ABU DHABI NATIONAL ENERGY COMPANY PJSC (“TAQA”)
MANAGEMENT’S DISCUSSION AND ANALYSIS

As at and for the period ended 30 June 2018

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This Management’s Discussion and Analysis (MD&A) should be read in conjunction with TAQA’s unaudited consolidated interim financial statements as at and for the period ended 30 June 2018 and 2017. Within the MD&A we use the terms “the Group”, “we”, and “our” to refer to TAQA.

1. Summary of Quarterly Results

	Three Months Ended				
Quarterly Results	**30-Jun**	31-Mar	31-Dec	30-Sep	30-Jun
(AED million, except where indicated)	**2018**	2018	2017	2017	2017
Technical Power Availability (%)[1]	**97.9%**	87.4%	92.6%	96.2%	95.6%
Oil & Gas Production (mboe/d)[2]	**117.4**	123.8	120.0	122.7	130.0
Gross Revenues	**4,264**	4,337	4,153	4,175	4,211
EBITDA[3]	**2,418**	2,340	2,322	2,078	2,249
Profit For The Period	**437**	304	459	67	288
Net Income (Loss)[4]	**168**	110	242	(194)	35
Profit (loss) per Share (AED per Share)	**0.028**	0.018	0.040	(0.032)	0.006
Total Asset	**101,564**	101,546	103,033	102,046	102,998
Shareholder's Equity	**10,201**	9,480	9,136	8,589	8,526
Capital Expenditures	401	428	448	266	205
Free Cash Flow[5]	**1,795**	1,578	1,886	1,457	2,067

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, excluding all finance charges and depreciation, depletion and amortization.
4) Net income (loss) above is portion attributable to common shareholders of TAQA shares.
5) Free cash flow is defined as operating cash flows less investing cash flows as per the IFRS cash flow statement.

1.1 Operational Highlights

Power & Water

Technical Availability across the fleet was 92.5% for the First Half (H1) of 2018, compared to 90.0% for the same period of 2017. UAE asset improved from 91% in H1 2017, to 92.3% in 2018. Additionally, International operations' availability improved substantially from 85.2% in the first six months of 2017, compared to the current 93.4% in 2018, mostly driven by better performances in Ghana.

Global power generation was 42,662 GWh in H1 2018, compared to 42,030 GWh generated globally in H1 2017. International operations showed a decisive improvement in both availability and generation versus the first half of 2017, while UAE power generation remains relatively stable with 29,265 GWh in H1 2018, compared to 30,091 GWh in H1 2017. UAE Water desalination was 117,642 million imperial gallons (MIG) in H1 2018, versus 120,643 MIG for the same period of 2017, continuing to supply the majority of Abu Dhabi's requirements.

Oil & Gas

The Group's average daily production for the second quarter of 2018 was 117,389 boe/d versus 129,993 boe/d in Q2 2017. Year-to-date the average production is 120,600 boe/d compared to 131,086 boe/d H1 2017. TAQA's increased capital investment spending in Q4 2017 and Q1 2018 has brought on new production to offset natural decline. Production in North America remained broadly consistent compared to the same period last year, however, the impacts of natural decline and unplanned outages in the North Sea has resulted in lower production from our European operations. Partially offsetting this lower production was our volumes from the Atrush block in Kurdistan which only commenced operations in July 2017.

1.2 Financial Highlights

- Following TAQA's return to full year profitability in 2017, the Group has continued to generate positive net income with AED 168 million being recorded in Q2 2018, compared to AED 35 million for the same period last year. The results are mainly due to improved stability in oil and liquids prices.
- Net Income for H1 2018 was AED 278 million versus AED 112 million in the first half of 2017, a 148% increase, this has been a result of the items noted above for the discrete quarter results.
- Quarterly Revenues of AED 4.3 billion demonstrate benefits of higher oil prices in the quarter more than offsetting declines in hydrocarbon production as well as the lower North American gas price environment relative to Q2 2017.
- H1 2018 revenues topped AED 8.6 billion, a marginal improvement versus H1 2017 AED 8.4 billion. Again, this increase has been driven by the higher oil and liquids prices which has more than offset the lower volumes as well as increased fuel revenue in Morocco.
- TAQA's Q2 2018 EBITDA was AED 2.4 billion, improving from AED 2.2 billion in Q2 2017, mostly due to higher oil and liquids pricing.
- H1 2018 consolidated EBITDA was AED 4.8 billion, a marginal improvement versus H1 2017 (AED 4.7 billion).
- Lower free cash flow in Q2 2018 of AED 1.8 billion relative to the same period in 2017 (AED 2.1 billion) is in line with increased capital investment spending, as mentioned above.
- Total liquidity remains strong at AED 14.6 billion including AED 4 billion in cash and cash equivalents, and AED 10.6 billion of undrawn credit facilities. Across the six month period the Group have been able to reduce its total debt by AED 1.6 billion and have witnessed a reduction in interest paid of AED 157 million compared to the same period last year.

2. Business Environment

2.1 Average Benchmarks

Average Benchmark Summary		Three Months Ended 30-Jun 2018	31-Mar 2018	31-Dec 2017	30-Sep 2017	30-Jun 2017
Brent Crude Oil Price	*($US/bbl)*	**74.5**	63.5	63.51	51.74	50.13
West Texas Intermediate (WTI) Oil Price	*($US/bbl)*	**67.94**	63.77	57.40	48.17	48.11
AECO Natural Gas Price[1]	*($US/Mmbtu)*	**0.95**	0.97	1.67	1.72	2.01
NBP - National Balancing Point	*($US/Mmbtu)*	**7.32**	8.05	6.94	5.45	4.85
USD/GBP Exchange Rate[2]	*($US)*	**1.3207**	1.4079	1.3513	1.3398	1.3025
USD/CAD Exchange Rate[2]	*($US)*	**0.7614**	0.7736	0.7955	0.8018	0.7714
USD/EUR Exchange Rate[2]	*($US)*	**1.1684**	1.2308	1.2005	1.1814	1.1426
USD/MAD Exchange Rate[2]	*($US)*	**0.1055**	0.1087	0.1072	0.1062	0.1037

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.*

2.2 Crude Oil

Approximately 40% of the Group's hydrocarbon production is crude oil. Most of our crude oil production is in Europe and Iraq and sold based on Brent price. North American production is sold based on WTI and Western Canadian Select (WCS) prices.

During Q2 2018, Brent prices stabilized with prices ranging from $67/bbl to $79/bbl. In their June meeting OPEC agreed to raise oil production but did not agree on the increase amount. Production challenges in Venezuela and Libya and renewed sanctions on Iran have been offset by continued shale oil growth in the USA, and Saudi Arabia increasing production to an all-time high. Prices remain relatively strong but have softened slightly as a result of the additional supply.

2.3 Natural Gas

Approximately 86% 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. 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.

In Europe, TAQA sells most of its natural gas production at spot rates based on NBP price benchmarks. NBP price was strong during the most recent quarter, averaging $7.32/mmbtu, an increase of 50% relative to the same period in 2017.

2.4 Interest Rates

In June the U.S. Federal Reserve (Fed) raised its Fed Funds Reserve Rate to a target of 1.75% to 2%. The increases are largely driven by strength and stability in the U.S. economy, but also global expectations for economic growth.

2.5 Foreign Exchange

In Q2 2018, the U.S. dollar weakened against most other currencies in which TAQA operates when compared to the same period of 2017. Despite threats of economic tariffs and market interference from the U.S. administration, the U.S. economy continues to demonstrate resilience.

3. Results of Operations

3.1 Group Consolidated Results

	Six Months Ended							
	Power & Water		*Oil & Gas*		*Corp. & Elimination*		*Group Total*	
Group Net Income (Loss) Summary	**30-Jun**	30-Jun	**30-Jun**	30-Jun	**30-Jun**	30-Jun	**30-Jun**	30-Jun
(AED millions)	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
Total Revenues	**5,641**	5,515	**2,956**	2,837	**4**	-	8,601	8,352
Operating Expenses	**(2,160)**	(2,131)	**(1,554)**	(1,354)	-	-	(3,714)	(3,485)
Shared Results of Associates	**3**	4	-	-	**158**	60	161	64
General and Administrative Expenses	**(119)**	(123)	**(111)**	(99)	**(60)**	(28)	(290)	(250)
Depletion, Depreciation and Amortization	**(952)**	(946)	**(840)**	(384)	-	(3)	(1,792)	(1,333)
Finance Costs	**(1,002)**	(1,058)	**(316)**	(336)	**(792)**	(810)	(2,110)	(2,204)
Foreign Exchange Gain (Loss)	**39**	15	**17**	(24)	**(97)**	8	(41)	(1)
Changes in Fair Value of Derivatives	**105**	6	-	-	-	-	105	6
Gain for Sale of Land and O&G Asset	-	-	**46**	18	-	86	46	104
Interest Income	-	-	-	-	**39**	20	39	20
Other Gains	**10**	1	**(0)**	(5)	**(1)**	6	9	2
Profit (Loss) Before Taxes and NCI	**1,565**	**1,283**	**197**	**653**	**(748)**	**(661)**	**1,014**	**1,275**

Group Consolidated Profit before Taxes and NCI for H1 2018 was AED 1,014 million, a decrease of AED 261 million compared to H1 2017. Power & Water continued robust performance which drove higher earnings of AED 282 million for the business. Meanwhile, the Oil & Gas business reported a decrease of AED 456 million in H1 2018, mainly driven by the one-off reclassification of AED 590 million between deferred taxes and Depreciations Depletions and Amortizations (DD&A) taken in Q1 2017 with respect to the 2016 impairment in Europe.

Corporate

Total losses before tax for corporate and others for H1 ended 30 June 2018 was AED 748 million compared to AED 661 million for the same period in 2017. The increase in losses of AED 87 million is due to unfavorable movement in net foreign exchange, absence of gain recorded on derecognition of a subsidiary in the current period, as well as higher general and administrative expenses (G&A).

This was partially offset by higher earnings from our interest in the Sohar Aluminium plant recorded under share of results from associates. Higher Sohar income is due to insurance proceeds being recognized in Q2 2018 from an outage in August 2017, and higher aluminum prices.

3.2 Power & Water Business

	Six Months Ended					
	UAE Power & Water		*International Power*		*Power & Water Total*	
P&W Net Income (Loss) Summary	**30-Jun**	30-Jun	**30-Jun**	30-Jun	**30-Jun**	30-Jun
(AED millions)	**2018**	2017	**2018**	2017	**2018**	2017
Total Revenues	**3,478**	3,509	**2,163**	2,006	5,641	5,515
Operating Expenses	**(751)**	(846)	**(1,409)**	(1,285)	(2,160)	(2,131)
General and Administrative Expenses	**(72)**	(70)	**(47)**	(53)	(119)	(123)
Share of Results of Associates	**-**	-	**3**	4	3	4
Depletion, Depreciation and Amortization (DD&A)	**(920)**	(910)	**(32)**	(36)	(952)	(946)
Finance Costs	**(859)**	(886)	**(143)**	(172)	(1,002)	(1,058)
Foreign Exchange Gain (Loss)	**12**	(1)	**27**	16	39	15
Changes in Fair Value of Derivatives	**-**	7	**105**	(1)	105	6
Other Gains	**1**	-	**9**	1	10	1
Profit (Loss) Before Taxes and NCI	**889**	**803**	**676**	**480**	1,565	1,283

Profit before Taxes and NCI

Stable financial performance and results continued to be achieved in H1 2018. Profit before taxes and NCI was AED 1,565 million, an improvement of AED 282 million vs H1 2017, driven mostly by increased availability in the international operations combined with MTM gains from Red Oak in the US.

Revenues

Revenue across the segment improved marginally in the first half of 2018 relative to the same period in 2017. The main driver was increased supplemental fuel income from Morocco, combined with Ghana improved revenues due to lower Equivalent Forced Outage Rate (EFOR) compared to the same period of 2017.

Operating Expenses

Operating and maintenance costs remained overall stable, with a slight increase of AED 29 million to AED 2,160 million in H1 2018 when compared to AED 2,131 million in H1 2017. Operations and maintenance (O&M) savings in UAE assets were offset by slightly higher operational costs in Africa due to higher fuel costs.

General and Administrative Expense (G&A)

G&A expenses were relatively flat for the Power & Water business in H1 2018, reducing by AED 4 million for the six months period of 2018 in comparison to the prior year.

Depletion, Depreciation and Amortization

No significant change in DD&A charges for the first half of 2018, which is to be expected considering the unchanged life of the PWPA's and PPA's and consistent capital expenditure levels associated with major scheduled maintenance and overhauls.

Finance Costs

Relative to prior year, H1 2018 showed a reduction of AED 56 million in interest costs, consistent with lower debt balances as a result of principal repayments made on project debt over the past year.

3.3 Oil & Gas Business

	Six Months Ended							
	O&G North America		*O&G Europe*		*O&G Atrush*		*O&G Total*	
Oil & Gas Net Income (Loss) Summary	30-Jun	30-Jun	30-Jun	30-Jun	30-Jun	30-Jun	30-Jun	30-Jun
(AED millions)	2018	2017	2018	2017	2018	2017	2018	2017
Total Revenues	930	964	1,941	1,872	85	1	2,956	2,837
Operating Expenses	(494)	(425)	(1,031)	(929)	(29)	-	(1,554)	(1,354)
General and Administrative Expenses	(66)	(53)	(28)	(29)	(17)	(17)	(111)	(99)
Depletion, Depreciation and Amortization (DD&A)	(486)	(505)	(323)	121	(31)	-	(840)	(384)
Finance Costs	(54)	(65)	(262)	(271)	-	-	(316)	(336)
Foreign Exchange Gain (Loss)	2	(1)	15	(23)	-	-	17	(24)
Gain for Sale of Land and O&G Asset	46	18	-	-	-	-	46	18
Other Gains	(1)	(5)	-	-	-	-	(1)	(5)
Profit (Loss) Before Taxes and NCI	(123)	(72)	312	741	8	(16)	197	653

Profit before Taxes and NCI

Total profit before tax for the Oil and Gas business for the 6 month period ending June 30, 2018 was AED 197 million compared to AED 653 million for the same period in 2017. The AED 456 million decrease in earnings was mainly driven by higher DD&A, higher operating expenses and G&A, partially offset by higher revenues, and other favorable variances, please see analysis below.

Revenues

Higher overall revenue of AED 119 million versus H1 2017 was primarily due to the favorable impact of higher oil and liquids prices amounting to AED 330 million. Also, driving the favorable variance of AED 102 million was midstream trading income (which is offset by higher trading expenses as noted below), in addition to higher processing and tariff primarily in Europe. Moreover, lower royalties of AED 9 million also contributed to higher revenues, primarily as a result of the lower gas prices in North America.

These positive effects mentioned above, were partially offset by adverse impact of lower sales volumes amounting to AED 253 million, and lower midstream revenue of AED 70 million due to operational performance and spreads, when compared to the same period of 2017.

Operating Expenses, General & Administrative Expenses

The first half of 2018 showed an increase in expenses of AED 212 million versus same period of last year. This increase was driven by higher operating expenses and G&A of AED 146 million, mainly due to the Iraq business incurring operating expenses for the full first half of 2018, in comparison to the same period of 2017, as operation only commenced in July 2017, in addition to the unfavorable movements in FX rates in North America and Europe. Moreover, higher tariff and midstream trading expenses of AED 101 million (versus H1 2017) primarily in Europe which offsets with the higher tariff and midstream trading income referred to above.

Partially offsetting the increases noted above was the favorable stock movement impact of AED 35 million in Europe which is driven by timing of liftings.

Depletion, Depreciation and Amortization

Higher DD&A of AED 456 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.

Other favorable variances vs H1 2017

Other favorable impact in H1 2018 versus the same period of 2017, include FX gains of AED 41 million, which was largely driven by the FX fluctuations in Europe. Moreover, the first 6 months of 2018 showed higher gains of AED 28 million from disposals attributable to small non-core dispositions in North America. Lower accretion charges of AED 20 million across both North America and Europe resulting from lower discount rate, and updated ARO estimates respectively.

4. Taxes for the Period

The consolidated tax expense for H1 2018 is AED 273 million, versus AED 758 million for the same period in 2017. The reduction of AED 485 million is mostly due to the 2017 reclassification of AED 590 million from DD&A to Deferred Tax in Q1 2017, partially offset by higher income taxes in the Power & Water international business due to higher profits and the impact of Moroccan Dirham (MAD) FX rate increasing against AED.

5. Capital Structure and Liquidity

	As at ended				
Capital Structure and Liquidity	30-Jun	30-Mar	31-Dec	30-Sep	30-Jun
(AED million)	2018	2018	2017	2017	2017
Total Asset	101,564	101,546	103,033	102,046	102,998
Shareholder's Equity	10,201	9,480	9,136	8,589	8,526
Total Debt	68,578	69,435	70,225	69,587	70,474
Net Debt	64,525	65,794	66,018	66,686	66,987
Net Debt/Net Capital[1]	84%	85%	85%	85%	85%
Unused Portion of Credit Facilities	10,580	8,946	11,161	9,186	8,934
Cash and Cash Equivalents	4,053	3,641	4,207	2,901	3,487
Total Available Liquidity	**14,633**	**12,587**	**15,368**	**12,087**	**12,421**

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

5.1 Interest Rate Risk

TAQA's capital structure is comprised of 84% debt, including project debt, corporate bonds and loans and revolving credit facilities. Interest rates for the Group's project debt, bonds and loans are largely fixed, either contractually or through interest rate hedging arrangements. Our 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 interest rate risk.

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.

5.2 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.

5.3 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.

5.4 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. The calculation is based on actually incurred historical data.

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.

5.5 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 June 2018, 6% 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, reflecting the Group's efforts to reduce the cost of borrowing and improving the gearing ratio.

6. 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 has a transition team to assess the impact of IFRS 16 and implement the necessary changes to accounting systems, business processes and internal controls as a result of the new standard. The transition team is currently in the process of reviewing and categorising the company's contracts and implementing the required information systems changes; however, it is currently too early to quantify the impacts.

Saeed Al Dhaheri

Acting Chief Operating Officer

Abu Dhabi National Energy Company

Mohammed Al Ahbabi

Acting Chief Financial Officer

Abu Dhabi National Energy Company

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