower in the second quarter reflecting lower demand in the period between the winter heating season and summer cooling season.

### **Foreign Exchange**

TAQA is exposed to the risk of adverse fluctuations in foreign exchange rates and interest rates. Revenues from its domestic subsidiaries are receivable in UAE Dirhams. Revenues from TAQA's other operating subsidiaries are receivable in U.S. Dollars, Euros, Canadian Dollars, Moroccan Dirhams and Indian Rupees.

## **3. Significant Activities in the Period**

### ***Corporate activity during the second quarter of 2010***

In April, TAQA swapped \$1.0 billion of its 2013 fixed rate bonds into floating rate. This was done to optimize the company's exposure to floating interest rates.

During Q2 2010 TAQA successfully completed the refinancing of a CDN \$1.325 billion revolving credit facility by its wholly-owned subsidiary TAQA NORTH. The new facility is a CDN\$1.0 billion three-year revolving credit facility funded by a syndicate of eight Canadian banks and was over-subscribed.

### ***Downstream***

In June ADWEA transferred their 40% equity stake in Oman's Sohar Aluminium Company to TAQA. The aluminium smelter and accompanying 1,000 MW power plant gives TAQA access to a new market and complements its existing MENA footprint.

### ***Midstream***

At **TAQA Energy**, the Bergermeer Gas Storage project was granted approval in July to increase the reservoir pressure from 35 bars to 80 bars, thus increasing the allowable volume of cushion gas in the facility. The project is waiting for final permitting before commencing the construction phase.

## Upstream

**TAQA NORTH** acquired a portion of Suncor Energy's interests in West Central Alberta for a total consideration of CDN \$285 million. The sale will increase TAQA NORTH's production by approximately 6,100 boe/day.

Production volumes at **TAQA Bratani** were 31,600 boe/day in the second quarter, down 21% from the first quarter of 2010 due primarily to a 28-day planned shutdown at the Tern Alpha platform. Additionally, TAQA experienced water injection issues at the Cormorant Alpha and North Cormorant platforms which have since been resolved.

The North Cormorant drilling campaign has been completed and drilling on the Pelican field continued throughout the quarter with two wells now complete. The tie-in of the first well is expected in the third quarter.

The Rijn Oil project at **TAQA Energy**, in which TAQA holds a **38.3 %** interest, is on track for first oil in September. This project is expected to add approximately 2,500 bbl/day of gross production (950 bbl/day net).

## 4. Results of Operations

### Revenues

Revenues (AED millions)	Three months ended Jun 30		Six months ended Jun 30	
	2010	2009	2010	2009
Revenue from oil and gas	<b>1,884</b>	1,613	<b>4,127</b>	3,228
Revenue from electricity and water	<b>1,598</b>	1,557	<b>3,073</b>	2,948
Fuel revenue	<b>1,507</b>	1,064	<b>2,258</b>	2,028
Gas storage revenue	<b>26</b>	17	<b>187</b>	179
Other operating revenue	<b>126</b>	129	<b>272</b>	197
	<b>5,141</b>	4,380	<b>9,917</b>	8,580

### Three months ended 30 June 2010 compared with three months ended 30 June 2009

TAQA currently generates its revenues primarily from power generation, water desalination, oil and gas production and gas storage.

Total revenues were AED 5.1 billion in 2010, 19% higher than total revenues of AED 4.4 billion in 2009.

Oil and gas revenues in 2010 were AED 1.9 billion, an increase of AED 0.3 billion compared to AED 1.6 billion in 2009. This 19% increase was driven primarily by the increase in crude oil and natural gas liquid prices and revenue from DSM assets acquired in October 2009. The increase was partly offset by lower production and lifting.

Three month revenues from the sale of electricity and water remained flat at AED 1.6 billion. The marginal increase was primarily due to Taweelah A1 expansion commissioned in June 2009.

Fuel revenues were AED 1.5 billion in 2010, compared to AED 1.1 billion in 2009 due to higher back up fuel cost in 2010 primarily in the domestic subsidiaries.

Gas storage revenues were AED 26 million in 2010 compared to AED 17 million in 2009 due to higher gas prices in the second quarter 2010.

Other operating revenues of AED 126 million in 2010 were similar to AED 129 million in 2009 and were primarily attributable to processing and tariff income related to the offshore facilities which provide processing, compression and transport services.

### **Six months ended 30 June 2010 compared with six months ended 30 June 2009**

Total revenues were AED 9.9 billion in 2010, 15% higher than total revenues of AED 8.6 billion in 2009.

Oil and gas revenues in 2010 were AED 4.1 billion, an increase of AED 0.9 billion compared with AED 3.2 billion in 2009. This 28% increase was driven primarily by the increase in crude oil and natural gas liquid prices and revenue from DSM assets acquired in October 2009.

Six month revenues from the sale of electricity and water were AED 3.1 billion, compared to AED 2.9 billion in 2009. The increase was primarily due to Taweelah A1 expansion commissioned in June 2009, better performance in domestic subsidiaries and stronger INR exchange rate.

Fuel revenues were AED 2.3 billion in 2010, compared to AED 2.0 billion in 2009 due to higher back up fuel cost in 2010 primarily in the domestic subsidiaries.

Gas storage revenues were AED 187 million in 2010 compared to AED 179 million in 2009. This was mainly due to stronger Euro against AED.

Other operating revenues of AED 272 million in 2010 compared to AED 197 million in 2009 were primarily attributable to processing and tariff income related to the offshore facilities which provide processing, compression and transport services. This higher amount in 2010 was mainly due to higher tariff, higher processing income, insurance proceeds and earnings from the DSM acquisition.

## Cost of sales

Cost of sales <i>(AED millions)</i>	Three months ended Jun 30		Six months ended Jun 30	
	2010	2009	2010	2009
Operating expenses	<b>(1,179)</b>	(1,063)	<b>(2,471)</b>	(2,144)
Fuel expenses	<b>(1,411)</b>	(1,097)	<b>(2,148)</b>	(2,090)
Gas storage expenses	<b>(24)</b>	(30)	<b>(72)</b>	(99)
Depreciation, depletion and amortization	<b>(1,073)</b>	(979)	<b>(2,169)</b>	(1,973)
	<b>(3,687)</b>	(3,169)	<b>(6,860)</b>	(6,306)

### Three months ended 30 June 2010 compared with three months ended 30 June 2009

TAQA's cost of sales consist of staff costs; repairs, maintenance and consumables used; operation and maintenance charges; gas storage expenses; fuel expenses; depreciation, depletion and amortisation and other operating expenses.

Total cost of sales amounting AED 3.7 billion in 2010 increased from AED 3.2 billion in 2009. Operating expenses increased in 2010 due to higher costs driven by the DSM acquisition in October 2009, higher operating costs at TAQA Bratani and the impact of higher CAD exchange rates.

The increase in fuel costs was due to higher back up fuel used at the domestic subsidiaries.

The higher gas storage expenses were attributable to slightly higher volumes purchased at higher gas prices.

Higher DD&A was primarily due to higher DD&A rates at TAQA NORTH and the impact of the DSM acquisition, partially offset due to lower DD&A rates in TAQA Bratani.

### Six months ended 30 June 2010 compared with six months ended 30 June 2009

Total cost of sales amounted to AED 6.9 billion compared with AED 6.3 billion in 2009. Operating expenses increased in 2010 due to the Taweelah A1 expansion in June 2009, DSM acquisition in October 2009, increased onshore support costs and offshore labour costs at TAQA Bratani, crude inventory movements, increased spending at the Sullom Voe terminal and the impact of higher CAD exchange rate.

The increase in fuel costs due to higher back up fuel used was partially offset with higher fuel revenue.

The lower gas storage expenses were attributable to lower volumes purchased in 2010.

Higher DD&A was primarily due to higher DD&A rates at TAQA NORTH and the impact of the DSM acquisition, partially offset due to lower DD&A rates in TAQA Bratani.

## Other Income Statement Items

<i>(AED millions)</i>	Three months ended Jun 30		Six months ended Jun 30	
	2010	2009	2010	2009
Administrative and other expenses	<b>(184)</b>	(184)	<b>(366)</b>	(351)
Finance costs	<b>(966)</b>	(904)	<b>(1,925)</b>	(1,875)
Interest income	<b>22</b>	25	<b>41</b>	42
Changes in fair value of derivatives	<b>(58)</b>	253	<b>209</b>	297
Net foreign exchange (loss) gain	<b>116</b>	(112)	<b>157</b>	(143)
Share of results of associates	<b>137</b>	15	<b>185</b>	24
Share of results of joint venture	<b>18</b>	27	<b>42</b>	28
Gain on repurchase of bonds	-	86	-	260
Other income	<b>10</b>	1	<b>15</b>	4
Income tax expense	<b>(191)</b>	(103)	<b>(617)</b>	(109)

### Three months ended 30 June 2010 compared with three months ended 30 June 2009

#### *Administrative and Other Expenses*

TAQA's administrative and other expenses consist of salaries and related expenses, professional fees and other expenses. Administrative and other expenses remained flat at AED 184 million in 2010 and 2009.

#### *Finance Costs*

Finance costs were AED 1.0 billion in 2010 and AED 0.9 billion 2009. The increase in 2010 is due to higher interest rates associated with the fixed rate bonds.

#### *Interest Income*

Interest and investment income in 2010 amounted to AED 22 million, similar to AED 25 million for 2009.

#### *Changes in fair value of derivatives*

The unfavorable mark to market movement of AED 58 million in value of derivatives in 2010 versus favorable movement of AED 253 million in 2009 is due to delta hedging of energy margins at TAQA GEN X against the underlying tolling contract. The movement in 2010 is net of a hedging relationship between these items that has been designated effective April 2010.

#### *Net foreign exchange (loss) gain*

The foreign exchange gain/loss results from the settlement of transactions denominated in currencies other than the dirham, TAQA's functional currency.

Gain on exchange was AED 116 million in 2010 compared to a loss of AED 112 million in 2009. The current quarter's gain arose primarily from the depreciation of Moroccan Dirhams while the 2009 loss was primarily attributable to the appreciation of Moroccan Dirhams.

#### *Share of results in associates*

The increase in the share of results in associates is primarily due to TAQA recording AED 90 million as 40% share of profits in Sohar Aluminium Company LLC. (Sohar). The 40% interest in Sohar was transferred to TAQA by ADWEA in June 2010. The acquisition was accounted for using the pooling of interest method effective 1 January 2010.

#### *Gain on repurchase of TAQA bonds*

A gain of AED 86 million was recorded in the second quarter of 2009 from the buy back of bonds of a nominal value of US\$ 122 million. No bond repurchases were made during 2010.

#### *Profit Before Tax*

As a result of the above, profit before tax was AED 0.5 billion in 2010, compared to a profit of AED 0.4 billion in 2009.

#### *Income Tax*

Income tax expense was AED 191 million for 2010, comprising AED 127 million of current income tax benefit and AED 318 million of deferred income tax expense, resulting in an effective tax rate of 35%, compared to tax expense of AED 103 million and an effective tax rate of 25% in 2009, comprising AED 117 million of current income tax expense and AED 14 million of deferred income tax benefit. The increase in total income tax expense was due to higher profits and the increase in effective tax rate is due to reduction of tax-deductible finance costs in taxing jurisdictions and a change in the composition of taxable income.

#### *Profit for the Period*

Profit for the period (before minority interest) was AED 358 million in 2010, an increase of 14% compared with profit in 2009 of AED 315 million.

### **Six months ended 30 June 2010 compared with six months ended 30 June 2009**

#### *Administrative and Other Expenses*

Administrative and other expenses were AED 366 million in 2010 compared to AED 351 million in 2009. The increase of AED 15 million is mainly explained by donations made during 2010 and higher CAD exchange rates.

#### *Finance Costs*

TAQA's finance costs primarily consist of interest expense on bank loans and outstanding bonds.

Finance costs were AED 1.9 billion in 2010 and 2009. Higher interest rates associated with the fixed rate bonds was offset by the absence in 2010 of debt breakage costs incurred by the Moroccan subsidiary in 2009.

#### *Interest Income*

Interest and investment income in 2010 amounted to AED 41 million comparable to AED 42 million for 2009.

#### *Changes in fair value of derivatives*

The mark to market movement of AED 209 million in value of derivatives in 2010 versus AED 297 million in 2009 is due to delta hedging of energy margins at TAQA GEN X against the underlying tolling contract. A hedging relationship between these items has been designated effective as of April 2010.

#### *Net foreign exchange (loss) gain*

The foreign exchange gain/loss results from the settlement of transactions denominated in currencies other than the dirham, TAQA's functional currency.

Gain on exchange was AED 157 million in 2010 compared to a loss of AED 143 million in 2009. The current year's gain arose primarily from the depreciation of Moroccan Dirhams while the 2009 loss was primarily attributable to the appreciation of Moroccan Dirhams.

#### *Share of results in associates*

The increase in the share of results in associates is primarily due to TAQA recording AED 90 million as 40% share of profits in Sohar Aluminium Company LLC. (Sohar). The 40% interest in Sohar was transferred to TAQA by ADWEA in June 2010. The acquisition was accounted for using the pooling of interest method effective 1 January 2010.

#### *Gain on repurchase of TAQA bonds*

A gain of AED 260 million was recorded in 2009 from the buy back of bonds of a nominal value of US\$ 323 million. No bond repurchases were made during 2010.

#### *Profit Before Tax*

As a result of the above, profit before tax was AED 1.4 billion in 2010, compared to a profit of AED 0.6 billion in 2009.

#### *Income Tax*

Income tax expense was AED 617 million for the year 2010, comprising AED 231 million of current income tax expense and AED 386 million of deferred income tax expense, resulting in an effective tax rate of 44%, compared to tax expense of AED 109 million and an effective tax rate of 19% in 2009, comprising AED 195 million of current income tax expense and AED 86 million of deferred income tax benefit. The increase in income tax expense was due to higher taxable profits and the increase in effective tax rate is due to reduction of tax-deductible finance costs in taxing jurisdictions and a change in the composition of taxable income.

#### *Profit for the Period*

Profit for the period (before non-controlling interest) was AED 798 million in 2010, an increase of 77% compared with profit in 2009 of AED 451 million.

## **5. Capital Structure and Liquidity**

Capital Structure (AED millions)	Six months ended Jun 30	
	2010	2009
Total Assets	91,834	90,165
Cash and cash equivalents	4,541	5,092
Total Debt	61,107	62,359
Net Debt	56,566	57,267
Total Equity	11,814	9,925
Net Debt/Total Capital	80.4	83.4

Total assets were 91.8 billion, up from 90.2 billion at the end of June 2009. The increase was due to the acquisition of DSM Energy during fourth quarter of 2009, offset by the impact of depreciation

TAQA's net debt to total capital ratio improved to 80% from 83% at the end of the second quarter of 2009.

Liquidity (AED millions)	Six months ended Jun 30	
	2010	2009
Cash and cash equivalents	4,541	5,092
Unused portion of credit facilities	14,309	7,900
Total available liquidity	18,850	12,992

Consolidated cash on hand as of 30 June 2010 was AED 4.5 billion compared with AED 5.1 billion at the end of 30 June 2009. The company has unused credit lines of approximately AED 14.3 billion as of 30 June 2010.

On July 1, the US\$ 1.0 billion bilateral facility with the National Bank of Abu Dhabi expired and will not be replaced. This expiry decreases TAQA's unused credit facilities to AED 10.6 billion.

## 6. Operational Data

### Power & Water

		Three months ended Jun 30		Six months ended Jun 30	
		2010	2009	2010	2009
UAE domestic plants					
Power generation	(GWh)	11,435	9,994	18,329	16,066
Water desalination	(MIG)	54,581	52,904	103,950	99,115
Technical availability	(%)	98.8	98.7	92.6	94.1
International plants					
Power generation	(GWh)	3,690	3,652	7,381	7,220
Technical availability	(%)	89.9	92.0	93.5	90.7

### Upstream

#### Pricing

Average Realized Prices		Three months ended Jun 30		Six months ended Jun 30	
		2010	2009	2010	2009
TAQA NORTH					
Crude oil	(US\$/bbl)	66.04	53.12	67.86	44.20
Natural gas liquids	(US\$/bbl)	53.19	37.13	55.32	34.82
Natural gas	(US\$/mcf)	4.09	3.45	4.64	4.01
Average	(US\$/boe)	37.89	29.88	40.77	29.80
TAQA Bratani					
Crude oil	(US\$/bbl)	78.74	55.15	77.72	56.25
Natural gas liquids	(US\$/bbl)	52.70	32.49	55.65	33.20
Natural gas	(US\$/mcf)	5.67	6.02	5.82	5.94
Average	(US\$/boe)	72.29	51.66	72.17	52.36
TAQA Energy					
Crude oil	(US\$/bbl)	79.86	38.53	76.19	45.17
Natural gas	(US\$/mcf)	7.05	8.19	7.49	10.06
Average	(US\$/boe)	45.10	48.70	47.71	59.98

#### Netback Analysis

(US\$/boe)		Three months ended Jun 30		Six months ended Jun 30	
		2010	2009	2010	2009
TAQA NORTH					
	Gross price	\$ 37.89	\$ 29.88	\$ 40.77	\$ 29.80
	Royalties	5.81	4.19	6.49	4.77
	Net sales price	32.08	25.69	34.28	25.03
	Operating costs	10.30	9.46	10.34	9.42
	Operating netback	\$ 21.78	\$ 16.23	\$ 23.94	\$ 15.61
TAQA Bratani					

	Gross price	\$ 72.29	\$ 51.66	\$ 72.17	\$ 52.36
	Net sales	72.29	51.66	72.17	52.36
	Operating costs	35.39	23.13	31.83	22.87
	Operating netback	\$ 36.90	\$ 28.53	\$ 40.34	\$ 29.49
TAQA Energy					
	Gross price	\$ 45.10	\$ 48.70	\$ 47.71	\$ 59.98
	Royalties	1.39	4.00	2.45	4.41
	Net sales price	43.70	44.70	45.26	55.57
	Operating costs	15.19	12.44	14.50	9.82
	Operating netback	\$ 28.51	\$ 32.26	\$ 30.77	\$ 45.75

### **Oil & Gas Production**

Average Daily Production		Three months ended Jun 30		Six months ended Jun 30	
		2010	2009	2010	2009
<b>TAQA NORTH</b>					
Crude oil	<i>(mbbls/day)</i>	21.0	20.9	20.8	20.9
Natural gas liquids	<i>(mbbls/day)</i>	10.6	10.5	11.0	10.3
Natural gas	<i>(mmcf/day)</i>	336.9	368.2	336.4	366.7
Total	<i>(mboe/day)</i>	87.7	92.8	87.9	92.3
<b>TAQA Bratani</b>					
Crude oil	<i>(mbbls/day)</i>	27.9	33.1	31.5	33.2
Natural gas liquids	<i>(mbbls/day)</i>	0.7	1.1	0.8	1.0
Natural gas	<i>(mmcf/day)</i>	18.1	36.6	19.0	39.5
Total	<i>(mboe/day)</i>	31.6	40.2	35.5	40.8
<b>TAQA Energy</b>					
Crude oil	<i>(mbbls/day)</i>	1.1	0.2	1.1	.01
Natural gas	<i>(mmcf/day)</i>	42.8	29.8	45.6	32.9
Total	<i>(mboe/day)</i>	8.2	5.2	8.7	5.6
Total	<i>(mboe/day)</i>	127.5	138.2	132.1	138.7