

**ABU DHABI NATIONAL ENERGY COMPANY "TAQA"  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
Period ended 31 Mar 2018**

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**1. Summary of Quarterly Results**

(AED millions, except per share amounts)	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar
	2018	2017	2017	2017	2017
Total Assets	101,546	103,033	102,046	102,998	103,970
Shareholders' equity	9,480	9,136	8,589	8,526	8,281
Revenue	4,337	4,153	4,175	4,211	4,141
Profit for the period	304	459	67	288	229
Attributable to non-controlling interests	194	217	261	253	152
Attributable to equity holders of the parent	110	242	(194)	35	77
Profit (loss) per share (AED per share)	0.018	0.040	(0.032)	0.006	0.013

Closing Exchange Rate		31-Mar	31-Dec	30-Sep	30-Jun	31-Mar
		2018	2017	2017	2017	2017
US \$/CDN \$	US\$	0.7736	0.7955	0.8018	0.7714	0.7509
US \$/British pound	US\$	1.4079	1.3513	1.3398	1.3025	1.255
US \$/Euro	US\$	1.2308	1.2005	1.1814	1.1426	1.0652
US \$/Moroccan dirham	US\$	0.1087	0.1072	0.1062	0.1037	0.0994

## 2. Business Environment

Average Prices		31-Mar	31-Dec	30-Sep	30-Jun	31-Mar
		2018	2017	2017	2017	2017
WTI crude oil	US\$/bbl	63.77	57.40	48.17	48.11	51.70
Brent crude oil	US\$/bbl	63.50	63.51	51.74	50.13	54.04
NYMEX natural gas	US\$/mmbtu	2.94	2.85	2.93	3.05	3.20
AECO natural gas	CA\$/GJ	1.15	2.24	1.52	2.64	2.55

## 3. Executive Summary

### Financial highlights:

- Total revenues of AED 4.3 billion, an increase of 5% on the first three months of 2018 (2017: AED 4.1 billion) primarily driven by higher commodity prices that benefitted the oil and gas business, and improvement in the power and water business.
- EBITDA of AED 2.3 billion, down 4% on 2017 (2017: AED 2.4 billion) affected by adverse movements in FX, stock, and increased tariff and trading expenses, partially offset by higher revenues.
- Net income of AED 110 million, compared to a net income of AED 77 million in Q1 2017
- Free cash flow of AED 1.6 billion, a decrease of 22% on 2017 (2017: AED 2.0 billion), principally due to lower EBITDA and unfavourable working capital movement.
- Total liquidity remains strong at AED 12.6 billion, including AED 3.6 billion in cash and cash equivalents and AED 8.9 billion of undrawn credit facilities. Total debt was reduced by AED 790 million during the period, while total interest paid was reduced by AED 58 million compared to same period 2017.

### Operational Highlights: Power & Water

- Global power and water business produced 18,773 GWh compared to GWh 18,516 in Q1 2017. Global technical availability in Q1 2018 was at 87.4% compared to 84.3% in Q1 2017.
- UAE operations produced 12,157 GWh of electricity and 56,273 MIG of desalinated water, meeting the majority of Abu Dhabi's water and electricity requirements.

### Operational Highlights: Oil & Gas

- Production volumes of 123,800 barrels of equivalent oil per day (boe/d), down 6% from Q1 2017 (2017: 132,200 boe/d), impacted by natural decline and planned north sea platform maintenance.
- Operating margins per barrel increased, mainly driven by higher realised prices.

#### 4. Results of Operations

For the purpose of the MD&A the Power and Water results include the segments listed below:

- Power & Water Segment – U.A.E
- Power Segment – Others

The Oil & Gas results include:

- Oil & Gas Segment – North America
- Oil & Gas Segment – Europe
- Oil & Gas Segment – Atrush

##### 4.1 Profit/(Losses) before taxes and non-controlling interest (“NCI”) by segment

Profit/(Losses) before taxes and NCI (AED millions)	3 month period ended 31 March		Variance
	Q1 2018	Q1 2017	
Power and Water	694	487	207
Oil and Gas	49	762	(713)
Corporate and others	(301)	(332)	31
Total	442	917	(475)

##### Power and Water Business

Total profit before tax and NCI for the Power and Water business for Quarter ended 31 March 2018 was AED 694 million compared to AED 487 million for the same period in 2017. The AED 207 million increase is largely driven by higher EBITDA by AED 101 million thanks to higher revenues and lower O&M costs, the reduction in finance costs of AED 36 million in line with the reduction in project debt, positive changes in fair value of derivatives of AED 39 million, and other favourable movements of AED 31 million.

##### Oil and Gas Business

Total profit before tax for the Oil and Gas business for the 3 month period ending March 31, 2018 was AED 49 million compared to AED 762 million for the same period in 2017. The AED 713 million decrease in earnings was mainly driven by the following factors:

- Higher DD&A of AED 514 million primarily driven by one-off impact of the reclassification between DD&A and Deferred Tax in 2017 which accounts for AED 590 million and was with respect to the 2016 impairment taken in Europe; this has been partially offset by the lower volumes in 2018.
- Adverse operating expenses and G&A of AED 320 million driven by the following:
  - Adverse Stock Movement impact of AED 137 million in Europe which is driven by the timing of liftings.
  - Higher operating expenses and G&A of AED 117 million largely driven by unfavourable movements in FX rates in North America and Europe and opex associated with operations in Iraq where first oil was only achieved in July 2017.
  - Higher tariff and trading expenses of AED 66 million primarily in Europe which offsets with the higher tariff and trading income referred to below.
- Adverse impact of FX gains/(losses) of AED 19 million largely driven by the FX fluctuations in Europe.

- Lower gains from disposals of AED 12 million attributable to small dispositions in North America.

Partially offsetting the adverse variances above is:

- Higher income of AED 144 million primarily due to the net impact of the following:
  - Favourable impact of higher commodity prices amounting to AED 144 million driven by higher oil and liquids prices.
  - Higher processing, tariff and trading income of AED 63 million primarily in Europe and with respect to higher trading income (which is offset by higher trading expenses as noted above)
  - Favourable sales volumes impact amounting to AED 8 million driven by the higher oil sales in Q1 2018.
  - Lower royalties of AED 3 million primarily as a result of the lower gas prices in North America

Partially offset by:

- Lower midstream revenue of AED 75 million due to operational performance and spreads.
- Other small net favourable variances amounting to AED 8 million primarily driven by lower accretion in both North America and Europe.

#### **Corporate and others**

Total losses before tax for corporate and others for quarter ended 31 March 2018 was AED 301 million compared to an AED 332 million loss for the same period in 2017. The decrease in losses of AED 31 million is mainly due continued focus on cost reduction.

#### **4.2 Taxes and Profit for the Period**

##### **Taxes**

For the quarter ended 31 March 2018 there was a net tax expense of AED 138 million, comprising AED 163 million current tax expenses, offset by an AED 25 million deferred tax credit. For the same period in 2017 there was a net tax expense of AED 688 million, comprising AED 145 million current tax expense and AED 543 million deferred tax expense.

##### **Profit for the period**

Profit for the period was AED 304 million in Q1 2018 compared to AED 229 million in 2017, a variance of AED 75 million driven by the factors discussed above.

## 5. Capital Structure and Liquidity

Capital Structure (AED millions)	31 Mar	31 Dec
	2018	2017
Total assets	101,546	103,033
Total debt	69,435	70,225
Cash and cash equivalents	3,641	4,207
Net debt	65,794	66,018
Total equity	9,480	9,136
Net debt/Net capital* %	85%	85%

\*Equity has been adjusted for exclusion of losses on cumulative changes in fair value of derivatives in cash flow hedges

Liquidity (AED millions)	31 Mar	31 Dec
	2018	2017
Cash and cash equivalents	3,641	4,207
Unused portion of credit facilities	8,946	11,161
<b>Total available liquidity</b>	<b>12,587</b>	<b>15,368</b>



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