

**ABU DHABI NATIONAL ENERGY COMPANY “TAQA”
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
Q1- 2014**

13 May 2014

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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	31-Dec	30-Sep	30-Jun	31-Mar
	2014	2013	2013	2013	2013	2012	2012	2012	2012
Total assets	122,143	121,925	124,890	123,159	121,108	122,590	114,666	114,492	116,151
Shareholders' equity	11,909	12,314	13,989	13,318	13,094	13,313	12,937	12,454	14,492
Revenues	7,264	7,076	7,396	5,863	5,422	7,167	8,833	6,042	5,743
Profit/(loss) for the period	376	(2,390)	361	36	225	106	(72)	646	681
Attributable to non-controlling interests	102	209	215	208	119	150	216	199	147
Attributable to equity holders of the parent	274	(2,599)	146	(172)	106	(44)	(288)	447	534
Earnings per share (AED per share)	0.045	(0.428)	0.024	(0.028)	0.017	(0.007)	(0.047)	0.074	0.088

Exchange Rate		31-Mar	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar
		2014	2013	2013	2013	2013	2012	2012	2012	2012
US \$/Cdn \$	US\$	0.9050	0.9414	0.9701	0.9497	0.9826	1.0073	1.0166	0.9837	1.001
US \$/British pound	US\$	1.6663	1.6557	1.6186	1.5205	1.5194	1.6244	1.6148	1.5707	1.601
US \$/Euro	US\$	1.3770	1.3745	1.3527	1.3015	1.2806	1.3187	1.2846	1.2667	1.334
US \$/Moroccan dirham	US\$	0.1224	0.1222	0.1207	0.1168	0.1155	0.1182	0.1158	0.1143	0.119

Average prices		31-Mar	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar
		2014	2013	2013	2013	2013	2012	2012	2012	2012
WTI crude oil	US\$/bbl	98.65	97.56	105.82	94.14	94.3	88.21	92.20	93.35	104.03
Brent crude oil	US\$/bbl	107.86	109.35	110.04	103	112.89	110.13	109.42	108.73	118.45
NYMEX natural gas	US\$/mmbtu	5.16	3.74	3.55	4.02	3.49	3.54	2.89	2.26	2.50
AECO natural gas	CA\$/GJ	4.51	2.99	2.32	3.36	3.03	3.03	2.31	1.82	2.01

2. Executive Summary

POWER & WATER

United Arab Emirates

In January TAQA won the 2013 Middle East Bond Deal of the Year award from Project Finance International for its Shuweihat S2 refinancing, the first tradable power project bond in the GCC. The award relates to USD 825 million in project bonds issued in July 2013, raised for the development of Shuweihat S2, a power and water plant in Abu Dhabi majority-owned by TAQA. The Shuweihat 2 bonds were issued at a coupon of 6% with a maturity in August 2036 and an average life of 21.5 years. Standard & Poors and Moody's rated the project A-/A3.

In February TAQA signed a Memorandum of Understanding with Federal Electricity & Water Authority (FEWA) to develop a standalone seawater desalination plant in Al Zawra in the Emirate of Ajman. Al Zawra independent water project (IWP) will have a capacity of 30 million imperial gallons per day (MIGD), enough to supply 250,000 people in the Northern Emirates with clean drinking water. According to the development plan, the project would be owned by FEWA and TAQA, underpinned by a long-term water purchase agreement with FEWA and funded with

project finance. The Ajman facility will use the reverse osmosis process. Construction is expected to start in early 2015 and the plant would begin commercial operations in 2017.

India

In March a consortium led by TAQA agreed to acquire two hydroelectric plants in India, making TAQA the largest private operator of hydroelectric plants in India.

The consortium agreed to purchase the Baspa Stage II and Karcham Wangtoo plants in the northern state of Himachal Pradesh, from Jaiprakash Power Ventures Limited, a subsidiary of Indian infrastructure conglomerate Jaypee Group. The two plants have a combined power generation capacity of 1,391 megawatts (MW).

The agreement follows the signing of the UAE-India Bilateral Investment Promotion and Protection Agreement in December 2013 and a commitment made by the UAE to invest USD 2 billion in India's infrastructure sector. TAQA holds a 51% stake in the consortium.

OIL & GAS

The Netherlands

Post period, in April TAQA started preliminary commercial operations at its Gas Storage Bergermeer facility in the Netherlands. When complete in 2015, Bergermeer will nearly double the Netherlands' capacity and become the largest third party access gas storage facility in Europe. This will significantly contribute to the security of European energy supply and create more efficient gas markets by increasing competition, a key component of the EU Gas Directive. TAQA has sold all of the facility's long-term capacity and plans to auction the remaining short-term capacity in September 2014.

Morocco

Post period in April Jorf Lasfar Energy Company (JLEC), TAQA's Moroccan subsidiary, commissioned a new power unit at its Jorf Lasfar power station. The new 350 MW unit, Unit 5, is the first of two being added as part of an expansion to increase the facility's output from 1,356 MW to 2,056 MW. The second 350 MW unit is expected to be commissioned in June 2014.

3. Results of Operations

3.1) Revenues: Power and Water

(AED millions)	Three months ended 31 March	
	2014	2013
Revenue from electricity and water	2,244	2,364
Fuel revenue	953	658
Other operating revenues	111	4
	3,308	3,026

Power and water segment generates its revenues primarily from power generation, water desalination, power plant construction, fuel revenues, liquidated damages, and other operating revenues.

Three months ended 31 March 2014 compared with three months ended 31 March 2013

Revenues from the sale of electricity and water were AED 2,244 million in 2014 compared to AED 2,364 million in 2013, a decrease of AED 120 million. The decrease was primarily due to lower construction revenues recognized in relation to Morocco and Ghana expansions which was partially offset by higher revenue in the USA.

Fuel revenues were AED 953 million in 2014 compared to AED 658 million in 2013, an increase of AED 295 million. The increase was primarily in the USA due to extreme weather in winter of 2014.

Other operating revenues were AED 111 million in 2014 compared to AED 4 million in 2013, an increase of AED 107 million. The increase was due to recognition of liquidated damages in Morocco.

Oil & Gas

(AED millions)	Three months ended 31 March	
	2014	2013
Revenue from oil and gas	3,506	2,151
Gas storage revenue	167	121
Other operating revenues	283	124
	3,956	2,396

Oil and gas segment generate revenues primarily from upstream exploration and production and midstream processing, transmission and storage.

Three months ended 31 March 2014 compared with three months ended 31 March 2013

Revenue from oil and gas was AED 3,506 million in 2014 compared to AED 2,151 million in 2013, an increase of AED 1,355 million. The stock movements recorded under cost of sales showed an adverse variance of AED 266 million. The aggregate favorable variance of AED 1,089 million is explained below:

- Favorable impact of AED 1,227 due to higher production of which AED 1,259 million was mainly due to higher volumes in the UK as a result of the additional volumes from the BP asset acquisition (which was completed in June 2013) as well as due to resumption of production in Cormorant Alpha.
- Net adverse impact of commodity prices, AED 73 million, where lower commodity prices in the UK have resulted in an adverse variance of AED 251 million. This has partially been offset by higher commodity prices in North America which have resulted in a favourable variance of AED 183 million quarter over quarter.
- Adverse impact of higher royalties of AED 72 million in North America were in line with the higher commodity prices.

Gas storage revenues were AED 167 million in 2014 compared to AED 121 million in 2013, an increase of AED 46 million. The increase in 2014 was primarily due to higher gas prices in North America.

Other operating revenues were AED 283 million in 2014 compared to AED 124 million in 2013, an increase of AED 159 million mostly due to higher trade sales in the Netherlands and higher processing revenue in the UK.

3.2) Cost of sales

Power and Water

TAQA's cost of sales for power units consist of depreciation and amortisation, power plant construction costs, fuel expenses, and operating expenses. Operating expenses include staff costs, repairs, maintenance and consumables used, operation and maintenance charges, and other operating expenses.

(AED millions)	Three months ended 31 March	
	2014	2013
Operating expenses	(658)	(849)
Fuel expenses	(860)	(668)
Depreciation, depletion and amortization	(463)	(455)
	(1,981)	(1,972)

Three months ended 31 March 2014 compared with three months ended 31 March 2013

Operating expenses were AED 658 million in 2014 compared to AED 849 million in 2013, a decrease of AED 191 million. The decrease was mainly due to lower construction costs in Morocco and Ghana in 2014.

Fuel expenses were AED 860 million in 2014 compared to AED 668 million in 2013, an increase of AED 192 million. The increase relates to higher fuel expense in the USA of AED 330 million due to extreme weather in 2014.

DD&A expenses were AED 463 million in 2014, compared to AED 455 million in 2013.

Oil and gas

Cost of sales for oil and gas units consist of operating expenses, gas storage expenses and depreciation, depletion and amortization. Operating expenses includes staff costs, repairs, maintenance and consumables used, fuel expenses, and other operating expenses including adjustments for stock movements from period to period.

(AED millions)	Three months ended 31 March	
	2014	2013
Operating expenses	(1,348)	(953)
Gas storage expenses	(63)	(20)
Depreciation, depletion and amortization	(1,252)	(907)
Dry hole expenses	-	(39)
	(2,663)	(1,919)

Three months ended 31 March 2014 compared with three months ended 31 March 2013

Operating expenses were AED 1,348 million in 2014 compared to AED 953 million in 2013, an increase of AED 395 million. The main drivers being:

- Adverse impact of stock movements as noted in the revenue commentary of AED 266 million, largely driven by the timing of the liftings made in the UK.
- Higher operating costs (net of stock movements) of AED 127 million primarily in the UK as a result of opex in relation to the assets acquired from BP in June 2013.
- Higher transportation costs of AED 45 million of which AED 35 million in the UK million and in AED 10 million North America.

Gas storage expenses were 63 million in 2014 compared to AED 20 million in 2013 as explained under Gas storage revenue.

Dry hole expenses are favorable by AED 39 million as there were no write off's in 2014 whereas in 2013 has there was a write off in the UK (Timon).

DD&A expenses were AED 1,252 million in 2014, compared to AED 907 million in 2013, an increase of AED 345 million is as a result of higher volumes and higher rates in the UK of AED 403 million partially offset by lower DD&A charges in North America of AED 55 million.

3.3) Other Income Statement Items

TAQA's administrative and other expenses consist of salaries and related expenses, professional fees and other expenses.

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

The foreign exchange (loss) gain results from the translation of net monetary assets and liabilities of subsidiaries and the settlement of transactions denominated in currencies other than the functional currencies in the Group.

Power and Water

	Three months ended 31 March	
(AED millions)	2014	2013
Administrative and other expenses	(64)	(62)
Finance costs	(666)	(627)
Changes in fair value of derivatives	(244)	91
Net foreign exchange (loss) gain	(12)	28
Other gains	21	3
Share of results of associates	2	2
	(963)	(565)

Three months ended 31 March 2014 compared with three months ended 31 March 2013

Administrative and other expenses were AED 64 million in 2014 compared to AED 62 million in 2013 .

Finance costs were AED 666 million in 2014 compared to AED 627 million in 2013, an increase of AED 39 million. The increase was due to additional debts in Morocco and Ghana. This was partially offset by lower interest costs at domestic power plants and India.

Net mark to market movement in fair value of derivatives was expense of AED 244 million in 2014 compared to income of AED 91 million in 2013. The variance was primarily due to higher gas and power prices driven by extreme weather in the United States.

Net foreign exchange loss of AED 12 million in 2014 compared to a gain of AED 28 million in 2013. The variance was mainly due to appreciation of Moroccan Dirham (MAD) versus United States Dollar (USD) on Moroccan term loans and depreciation of Indian Rupee (INR) against USD in India.

Oil and gas

	Three months ended 31 March	
(AED millions)	2014	2013
Administrative and other expenses	(120)	(140)
Finance costs	(153)	(114)
Changes in fair value of derivatives	(18)	(4)
Net foreign exchange gain	7	46
Gain on asset sale	13	11
Share of results of joint venture	-	27
	(271)	(174)

Three months ended 31 March 2014 compared with three months ended 31 March 2013

Administrative and other expenses were at AED 120 million in 2014 compared to AED 140 million in 2013, a decrease of AED 20 million. The decrease was mainly due to restructuring in North America which resulted in lower staff costs.

Finance costs were AED 153 million in 2014 compared with AED 114 million in 2013. The increase of AED 39 million was mainly due to higher accretion costs in the UK.

Net mark to market movement in fair value of derivatives in North America was a loss of AED 18 million in 2014 compared to a loss of AED 4 million in 2013. This primarily due to the loss on new natural gas collars executed in 2014.

Net foreign exchange gains were AED 7 million in 2014 compared to exchange gain of AED 46 million in 2013, a decrease of 39 million. The variance was primarily due to exchange rate fluctuations between US Dollar (USD) and British Pound (GBP) relating to revaluation of net monetary liabilities in the UK by AED 48 million partially offset by AED 10 million foreign exchange losses in North America.

Gains on assets sale of AED 13 million in 2014 compared to AED 11 million in 2013.

Earnings from share of results of joint venture were nil in 2014 compared to AED 27 million in 2013. The decrease is due to sale of NoordGasTransport BV in the Netherlands in December 2013.

3.4) Corporate Interest and Other

Group financing (including finance costs except for the subsidiaries involved in power and water generation with project financing arrangements and interest income) is managed on a group basis and is not allocated to operating segments.

Investment in certain associates with activities other than power and water generation and oil and gas and available for sale investments are managed on a group basis and are therefore not allocated to operating segments.

<i>(AED millions)</i>	Three months ended 31 March	
	2014	2013
Finance costs	(413)	(507)
Administrative and other expenses	(74)	(62)
Share of results of associates	16	43
Share of results of joint ventures	9	-
Others	(19)	179
	(481)	(347)

Three months ended 31 March 2014 compared with three months ended 31 March 2013

Corporate finance costs were AED 413 million in 2014 compared with AED 507 million in 2013, a decrease of 94 million. The decrease was due to lower interest costs resulting from repayment of Euro and USD bonds in 2013.

Corporate administrative and other expenses were AED 74 million in 2014 compared to AED 62 million in 2013. The increase was mainly due to increase in head count in TAQA headquarters.

Corporate earnings from share of results of associates were AED 16 million in 2014 compared to AED 43 million in 2013, a decrease of 27 million primarily due to lower earnings from Oman due to lower Aluminum prices and volumes.

Other corporate expenses were income AED 19 million in 2014 compared to income of AED 179 million in 2013. The variance was mainly due to foreign exchange movements and prior year adjustment made in 2013.

3.5) Profits and Taxes

(AED millions)	Three months ended 31 March	
	2014	2013
Profit before taxes	905	445
Income tax expenses	(529)	(220)
	376	225

Three months ended 31 March 2014 compared with three months ended 31 March 2013

Profit before tax

Profit before tax for the first quarter of 2014 aggregated to AED 905 million (comprising of AED 364 million profit from Power and Water, AED 1,022 million profit from Oil and Gas and AED 481 million loss towards Corporate costs), compared to a profit before tax of AED 445 million in first quarter of 2013 (comprising of AED 489 million profit from Power and Water, AED 303 million profit from Oil and Gas and AED 347 million loss towards Corporate costs), an increase of AED 460 million or 103%.

Income Tax

For the first quarter 2014, income tax expense was AED 529 million, comprising of AED 341 million current income tax expense and AED 188 million deferred income tax expense, resulting in an effective tax rate of 58%. For the first quarter 2013, income tax expense was AED 220 million, comprising of AED 321 million current income tax expense partially offset by AED 101 million deferred income tax benefit, resulting in an effective tax rate of 49%.

The effective tax rate increased primarily as a result of relatively higher production and pre-tax income from the Group's higher taxed UK upstream business in the first quarter 2014 when compared with the first quarter 2013.

Profit for the period

Profit for the period (after non-controlling interest) was AED 274 million in 2014 compared with the profit of AED 106 million in 2013, an increase of AED 168 million or 158%.

4. Capital Structure and Liquidity

Capital Structure (AED millions)	Year ended	
	2014	2013
Total assets	122,143	121,925
Total debt	79,482	79,585
Cash and cash equivalents	4,155	3,946
Net debt	75,327	75,639
Total equity	11,909	12,314
Net debt/Net capital	82.0%	81.9%

Total assets were AED 122 billion at the end of March 2014 and at the end of December 2013.

Total net debt decreased by AED 103 million due to repayment of debt.

TAQA's net debt to net capital ratio was 82% at the end of March 2014 compared to 81.9% at the end of December 2013.

Liquidity (AED Millions)	Three months ended 31 March	
	2014	2013
Cash and cash equivalents	4,155	3,939
Unused portion of credit facilities	10,746	17,870
Total available liquidity	14,901	21,809

Consolidated cash on hand as of 31 March 2014 was AED 4.2 billion compared with AED 3.9 billion at the end of 31 March 2013.

The company had unused credit lines of AED 10.7 billion as of 31 March 2014, compared to AED 17.9 billion as of 31 March 2013. The decrease was due to timing of refinancing activities.

Stephen Kersley
Chief Financial Officer
Abu Dhabi National Energy Company "TAQA"