ABU DHABI NATIONAL ENERGY COMPANY PJSC ("TAQA")
MANAGEMENT'S DISCUSSION AND ANALYSIS

As at and for the period ended 31 December 2018

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This Management's Discussion and Analysis (MD&A) should be read in conjunction with TAQA's audited consolidated financial statements as at and for the period ended 31 December 2018. Within the MD&A we use the terms "the Group", "we", and "our" to refer to TAQA.

1. Health and Safety, Security and Environment

HSSE is a fundamental part of TAQA's business. Our management teams, at all levels, are directly involved in the development of HSSE objectives at an individual and organizational level. TAQA enforces a strict set of rules, guidelines and reporting tools to ensure a high level of professionalism and adherence to both local and global regulations wherever we operate. Our commitment to 'zero accidents' aims to ensure a safer environment for our staff, our clients and their end-users.

We carefully plan our operations, identifying potential hazards and managing risks at every stage. To this end, our facilities have been proactively designed with the highest safety standards and are continuously monitored throughout their lifecycle. All members of our workforce have the responsibility and the authority to stop unsafe work. Our golden rules of safety guide our workers to stay safe especially while performing tasks with potential safety hazards.

In 2018, TAQA's gross recorded incident rate was 0.33, which is lower by 0.02 than the 0.35 recorded in 2017. The company witnessed 48 spill incidents compared to 36 in 2017, however, the impact of the spills remained similar in 2018 and 2017 with $129m^3$ against $124m^3$. However, we regret to report that we had one fatal accident in our power plant in Morocco as a result of a fatal electric shock during maintenance operations. We have fully investigated this incident and implemented the lessons learned. As additional measures, our Power & Water business is also introducing the basket of leading indicators and an improved behavioral safety program to help us further improve.

		Twelve Months Ended					
		Power & Water		*Oil & Gas*		*Group Total*	
		31-Dec	31-Dec	31-Dec	31-Dec	31-Dec	31-Dec
HSSE Overview		**2018**	2017	**2018**	2017	**2018**	2017
Fatalities	*Number*	**1**	1	**0**	0	**1**	1
Recorded injury rate	*(incident/200k hrs)*	**0.13**	0.35	**0.42**	0.35	**0.33**	0.35
Lost time injury	*Number*	**1**	2	**9**	6	**10**	8
Reportable spills	*Number*	**1**	0	**47**	36	**48**	36

2. Summary of Results

Quarterly Results	Three Months Ended				
Quarterly Results	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec
(AED million, except where indicated)	2018	2018	2018	2018	2017
Technical Power Availability (%)[1]	91.4%	97.8%	97.9%	87.4%	92.6%
Oil & Gas Production (mboe/d)[2]	126.3	124.8	117.4	123.8	120.0
Gross Revenues	4,204	4,935	4,264	4,337	4,153
EBITDA[3]	2,301	2,593	2,418	2,340	2,322
Profit for the Period	179	432	437	304	459
Net Income (Loss)[4]	(33)	153	168	110	242
Profit (Loss) per Share (AED per Share)	(0.005)	0.025	0.028	0.018	0.040
Total Asset	99,337	99,782	101,564	101,546	103,033
Shareholder's Equity	10,559	10,689	10,201	9,480	9,136
Capital Expenditures[5]	457	428	401	428	448
Free Cash Flow[6]	1,483	2,251	1,795	1,578	1,886

1) *Represents weighted average for all power producing assets based on plant capacity.*
2) *Includes working interest production from North America and Europe, and entitlement volume from Iraq.*
3) *Earnings Before Interest, Taxes, Depreciation and Amortization defined as IFRS earnings before income tax, finance charges and depreciation, depletion and amortization.*
4) *Net income (loss) above is portion attributable to common shareholders of TAQA shares.*
5) *Includes Purchase of property, plant and equipment and purchase of intangible assets only*
6) *Free cash flow is defined as operating cash flows less investing cash flows as per the IFRS cash flow statement.*

2.1 Operational Highlights

Power & Water

Technical Availability across the fleet was 93.1% for 2018, compared to 92.1% in 2017. The UAE portfolio of assets improved by 0.9% to 93.6% in 2018. Similarly, the Group's International fleet improved from 89.8% in 2017 to 90.6% in 2018.

Global power generation for the year was 89,922 GWh, showing a small improvement on the 89,846 generated in 2017. International operations showed a 2% improvement in 2018, with power generation increasing by 504GWh to 26,285GWh for the period. The UAE power generation remained stable with 63,637 GWh produced in 2018, a slight reduction compared to 64,064 GWh produced in 2017. UAE Water desalination was 246,556 million imperial gallons (MIG) for the year, versus 249,469 MIG in 2017, with TAQA continuing to supply the majority of Abu Dhabi's requirements.

Oil & Gas

Average production for the year was 123,100 boepd, which was slightly down compared to 126,188 boepd in 2017. Production in North America remained broadly consistent compared to last year at 78,024 boepd, however, the impacts of natural decline and unplanned outages in the Group's North Sea assets has resulted in lower production from our European operations. European hydrocarbon production for 2018 was 41,221 boepd, down from 46,504 boepd in the prior year. This is being carefully managed and increased capital investment in the region has helped to curtail the impacts of natural decline and maximize production from our later-life assets. Increased volumes from the Atrush block in Kurdistan, which commenced operations in July 2017, partially offset the overall decline in volumes. Atrush entitlement production was 3,855 boepd in 2018 versus 1,844 boepd in 2017.

2.2 Financial Highlights

Full year results

2018 profit for the year (TAQA-Share) was AED 398 million versus AED 160 million for 2017. This increase was mainly driven by improved oil and liquid prices which positively impacted the Group's oil and gas business. The Group's power and water portfolio continued its strong performance which resulted in a healthy net profit and cash generation for the Group. Other gains compared to 2017's results were also recognized in TAQA's U.S. power asset through mark-to-market gains on the fair value of derivatives in addition to the recognition of insurance proceeds in the Group's associate (Sohar Aluminum) as a result of the issues faced in August 2017.

2018 Group revenues topped AED 17.7 billion, a 6% improvement versus 2017 revenues of AED 16.7 billion. This increase was mainly driven by the higher oil and liquids prices detailed above. The increased prices has more than offset the lower volumes detailed in section 2.1, with the Group's oil and gas business recognizing a net revenue increase of AED 869 million compared to the prior year. The power and water business also experienced an increase in revenues of AED 181 million, driven by the Group's international power assets.

2018 EBITDA was AED 9.7 billion, a 6% increase versus 2017 (AED 9.1 billion) mainly due to improved performances in Europe, a full year of operation in Iraq, and the recognition of Sohar's insurance proceeds in the current year's results.

Total liquidity at the year-end remains strong at AED 13.1 billion including AED 3.4 billion in cash and cash equivalents, and AED 9.7 billion of undrawn credit facilities. Total debt of 70.2 billion in December 2017, was reduced by AED 4.0 billion throughout 2018, and interest paid in the past twelve months was down AED 163 million when compared to the same period in 2017.

Discrete quarter results

TAQA generated a loss of AED 33 million in Q4 2018, compared to a profit of AED 242 million for the same period last year. This was largely driven by the one-off AED 107 MM post-tax dry hole expense relating to the Morrone field in the UK Central North Sea as a result of further development of the asset being deemed uneconomical in the current price environment.

Revenues in Q4 2018 increased marginally by 1% compared to the same period in 2017, reaching AED 4.2 billion. However, this was lower than the previous quarters in 2018 and was driven by a decrease in oil and liquid prices in the latter part of the year.

TAQA's Q4 2018 EBITDA was AED 2.3 billion, a slight reduction of 1% versus Q4 2017. This was driven by lower share of results of associates as the phasing of insurance proceeds at Sohar Aluminium occurred during the last quarter of 2017 and first half of 2018.

Free cash flow in the last quarter of 2018 was AED 1.5 billion, down from AED 1.9 billion for the same period in 2017.

3. Business Environment

3.1 Average Benchmarks

		Three Months Ended				
		31-Dec	30-Sep	30-Jun	31-Mar	31-Dec
Average Benchmark Summary		**2018**	2018	2018	2018	2017
Brent Crude Oil Price	*($US/bbl)*	**67.4**	78.5	74.5	63.5	63.5
West Texas Intermediate (WTI) Oil Price	*($US/bbl)*	**58.8**	69.7	67.9	63.8	57.4
AECO Natural Gas Price[1]	*($US/Mmbtu)*	**1.24**	0.96	0.95	0.97	1.67
NBP - National Balancing Point	*($US/Mmbtu)*	**8.4**	8.4	7.3	8.1	6.9
USD/GBP Exchange Rate[2]	*($US)*	**1.273**	1.303	1.321	1.408	1.351
USD/CAD Exchange Rate[2]	*($US)*	**0.737**	0.778	0.761	0.774	0.796
USD/EUR Exchange Rate[2]	*($US)*	**1.147**	1.161	1.168	1.231	1.201
USD/MAD Exchange Rate[2]	*($US)*	**0.105**	0.106	0.106	0.109	0.107

1) Benchmark prices are converted from their local currency to $US using average exchange rates for the period.
2) Exchange rates reflect monthly closing rates. AED is pegged to the USD at a rate of 3.673:1.000.

3.2 Crude Oil

Approximately 40% of the Group's hydrocarbon production is crude oil. TAQA produces crude oil in Europe, Iraq, and North America. Europe and Iraq production are sold based on Brent-linked pricing while North American production is sold based on WTI, Edmonton, and Western Canadian Select (WCS) prices. TAQA also produces NGLs which make up approximately 9% of hydrocarbon production, primarily in North America and these are also linked to WTI prices, with relevant discounts for propane, butane, and condensate.

During Q4 2018, Brent prices fell from $85/bbl to below $50/bbl, and ended the year at $53/bbl. The market reacted negatively to the higher than expected shale oil production increase, primarily from the Permian Basin in West Texas. OPEC agreed to reduce production by over 1.2 million barrels at their December meeting and this helped stabilize the market somewhat but was not enough to dramatically reverse the price decline.

3.3 Natural Gas

Approximately 87% of the Group's natural gas is produced in North America, substantially all of which is in western Canada. Most of this gas is sold into the local market based on AECO benchmark prices, which averaged approximately $1.24/MMBtu for Q4 2018. AECO is the local natural gas benchmark, which trades at a substantial discount to NYMEX or Henry Hub benchmarks in the U.S. due to regional oversupply and lack of pipeline egress. Presently, there is no direct access for Canadian producers to liquefied natural gas export terminals, although producers and governments continue to promote and explore opportunities to develop the necessary facilities and infrastructure to reach international markets. Positive news occurred during 2018 with the Shell-led LNG Canada project successfully passing its final investment decision. This should be supportive of long-term western Canada gas prices early in the next decade.

In Europe, TAQA sells most of its natural gas production at spot rates based on NBP (UK) and TTF (Netherlands) price benchmarks. NBP price was strong during the most recent quarter, averaging $8.35/mmbtu, an increase of over 20% relative to the same period in 2017. Gas production in Europe accounts for 13% of total Group gas production.

3.4 Interest Rates

In November 2018 the U.S. Federal Reserve held its Fed Funds Reserve Rate steady at a target range of 2%- 2.5%. The year saw three rate increases largely driven by strength and stability in the U.S. economy, but also global expectations for economic growth.

3.5 Foreign Exchange

In Q4 2018, the Canadian dollar weakened significantly against the U.S. Dollar, from 1.28 to 1.36, impacted by the weakening oil price. The pound also weaken from 1.30 to 1.28 as continued Brexit uncertainty weighed on the markets. The Euro held mostly steady against the U.S. Dollar at approximately 1.15 throughout the quarter.

4. Results of Operations

4.1 Group Consolidated Results

	Twelve Months Ended							
	Power & Water		*Oil & Gas*		*Corp. & Elimination*		*Group Total*	
Group Income (Loss) Summary	**31-Dec**	31-Dec	**31-Dec**	31-Dec	**31-Dec**	31-Dec	**31-Dec**	31-Dec
(AED millions)	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
Total Revenues	**11,396**	**11,215**	**6,334**	**5,465**	**10**	-	17,740	16,680
Operating Expenses	**(4,379)**	**(4,273)**	**(3,398)**	**(2,943)**	-	-	(7,777)	(7,216)
Share of Results of Associates	**7**	**7**	-	-	**258**	**89**	265	96
Share of Results of Joint Venture	-	-	-	-	**21**	**29**	21	29
General and Administrative Expenses	**(236)**	**(209)**	**(223)**	**(202)**	**(138)**	**(97)**	(597)	(508)
Provision for Impairment - PPE and Dry Hole	-	-	**(169)**	**(22)**	-	-	(169)	(22)
Depletion, Depreciation and Amortization	**(1,932)**	**(1,929)**	**(1,782)**	**(1,026)**	**(2)**	-	(3,716)	(2,955)
Finance Costs	**(2,008)**	**(2,121)**	**(629)**	**(655)**	**(1,600)**	**(1,604)**	(4,237)	(4,380)
Foreign Exchange Gain (Loss)	**25**	**28**	**30**	**(30)**	**(153)**	**44**	(98)	42
Changes in Fair Value of Derivatives	**59**	**(84)**	-	-	-	-	59	(84)
Gain from Derecognition of Subsidiary	-	-	-	-	-	**86**	-	86
Gain for Sale of Land and O&G Asset	-	-	**73**	**78**	-	-	73	78
Interest Income	-	-	-	-	**76**	**46**	76	46
Other Gains (Losses)	**3**	**72**	**1**	**(6)**	**(4)**	**57**	-	123
Profit (Loss) Before Taxes and NCI	**2,935**	**2,706**	**237**	**659**	**(1,532)**	**(1,350)**	**1,640**	**2,015**

Group profit before taxes and NCI for the full year 2018 was AED 1,640 million compared to AED 2,015 million for the same period in 2017. The decline of AED 375 million is mainly due to a one-off reclassification of AED 590 million in the oil and gas segment between deferred taxes and depreciations depletions and amortizations (DD&A) taken in Q1 2017 with respect to the 2016 impairment in Europe.

Corporate

Losses before tax for corporate & others for the full year 2018 was AED 1,532 million compared to AED 1,350 million in the prior year. The increase in losses of AED 182 million is mainly due to unfavorable movement in net foreign exchange, absence of gain recorded on derecognition of a subsidiary in the current year, as well as higher general and administrative expenses (G&A). This was partially offset by higher share of results of associates which relates to equity earnings from Sohar Aluminum and insurance proceeds being recognized in 2018 from an outage in August 2017 and improved prices.

4.2 Power & Water Business

	Twelve Months Ended					
	UAE Power & Water		*International Power*		*Power & Water Total*	
P&W Income Summary	**31-Dec**	31-Dec	**31-Dec**	31-Dec	**31-Dec**	31-Dec
(AED millions)	**2018**	2017	**2018**	2017	**2018**	2017
Total Revenues	**7,120**	**7,121**	**4,276**	**4,094**	11,396	11,215
Operating Expenses	**(1,553)**	**(1,648)**	**(2,826)**	**(2,625)**	(4,379)	(4,273)
Shared Results of Associates	-	-	**7**	**7**	7	7
General and Administrative Expenses	**(135)**	**(108)**	**(101)**	**(101)**	(236)	(209)
Depletion, Depreciation and Amortization	**(1,867)**	**(1,850)**	**(65)**	**(79)**	(1,932)	(1,929)
Finance Costs	**(1,720)**	**(1,797)**	**(288)**	**(324)**	(2,008)	(2,121)
Foreign Exchange Gain (Loss)	**15**	**(1)**	**10**	**29**	25	28
Changes in Fair Value of Derivatives	-	-	**59**	**(84)**	59	(84)
Other Gains	**(14)**	**2**	**17**	**70**	3	72
Profit Before Taxes and NCI	**1,846**	**1,719**	**1,089**	**987**	**2,935**	**2,706**

Profit before taxes and NCI

Profit before tax and NCI for the power and water business for the twelve months period ending December 2018 was AED 2,935 million compared to AED 2,706 million for the same period in 2017. The AED 229 million increase in earnings was mainly driven by higher EBITDA, lower finance costs, and favorable changes in fair value of derivatives at Red Oak in the USA.

Revenues

Higher revenues of AED 181 million for the full year 2018 versus 2017 was due to the international power assets. Morocco recorded higher energy payments due to an increase in coal price. UAE power and water revenues remained stable year on year.

Operating Expenses, General & Administrative Expenses (G&A)

Operating expenses increased by 2% to AED 4,379 million in 2018 versus AED 4,273 million in 2017. The increase of AED 106 million was mainly due to higher fuel costs in Africa and India (offset by higher energy payments mentioned above). This was partially offset by lower UAE power and water operating expenses. G&A expenses in the UAE increased by AED 27 million mainly due to an increase in manpower costs and professional services.

Depletion, Depreciation and Amortization (DD&A)

DD&A remains largely unchanged for the full year 2018 versus 2017 due to the unchanged life of the PWPA's and PPA's.

Finance Costs

A reduction in finance costs of AED 113 million for the full year 2018 versus 2017 is consistent with lower debt balances as a result of principal repayments made on project debt throughout the year.

4.3 Oil & Gas Business

	Twelve Months Ended							
	O&G North America		*O&G Europe*		*O&G Atrush*		*O&G Total*	
Oil & Gas Income (Loss) Summary	31-Dec	31-Dec	31-Dec	31-Dec	31-Dec	31-Dec	**31-Dec**	31-Dec
(AED millions)	2018	2017	2018	2017	2018	2017	**2018**	2017
Total Revenues	**1,813**	**1,853**	**4,231**	**3,506**	**290**	**106**	**6,334**	5,465
Operating Expenses	**(969)**	**(906)**	**(2,365)**	**(2,004)**	**(64)**	**(33)**	**(3,398)**	(2,943)
General and Administrative Expenses	**(126)**	**(116)**	**(62)**	**(55)**	**(35)**	**(31)**	**(223)**	(202)
Provision for Impairment - PPE and Dry Hole	-	-	**(169)**	**(22)**	-	-	**(169)**	(22)
Depletion, Depreciation and Amortization	**(969)**	**(934)**	**(721)**	**(42)**	**(92)**	**(50)**	**(1,782)**	(1,026)
Finance Costs	**(107)**	**(113)**	**(522)**	**(542)**	-	-	**(629)**	(655)
Foreign Exchange Gain (Loss)	**2**	**3**	**28**	**(33)**	-	-	**30**	(30)
Gain for Sale of Land and O&G Asset	**73**	**79**	-	**(1)**	-	-	**73**	78
Other Gains (Losses)	**1**	**(6)**	-	-	-	-	**1**	**(6)**
Profit (Loss) Before Taxes and NCI	**(282)**	(140)	**420**	807	**99**	(8)	**237**	659

Profit before taxes and NCI

Profit before tax and NCI for the oil and gas business for the twelve months period ending December 2018 was AED 237 million compared to AED 659 million for the same period in 2017. The AED 422 million decrease in earnings was mainly driven by higher DD&A and provisions for impairments, higher operating expenses and G&A, partially offset by higher revenues, and other favorable variances.

Revenues

Higher overall revenues of AED 869 million for full year 2018 versus 2017 was primarily due to the favorable impact of higher oil and liquids prices. Additionally Iraq has been on stream for twelve months in 2018 versus six months in 2017 generating an additional AED 184 million revenue. Trading income in 2018 was higher than prior year, offset lower volumes and midstream revenues due to prices and reliability issues.

Operating Expenses, General & Administrative Expenses (G&A)

The oil and gas segment showed an increase in expenses of AED 455 million in 2018 versus the same period last year. Operating expenses in 2018 were higher across the business stream due to increased well work and operational activities, higher trading expense in Europe (offset by higher trading income mentioned above), and increased activities recorded in Europe when compared to the same period in 2017. Overall operating expenses were partially offset by underlift position recorded in 2018, versus overlift position in 2017. Moreover, Iraq business operating expenses were higher in the twelve months of 2018, as operation only commenced in July 2017.

Depletion, Depreciation and Amortization (DD&A)

Higher DD&A of AED 756 million was 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.

Other favorable variances

Other favorable impact for full year 2018 versus the same period of 2017 include foreign exchange gains of AED 60 million, due to movements of USD. Finance costs were AED 26 million lower in the twelve months of 2018 versus 2017 as lower discount rates were applied in North America resulting in lower accretion, and lower ARO balances due to abandonment expenditures taking place in Europe.

5. Taxes for the Period

The Group's tax expense for the twelve month period ending December 2018 was AED 288 million compared to AED 972 million for the same period in 2017. The decrease of AED 684 million was mostly due to the 2017 reclassification of AED 590 million from DD&A to Deferred Tax in Q1 2017 within the European oil and gas business.

6. Capital Structure and Liquidity

	Capital Structure				
	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec
(AED million)	**2018**	2018	2018	2018	2017
Total Asset	**99,337**	99,782	101,564	101,546	103,033
Shareholder's Equity	**10,559**	10,689	10,201	9,480	9,136
Total Debt	**66,271**	66,516	68,578	69,435	70,225
Net Debt	**62,879**	63,530	64,525	65,794	66,018
Net Debt/Net Capital[1]	**83%**	84%	84%	85%	85%
Unused Portion of Credit Facilities	**9,719**	10,188	10,580	8,946	11,161
Cash and Cash Equivalents	**3,392**	2,986	4,053	3,641	4,207
Total Available Liquidity	**13,111**	**13,174**	**14,633**	**12,587**	**15,368**

1) Equity has been adjusted for exclusion of losses on cumulative changes in fair value of derivatives in cash flow hedges.

The company had entered into a AED 4.6 billion bridge loan facility agreement in December 2017, which was drawn in full in Q1 of 2018. The proceeds were used to repay AED 2.8 billion bonds that matured in January and to reduce borrowings from the Revolving Credit Facility (RCF). Throughout the year, the RCF borrowings were reduced AED 1.3 billion from cash flows generated internally.

In April 2018, the company issued AED 6.4 billion of bonds due 2025 and 2030. The proceeds were used to repay the bridge facility in full and AED 1.8 billion bonds that matured in August 2018.

6.1 Interest Rate Risk

TAQA's capital structure is comprised of 83% debt, including project debt, corporate bonds and loans, revolving credit facilities, and working capital loans. Interest rates for the Group's project debt, bonds and loans are largely fixed, either contractually or through interest rate hedging arrangements. TAQA's revolving credit facilities are based on floating market rates and therefore are exposed to prevailing short term borrowing rates under LIBOR. As our medium and long-term bonds and loans mature, we may be required to refinance this debt at market rates, or utilize our other available liquidity. Accordingly, TAQA is exposed to interest rate risk in both short term and long term.

The Group's results are exposed to the risk of changes in market interest rates, primarily for the Group's long-term debt obligations and short-term deposits with floating interest rates. The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts. To manage this, the Group enters into interest rate swaps, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed upon notional principal amount. These swaps are designated to hedge underlying debt obligations.

6.2 Foreign Currency Risk

TAQA has assets and operations in 11 countries and reports under the Group's functional currency of AED. Although the AED is pegged to the USD, in which a substantial amount of the Group's revenues and expenses are incurred. However, a significant portion of the Group's transactions are in local currencies in which TAQA operates, which adds volatility to our results in AED terms.

Within our financial results, foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposure to risk of changes in foreign exchange rates relates primarily to the operating activities (when revenue or expense are denominated in a difference currency from the functional currencies of the subsidiaries), carrying values of assets and liabilities in Canadian Dollars, Euros, Moroccan Dirhams and Indian rupees and the Group's net investment in foreign subsidiaries. The Group hedges part of its net exposure to fluctuations on the translation into AED of its foreign operations by holding certain borrowings in foreign currencies, primarily in Euros.

6.3 Commodity Price Risk

The Group's oil and gas business is heavily reliant on market prices for its hydrocarbon production: oil, natural gas and natural gas liquids. Market prices for these commodities have proven to be historically volatile, and this has been particularly demonstrated over the past 5 years. Oil prices are subject to global supply and demand pressures, but also geopolitical, environmental and other forces. Gas prices are based more on domestic markets, but are increasingly affected by LNG export and import capabilities.

Currently, TAQA does not have any hedges in place for its production volumes, although we may choose to enter into such arrangements in the future in the normal course of business.

In the power business, our toll arrangement with the Red Oak power plant in New Jersey, USA is affected by the volatility of gas prices (plant input) and electricity prices (plant output). The management of the toll arrangement has developed and enacted a risk management strategy regarding commodity price risk and its mitigation, which uses forward commodity contracts.

6.4 Credit Risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily for trade receivables) and from its financing activities, including deposits with banks and other financial instruments.

Trade and other receivables

Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to customer credit risk management. Credit limits are established for all customers based on internal rating criteria. Credit quality of the customer is assessed based on an extensive credit rating scorecard.

Outstanding customer receivables are regularly monitored and any shipments to major customers are generally covered by letters of credit or other form of credit insurance. The requirement for impairment is analyzed at each reporting date on an individual basis for major costumers. Additionally, a large number of minor receivables are grouped into homogenous groups and assessed for impairment collectively. All impairment considerations for trade and other receivables are performed using the expected credit loss model.

Other financial instruments and cash deposits

Credit risk from balances with banks and financial institutions is managed by the Group's treasury in accordance with the Group's policy. Investments of surplus funds are made only with reputable banks and financial institutions.

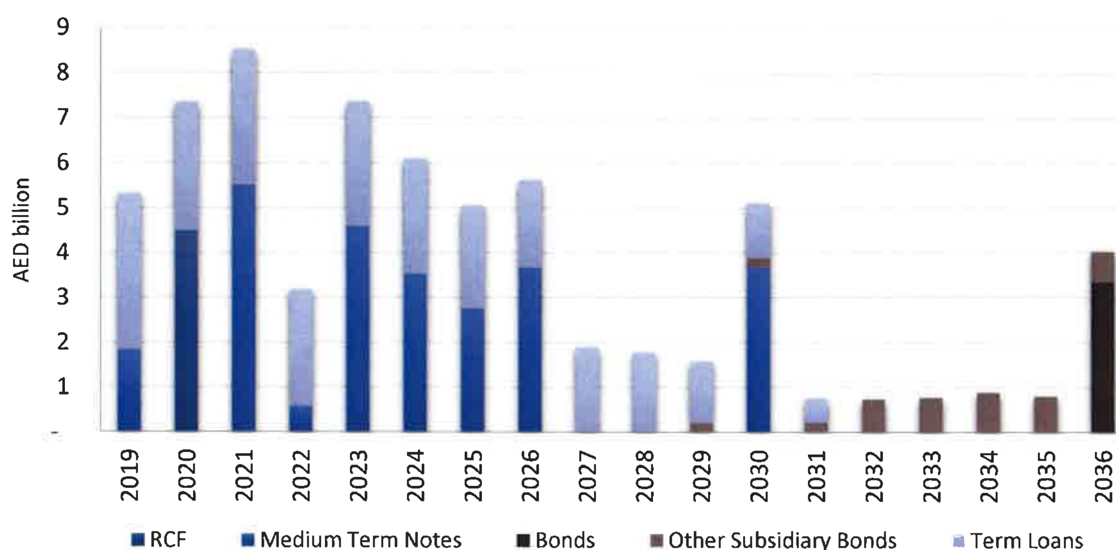
6.5 Liquidity Risk

The Group monitors its risk to a shortage of funds.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of cash, bank overdrafts, bank loans and other borrowings. As of December 2018, 8% of the Group's total debt is classified as current (December 2017: 10%), based on the carrying value of borrowings reflected in the consolidated financial statements.

6.6 Maturity Profile

The Group's financial liabilities repayable schedule at 31 December 2018 based on contractual undiscounted payments:



In 2019, the Group has AED 5.3 billion of upcoming maturities. In April 2019, AED 0.7 billion repayment is required being the USD equivalent USD 200 million JPY term loan. In addition, in September 2019, an AED 1.8 billion repayment relating to the USD 500 million bond maturity. The balancing AED 2.8 billion relates to periodic repayments of other term and Islamic loans.

7. Capital Expenditure (capex)

Capex	Twelve Months Ended							
(AED million)	North America	Europe	Atrush	Total O&G	UAE	Other	Total P&W	Group Total[1]
2018	697	658	78	**1,433**	275	6	**281**	**1,714**
2017	420	460	50	930	399	-	399	**1,329**

1) Figures above include purchase of property, plant and equipment and purchase of intangibles

The commodity price environment saw both strengthening and a general stabilization in 2018, compared to the volatility witnessed in prior years. Therefore, in line with the strategy announced last year, capital investment activity has increased in 2018 when compared to 2017.

The increase in activity was predominantly driven by project-related investments across the oil and gas business in Europe, North America and Iraq. Overall, oil and gas investments in 2018 were 54% higher than prior year, while power and water capital expenses were 30% lower.

With respect to Europe, the increase in capital investment was driven by the number of projects ongoing in 2018 compared to 2017. Project spend in 2018 related to new development, preparing facilities for new capacity, as well as rig recertification.

North America's increase in capital investments were focused on TAQA's core areas of operations and, in light of the higher oil and liquids pricing environment, were strategically targeted towards sustainable long lasting value-generation.

After Iraq successfully achieved first oil in July 2017, the 2018 investments focused both on ensuring that the processing facility was being fully utilized, as well as on field development.

While project-related spending was the main cause of capex increase, maintenance spend levels across oil and gas and power and water remained relatively unchanged year-on-year. Overall capex in 2018 shifted to a 60:40 ratio of project-related spend versus maintenance-spend when compared to a 50:50 ratio in 2017.

8. Accounting Standards Issued But Not Yet Effective

A number of new standards are effective for annual periods beginning after 1 January 2019 and earlier application is permitted; however, the Group has not early adopted the new or amended standards in preparing these consolidated financial statements.

The following standards are expected to have a material impact on the Group's financial statements in the period of initial application.

IFRS 16

In January 2016, the IASB issued IFRS 16 Leases which replaces the existing leasing standard (IAS 17 Leases) and requires the recognition of most leases on the balance sheet. IFRS 16 effectively removes the classification of leases as either finance or operating leases and treats all leases as finance leases for lessees with exemptions for short-term leases where the term is twelve months or less and for leases of low-value items. The accounting treatment for lessors remains essentially unchanged, with the requirement to classify leases as either finance or operating. The company will adopt IFRS 16 on the effective date of January 1, 2019. The Group plans to adopt IFRS 16 through the simplified modified approach. All active leases as on January 1, 2019 are in scope and the impact of future rental payments will be taken in 2019.

Saeed Al Dhaheri

Chief Executive Officer

Abu Dhabi National Energy Company

Approved: 20 March 2019

Mohammed Al Ahbabi

Chief Financial Officer

Abu Dhabi National Energy Company