ABU DHABI NATIONAL ENERGY COMPANY PJSC ("TAQA")
MANAGEMENT'S DISCUSSION AND ANALYSIS
As at and for the period ended 30 September 2018

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 September 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-Sep**	30-Jun	31-Mar	31-Dec	30-Sep
(AED million, except where indicated)	**2018**	2018	2018	2017	2017
Technical Power Availability (%)[1]	**97.8%**	97.9%	87.4%	92.6%	96.2%
Oil & Gas Production (mboe/d)[2]	**124.8**	117.4	123.8	120.0	122.7
Gross Revenues	**4,935**	4,264	4,337	4,153	4,175
EBITDA[3]	**2,593**	2,418	2,340	2,322	2,078
Profit for the Period	**432**	437	304	459	67
Net Income (Loss)[4]	**153**	168	110	242	(194)
Profit (Loss) per Share (AED per Share)	**0.025**	0.028	0.018	0.040	(0.032)
Total Asset	**99,782**	101,564	101,546	103,033	102,046
Shareholder's Equity	**10,689**	10,201	9,480	9,136	8,589
Capital Expenditures	**428**	401	428	448	266
Free Cash Flow[5]	**2,251**	1,795	1,578	1,886	1,457

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 94.3% as of September 2018, compared to 92.1% for the same period of 2017. UAE asset improved from 92.9% as September 2017, to 94.4% in 2018. Additionally, International operations' availability improved substantially from 88.1% in the first nine months of 2017, compared to the current 93.8% in 2018, mostly driven by better performance in Africa.

Global power generation was 64,078 GWh as September 2017, compared to 63,764 GWh generated for the same period of 2018. International operations showed a marked improvement for the nine month period to September 2018, with power generation increasing by 415GWh to 20,375GWh for the period. The UAE power generation remained relatively stable with 48,989 GWh as September 2018, compared to 49,899 GWh as September 2017. UAE Water desalination was 188,360 million imperial gallons (MIG) as September 2017, versus 185,161 MIG for the same period of 2018, continuing to supply the majority of Abu Dhabi's requirements.

Oil & Gas

The Group's average daily production for the third quarter of 2018 was 124,770 boe/d versus 122,726 boe/d in Q3 2017. Year-to-date the average production is 122,005 boe/d compared to 128,269 boe/d to September 2017. TAQA's increased capital investment 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. Increased volumes from the Atrush block in Kurdistan, which commenced operations in July 2017, partially offset the overall decline in volumes.

1.2 Financial Highlights

- TAQA continued to generate positive Net Income with AED 153 million being recorded in Q3 2018, compared to a Loss of AED 194 million for the same period last year. 2018 results are mainly due to improved oil and liquids prices, mark-to-market gains at Taqa's U.S. power assets, in addition to Sohar's insurance proceeds due to the incident in August 2017.
- Year-to-date net income to September 2018 was AED 431 million versus a loss of AED 82 for Q3 2017, a decisive increase as a result of the items noted above for the discrete quarter results.
- Quarterly revenues of AED 4.9 billion demonstrated the benefits from higher oil prices which more than offset declines in hydrocarbon production, as well as the lower North American gas price environment relative to Q3 2017.
- September 2018 year-to-date (YTD) revenues topped AED 13.5 billion, an 8% improvement versus 2017 revenues of AED 12.5 billion. Again, this increase has been driven by the higher oil and liquids prices which has more than offset the lower volumes, accounting for a net increase of AED 743 million, as well as increased revenues from International Power & Water assets of AED 265 million.
- TAQA's Q3 2018 EBITDA was AED 2.6 billion, improving from AED 2.1 billion in Q3 2017, mostly due to higher oil and liquids pricing as well as insurance proceeds at Sohar, due to the incident in August 2017.
- Year-to-date September 2018 consolidated EBITDA was AED 7.4 billion, a 9% improvement versus September 2017 (AED 6.8 billion).
- Higher free cash flow in Q3 2018 of AED 2.3 billion, relative to AED 1.5 billion for the same period of 2017, was achieved thanks to a strong cash flow from operating activities, while still maintaining an increase in capital investment spending, as mentioned above.
- Total liquidity remains strong at AED 13.2 billion including AED 3 billion in cash and cash equivalents, and AED 10.2 billion of undrawn credit facilities. Total Debt of 70.2 billion in December 2017, was reduced by AED 3.7 billion across the nine month period, and interest paid to Q3 2018 was down AED 231 million when compared to the same period last year.

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2. Business Environment

2.1 Average Benchmarks

		Three Months Ended				
		30-Sep	**30-Jun**	31-Mar	31-Dec	30-Sep
Average Benchmark Summary		**2018**	**2018**	2018	2017	2017
Brent Crude Oil Price	*($US/bbl)*	**78.5**	**74.5**	63.5	63.5	51.7
West Texas Intermediate (WTI) Oil Price	*($US/bbl)*	**69.68**	**67.94**	63.77	57.40	48.17
AECO Natural Gas Price[1]	*($US/Mmbtu)*	**0.96**	**0.95**	0.97	1.67	1.72
NBP - National Balancing Point	*($US/Mmbtu)*	**8.44**	**7.32**	8.05	6.94	5.45
USD/GBP Exchange Rate[2]	*($US)*	**1.3034**	**1.3207**	1.4079	1.3513	1.3398
USD/CAD Exchange Rate[2]	*($US)*	**0.7777**	**0.7614**	0.7736	0.7955	0.8018
USD/EUR Exchange Rate[2]	*($US)*	**1.1610**	**1.1684**	1.2308	1.2005	1.1814
USD/MAD Exchange Rate[2]	*($US)*	**0.1061**	**0.1055**	0.1087	0.1072	0.1062

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 38% 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 Q3 2018, Brent prices rose from a low of $70/bbl to end the quarter at $83/bbl. The market began pricing in the expectation for reduced Iranian Oil Exports once the U.S. sanctions come in to effect November 1st. Continued shale oil growth in the USA, and strong Saudi Arabia production has mitigated the price increase to a certain extent. However, the world oil market has very little spare capacity, which has increased volatility.

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. Positive news occurred recently with the Shell-led LNG Canada project successfully passing it's FID (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 price benchmarks. NBP price was strong during the most recent quarter, averaging $8.44/mmbtu, an increase of over 50% relative to the same period in 2017.

2.4 Interest Rates

In August the U.S. Federal Reserve (Fed) held its Fed Funds Reserve Rate steady at a target of 2%. The year so far has seen three rate increases largely driven by strength and stability in the U.S. economy, but also global expectations for economic growth.

2.5 Foreign Exchange

In Q3 2018, the U.S. dollar held steady against the major foreign currencies used by TAQA's subsidiaries when compared to the previous quarter. 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

	Nine Months Ended							
	Power & Water		*Oil & Gas*		*Corp. & Elimination*		*Group Total*	
Group Net Income (Loss) Summary (AED millions)	**30-Sep 2018**	30-Sep 2017	**30-Sep 2018**	30-Sep 2017	**30-Sep 2018**	30-Sep 2017	**30-Sep 2018**	30-Sep 2017
Total Revenues	**8,686**	8,428	**4,842**	4,099	**8**	-	13,536	12,527
Operating Expenses	**(3,313)**	(3,172)	**(2,645)**	(2,212)	**(1)**	-	(5,959)	(5,384)
Shared Results of Associates & Joint Venture	**5**	6	-	-	**239**	(5)	244	1
General and Administrative Expenses	**(188)**	(179)	**(167)**	(152)	**(115)**	(54)	(470)	(385)
Depletion, Depreciation and Amortization	**(1,440)**	(1,424)	**(1,297)**	(859)	-	-	(2,737)	(2,283)
Finance Costs	**(1,502)**	(1,572)	**(471)**	(504)	**(1,197)**	(1,211)	(3,170)	(3,287)
Foreign Exchange Gain (Loss)	**61**	21	**18**	(34)	**(117)**	37	(38)	24
Changes in Fair Value of Derivatives	**61**	(56)	-	-	**2**	(5)	63	(61)
Gain from derecognition of subsidiary						86	-	86
Gain for Sale of Land and O&G Asset	-	-	**49**	41	-	-	49	41
Interest Income	-	-	-	-	**55**	31	55	31
Other Gains (Losses)	**16**	4	**1**	(4)	**(5)**	5	**12**	5
Profit (Loss) Before Taxes and NCI	**2,386**	2,056	**330**	375	**(1,131)**	(1,116)	**1,585**	1,315

Group Consolidated Profit before Taxes and NCI for the nine month period to September 2018 was AED 1,585 million, an increase of AED 270 million compared to Q3 2017. Power & Water continued robust performance which drove higher earnings of AED 330 million for the business. Meanwhile, the Oil & Gas business reported a decrease of AED 45 million as Q3 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 & others as Q3 2018 was AED 1,131 million compared to AED 1,116 million for the same period in 2017. The increase in losses of AED 15 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 equity 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 improved performances.

3.2 Power & Water Business

	Nine Months Ended					
	UAE Power & Water		*International Power*		*Power & Water Total*	
P&W Net Income Summary	**30-Sep**	30-Sep	**30-Sep**	30-Sep	**30-Sep**	30-Sep
(AED millions)	**2018**	2017	**2018**	2017	**2018**	2017
Total Revenues	**5,373**	5,380	**3,313**	3,048	8,686	8,428
Operating Expenses	**(1,116)**	(1,229)	**(2,197)**	(1,943)	(3,313)	(3,172)
Shared Results of Associates	-	-	**5**	6	5	6
General and Administrative Expenses	**(118)**	(104)	**(70)**	(75)	(188)	(179)
Depletion, Depreciation and Amortization	**(1,393)**	(1,370)	**(47)**	(54)	(1,440)	(1,424)
Finance Costs	**(1,291)**	(1,325)	**(211)**	(247)	(1,502)	(1,572)
Foreign Exchange Gain (Loss)	**14**	(2)	**47**	23	61	21
Changes in Fair Value of Derivatives	-	7	**61**	(63)	61	(56)
Other Gains	**2**	1	**14**	3	16	4
Profit Before Taxes and NCI	1,471	1,358	**915**	698	**2,386**	2,056

Profit before Taxes and NCI

Stable financial performance and results continued to be achieved for the nine month period ended September 2018. Profit before taxes and NCI was AED 2,386 million in Q3 2018, an improvement of AED 330 million versus 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 by 3% as Q3 2018 relative to the same period in 2017. While UAE Power & Water revenues were stable, main improvement came from International Power increased supplemental fuel income from Morocco.

Operating Expenses

Operating and maintenance costs remained overall stable, with a slight increase of 4% to AED 3,313 million in Q3 2018 when compared to AED 3,172 million in 2017. Operations and maintenance (O&M) savings in UAE assets were offset by slightly higher operational costs in Africa and India due to higher fuel costs.

General and Administrative Expense (G&A)

G&A expenses were relatively flat for the Power & Water business September 2018 YTD, slightly increasing by AED 9 million for the nine months period of 2018 in comparison to the prior year.

Depletion, Depreciation and Amortization

No significant change in DD&A charges for the first nine months 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, Q3 2018 showed a reduction of AED 70 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

	Nine Months Ended							
	O&G North America		*O&G Europe*		*O&G Atrush*		*O&G Total*	
Oil & Gas Net Income (Loss) Summary	**30-Sep**	30-Sep	**30-Sep**	30-Sep	**30-Sep**	30-Sep	**30-Sep**	30-Sep
(AED millions)	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
Total Revenues	**1,397**	1,384	**3,262**	2,670	**183**	45	**4,842**	4,099
Operating Expenses	**(731)**	(682)	**(1,866)**	(1,515)	**(48)**	(15)	**(2,645)**	(2,212)
General and Administrative Expenses	**(94)**	(87)	**(46)**	(40)	**(27)**	(25)	**(167)**	(152)
Depletion, Depreciation and Amortization	**(732)**	(751)	**(502)**	(85)	**(63)**	(23)	**(1,297)**	(859)
Finance Costs	**(80)**	(97)	**(391)**	(407)	**-**	-	**(471)**	(504)
Foreign Exchange Gain (Loss)	**1**	9	**17**	(43)	**-**	-	**18**	(34)
Gain for Sale of Land and O&G Asset	**49**	44	**-**	(3)	**-**	-	**49**	41
Other Gains	**1**	(4)	**-**	-	**-**	-	**1**	(4)
Profit (Loss) Before Taxes and NCI	**(189)**	(184)	**474**	577	**45**	(18)	**330**	375

Profit before Taxes and NCI

Total Profit Before Tax and NCI for the Oil & Gas business for the nine month period ending September 30, 2018 was AED 330 million compared to AED 375 million for the same period in 2017. The AED 45 million decrease in earnings was mainly driven by higher DD&A, higher operating expenses and G&A, mostly offset by higher revenues, and other favorable variances.

Revenues

Higher overall revenues of AED 743 million in Q3 YTD 2018 versus Q3 YTD 2017 was primarily due to the favorable impact of higher oil and liquids prices which more than offset the challenging gas price environment faced by the North American business. Moreover, Iraq has been onstream for nine months in 2018 versus three months in 2017 generating an additional AED 138 million revenue. Additional positive factors include higher trading income, which offset lower volumes and midstream revenues due to prices and reliability issues, and higher royalties in North America due to higher Oil & Liquid prices.

Operating Expenses, General & Administrative Expenses

The first nine months of 2018 showed an increase in expenses of AED 433 million versus same period of 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 higher overlift position recorded in Europe when compared to the same period in 2017. Moreover, Iraq business operating expenses were higher in the nine months of 2018 as operation only commenced in July 2017.

Depletion, Depreciation and Amortization

Higher DD&A of AED 438 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

Other favorable impact as Q3 2018 versus the same period of 2017 include FX gains of AED 52 million, due to movements of USD. Finance costs were AED 33 million lower in the first nine 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.

4. Taxes for the Period

The consolidated tax expense for the nine month period to September 2018 was AED 412 million, versus AED 731 million for the same period in 2017. The reduction of AED 319 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 & Gas business. This was partially offset by higher income tax provisioning in both the Power & Water international business and the European O&G business due to higher profits in the current year.

5. Capital Structure and Liquidity

	As at ended				
Capital Structure and Liquidity	**30-Sep**	30-Jun	30-Mar	31-Dec	30-Sep
(AED million)	**2018**	2018	2018	2017	2017
Total Asset	**99,782**	101,564	101,546	103,033	102,046
Shareholder's Equity	**10,689**	10,201	9,480	9,136	8,589
Total Debt	**66,516**	68,578	69,435	70,225	69,587
Net Debt	**63,530**	64,525	65,794	66,018	66,686
Net Debt/Net Capital[1]	**84%**	84%	85%	85%	85%
Unused Portion of Credit Facilities	**10,188**	10,580	8,946	11,161	9,186
Cash and Cash Equivalents	**2,986**	4,053	3,641	4,207	2,901
Total Available Liquidity	**13,174**	**14,633**	**12,587**	**15,368**	**12,087**

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. 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.

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 September 2018, 8% of the Group's total debt is classified 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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