TAQA 9M 2013 Results

Significantly enhanced operational performance and robust cash generation

6 November 2013, Abu Dhabi, United Arab Emirates - TAQA, the international energy company from Abu Dhabi, today reported its operational and financial results for the nine months to 30 September 2013.

Key Highlights

AED million	Q3 2012	**Q3 2013**	% +/-	9M 2012	**9M 2013**	% +/-
Total revenues	8,833	**7,396**	▼16	20,618	18,681	▼9
Power & Water[1]	2,094	**2,285**	▲11	6,086	6,230	▲2
Construction revenue	2,814	**491**	▼83	2,814	1,453	▼48
Fuel revenue[2]	952	**807**	▼15	2,890	2,381	▼18
Oil & Gas[3]	2,973	**3,813**	▲28	8,828	8,617	▼2
EBITDA	3,293	**3,888**	▲18	9,855	9,447	▼4
Profit Before Tax	695	**591**	▼15	3,196	1,116	▼65
Net profit After Minority Interests	(288)	**146**	n/a	693	80	▼88
Basic earnings per share (AED)	(0.05)	**0.02**	n/a	0.11	0.01	▼91
Net Debt/EBITDA (times)				5.3	6.2	
Net debt to capital (%)				77	80	

The company reported today it had returned to profit in the third quarter after posting a loss in the same period last year.

The positive figures were down to strong operational performances across its main divisions, following the successful resolution of a series of issues that had affected its UK Oil and Gas business and its Power and Water division.

Total revenues for 9M 2013 were AED 18.7 billion, compared with AED 20.6 billion in 9M 2012. If construction and fuel revenues are excluded, underlying revenues were flat at AED 14.9 billion.

Total revenue in Q3 2013 was almost AED 6.1 billion[4] compared to AED 4.5 billion in the second quarter of 2013, excluding fuel and construction revenues, reflecting a 36% increase in underlying revenues, as key operations returned to full production.

The company demonstrated resilient cash generation of AED 8.2 billion, and maintained its robust financing position, with AED 4.0 billion in cash and cash equivalents.

Total year to date net income was AED 80 million, compared to AED 693 million for the first nine months of 2012.

The weaker year to date profit reflects reduced revenue due to the operational issues that have now been successfully resolved. In addition, the proceeds of a number of disposals in 2012, principally consisting of Tesla stock and excess North American acreage, complicate any direct comparison between the periods.

The company highlighted the successful completion of the integration of Harding, Morrone and Maclure fields in UK North Sea. In addition, Cormorant Alpha returned to production on 30 June, with full production restored on 24 August. Overall, UK production increased to 57.8 mboe/day in the third quarter, up 39% from the same period last year.

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[1] Excludes fuel revenue and construction revenues, also includes certain other operating revenue relevant to the Power & Water business.
[2] Fuel revenues are a pass through from the offtaker to pay for input fuel
[3] Includes gas storage plus certain other operating revenue relevant to the Oil & Gas business
[4] Excluding fuel and construction revenues

There was strong technical availability within the power business, following the successful resolution of technical problems at the Jorf Lasfar power plant in Morocco.

The refinancing for the Shuweihat 2 power and desalination plant was successfully completed, raising AED 3.0 billion of non-recourse project bonds.

At the end of the period, TAQA had four major projects underway. They are the expansion of the Jorf Lasfar power plant, due to be completed next year; the Takoradi plant in Ghana, due in 2015; the completion of the Bergermeer Gas Storage complex in the Netherlands and the Atrush oil and gas field in the Kurdistan region of Iraq. TAQA confirmed all four projects were on schedule and within budget.

Comment

Carl Sheldon, Chief Executive Officer, said:

"I am proud of the strong operational performance across the company as we recovered from the challenges faced in the first half of the year. In the UK, seamless integration of the assets we acquired in the Central North Sea, combined with the restoration of production at Cormorant Alpha, led to record levels of production in September. In October, the first of the two new units at Jorf Lasfar in Morocco was synchronised with the national grid, a major milestone in the full commissioning of both units by early 2014."

Stephen Kersley, Chief Financial Officer, said:

"I am pleased that we have returned to profitability in the third quarter, reflecting our strong operational performance. However, we operate in tough economic conditions, particularly in the North American natural gas market. We must remain focused on executing our capital program efficiently and continue to review our operating and overhead costs globally."

Financial summary: 9M 2013 versus 9M 2012

Revenues and costs

Total revenues for the first nine months (9M) of 2013 were AED 18.7 billion, 9% lower year-on-year, compared with total revenues of AED 20.6 billion for the same period in 2012. The decline in was principally the result of the shut-in of production at Cormorant Alpha in the North Sea at the beginning of the year, combined with lower construction revenue over the first three quarters of 2013. The decline was offset by additional capacity acquired in the UK at the end of June.

Sales costs, excluding construction expenses, were AED 13.2 billion in 9M 2013, an increase of 13% over the same period last year. This was caused by higher maintenance costs, particularly in the UK North Sea as a result of the remedial work on Cormorant Alpha, and where scheduled maintenance was brought forward.

Power & Water

Power & Water revenues, excluding fuel, construction and finance revenues, increased to AED 6.2 billion from AED 6.0 billion. Revenues were up because of overall higher technical availability, despite a fire during the period at Shuweihat 1. Construction and finance revenues, from the Jorf Lasfar and Takoradi 2 expansion projects, which are currently at key stages in their development, amounted to AED 1.5 billion and are offset, in part, by construction costs of AED 982 million, leaving a margin of AED 471 million.

Fuel revenue decreased 18% year-on-year to AED 2.4 billion, reflecting lower usage of back-up fuel in the domestic power plants. This revenue is the payment received from the offtaker and has a corresponding offset expense on fuel costs.

Operating expenses for Power & Water (which excludes fuel costs) were AED 2.4 billion in 9M 2013, compared to AED 4.2 billion in 9M 2012. Depreciation, Depletion and Amortisation (DD&A) expense for the period was essentially flat at AED 1.4 billion.

Overall, EBITDA increased by AED 443 million to AED 5.3 billion, reflecting the positive contribution from construction revenues from the new Jorf Lasfar 5 and 6 power unit projects. Net profit for the period amounted to AED 1.8 billion, compared to AED 1.6 billion in the prior year.

Oil & Gas

Total Oil & Gas revenues (including gas storage and other income) declined by 2% to AED 8.6 billion for 9M 2013. The results reflect lower production in the UK North Sea whilst Cormorant Alpha was offline, coupled with softer pricing in Europe for oil. These were offset in part by higher production and a continuing increase in realised prices in North America.

Operating expenses increased year on year to AED 4.2 billion, as higher costs in the North Sea due to the Cormorant Alpha shutdown, the Central North Sea asset acquisition, dry hole expense and one-off projects were partially offset by lower operating expenses in the Netherlands. Lower capacity and natural gas movement changes reduced operating expenses in the Netherlands.

In line with the increasing production during the third quarter, in particular at the UK operations as a result of the acquisition of Central North Sea assets, the Depreciation, Depletion and Amortisation (DD&A) expense increased to AED 3.0 billion.

Finance costs

Financing costs were broadly consistent year on year at AED 3.8 billion, as higher interest expenses associated with the corporate bond issued in December 2012 were offset by capitalisation of interest.

Profitability

Overall Gross Profit was AED 5.4 billion in 9M 2013, compared to AED 6.2 billion for the same period last year. The decline was primarily driven by the operational challenges earlier in the year, principally in the Oil & Gas division, which have been resolved.

Overall Profit Before Tax was AED 1.1 billion in 9M 2013, 65% lower year-on-year than AED 3.2 billion in 2012. The decline was attributable to the aforementioned operational challenges but also included the impact of a number of non-recurring, non-operational events that make direct comparison difficult. The 2012 results benefited from gains on sales totalling AED 789 million from the disposal of the company's investment in Tesla Motors and of non-core acreage in North America. Performance was further affected by foreign exchange losses of AED 45 million primarily related to TAQA's exposure to the Indian rupee.

In line with the overall reduction in profitability, TAQA reported an income tax expense of AED 494 million compared to AED 1.9 billion in 9M 2012. The prior year figures included a one-time tax adjustment relating to changes in the UK tax legislation. The overall income tax expense for the 9M 2013 resulted in an effective tax rate of 44%.

TAQA reported a net profit of AED 80 million attributable to equity holders compared to AED 693 million a year earlier. On this basis, basic and diluted earnings per share attributable to equity holders of TAQA was AED 0.01, compared to AED 0.11 in the prior period.

Financing

As of 30 September 2013, TAQA reported total debt of AED 82.3 billion, an increase of AED 9.4 billion from 30 September 2012. The increase related to the financing of the acquisition of assets in the UK North Sea, coupled with the expansion project at Jorf Lasfar. In July, a USD 825 million project bond was successfully issued to refinance the Shuweihat 2 power & water plant. This bond carries a final maturity of 2036 and an attractive coupon of 6%.

Consolidated cash on hand, as at 30 September 2013, was AED 4.0 billion compared to AED 3.5 billion in September 2012. As with previous periods, liquidity remains very strong with unused credit lines available to TAQA of AED 13.6 billion, resulting in overall liquidity of AED 17.6 billion.

Operational Review

Power & Water

Key Performance Indicators		9M 2012	9M 2013	% +/-
Total revenues in AED million*		6,086	**6,230**	▲2
% of overall revenues*		41	**42**	
Total generation capacity (MW)	*Global*	15,407	**15,407**	-
	Domestic	12,494	**12,494**	-
	International	2,913	**2,913**	-
Total power production (GWh)	*Global*	58,295	**58,495**	▲3
	Domestic	42,471	**45,143**	▲6
	International	15,824	**13,352**	▼16
Technical availability of power generation business (%)	*Global*	95.3	**92.0**	▼3
	Domestic	95.6	**92.5**	▼3
	International	94.4	**90.1**	▼4
Water desalination capacity (MIGD)	*Total*	887	**887**	-
Total water desalination (MIG)	*Total*	179,915	**186,808**	▲4

*excl. supplemental fuel and construction revenue

In 9M 2013, TAQA produced 58,495 Gigawatt hours (GWh) of electricity and 186.8 billion imperial gallons (MIG) of water. Despite forced outages at Shuweihat 1, domestic power generation remained strong and increased by 7%, reflecting very high technical availability across the remaining fleet. Internationally, production was impacted by a transformer failure at Jorf Lasfar and technical issues at the Neyveli facility. These issues were quickly addressed and all operations have now returned to normal. Indeed Jorf Lasfar reported very high technical availability of over 98% in 3Q 2013.

Domestic

TAQA's domestic portfolio of assets generated 45,143 GWh of electricity and 186.8 MIG of water during the nine months to 30 September 2013. Domestic availability was 92.5%, compared to 95.6% the prior year. Technical availability was reduced due to a forced outage at Shuweihat 1, which impacted one of the turbines in February. The affected turbine resumed operations at the end of June. The Fujairah 2 facility was affected by a forced outage in one of its turbines which impacted its production in September. This was subsequently brought back online in October. These outages were significantly offset by the very strong performance of the rest of the UAE fleet, half of which reported an Equivalent Forced Outage Rate (EFOR) of less than 1%.

In June, TAQA broke ground on the US$ 200 million expansion of Fujairah 1's desalination capacity. The expansion, which uses reverse osmosis technology, will increase the facility's capacity by 30 MIG per day.

International

TAQA's international power portfolio, which comprises assets in Morocco, Ghana, India, Saudi Arabia, Oman and the United States, generated 13,352 GWh of power during the 9M period. Overall technical availability reduced during the period to 90.1%, compared to 94.4% last year, due to forced outages at the Jorf Lasfar and Neyveli facilities.

The expansion project in Morocco continued to progress well, nearing 90% completion at the end of September. The 700 MW expansion will bring the gross capacity of the Jorf Lasfar plant to 2,056 MW. Post period in October, Unit 5 was successfully synchronised to the Moroccan national grid. The exercise marked the culmination of a commissioning programme that has seen the unit's boiler, turbine and generator linked together and tested as a complete operating unit. The unit is expected to be officially commissioned by the end of December 2013. Unit 6 is due to begin its test and commissioning programme at the end of November 2013, with its synchronisation to take place in January of 2014.

The expansion project at the Takoradi plant in Ghana is also making good progress and is now 56% complete. This expansion will increase the installed capacity of Takoradi to 330 MW and is expected to be commissioned in early 2015.

Oil & Gas

TAQA's Oil & Gas business comprises a portfolio of assets across North America, the UK North Sea, the Netherlands and Kurdistan region of Iraq.

Key Performance Indicators		9M 2012	9M 2013	% +/-
Total revenues in AED million		8,828	**8,617**	▼2
% of overall revenues*		59	**54**	
Total production (mboe/day)	*Global*	134.8	**135.6**	▲1
	North America	84.8	**87.5**	▲3
	UK	42.6	**39.7**	▼7
	Netherlands	7.4	**8.4**	▲14
Average net realized price of **crude oil** sold (US$ per barrel)	*North America*	77.9	**81.4**	▲4
	UK	112.1	**110.4**	▼2
	Netherlands	105.6	**96.7**	▼8
Average net realized price of natural gas sold (US$ per thousand feet)	*North America*	2.4	**3.3**	▲38
	UK	10.1	**10.5**	▲4
	Netherlands	10.4	**10.6**	▲2

*excludes supplemental fuel and construction revenues

Total Oil & Gas revenues, including gas storage and other operating revenues, were down by 2% in 9M 2013 to AED 8.6 billion, due to the shut-down of Cormorant Alpha in January 2013.

Despite some seasonal variation in pricing, natural gas prices in the North American operations were 38% higher than the comparative period in 2012. Within the European operations, whilst there was some softening in crude oil prices, the market remained strong, in particular the unrest in Syria and its implications for the region supported overall pricing levels.

Operating expenses increased by 20% to AED 4.2 billion, again due to repair work to address the Cormorant Alpha shutdown, coupled with additional operating expenses associated with the acquisition of the Central North Sea assets and additional maintenance at Tern/Eider. Offsetting the increase, the Oil & Gas business reported other expenses were down, such as gas entry capacity and movement charges in the operations in the Netherlands.

Total average daily production for 9M 2013 increased to 135.6 thousand barrels of oil equivalent per day (mboed), compared with 134.8 mboed in the same period last year. Higher production in the North American and Netherlands operations was offset by lower production in the UK.

North America

During the nine months, TAQA undertook a significant structural reorganisation aimed at maximising efficiencies and positioning the business to become a leading intermediate energy company in North America. As part of this process, overall staff count was reduced by 162, whilst delivering the same activity through a simpler organisation. Many of these employees have been redeployed to TAQA's global operations, principally in the Kurdistan region of Iraq.

This programme is contributing to the bottom line, with an approximate annual saving of AED 100 million in general and administrative costs and AED 20 million reduction in operating expense. At the same time, production increased safely and reliably to 87.5 mboed from 85.9 mboed.

The pricing environment continues to improve, although prices softened during Q3 in line with the usual seasonal dip in prices as demand transitions from summer to winter.

UK

The shut-in at Cormorant Alpha depressed the overall results of the business of 9M 2013, with overall production in the UK 7% lower. The teams worked hard to safely repair the facility as quickly as possible, with limited production restarting in June. Full production resumed in August. Since August, Cormorant Alpha has been producing at high levels, resulting in a Q3 on Q2 increase in production of 23%.

Performance in the UK was supported by continuing high Brent prices with an average net realised price of $110.40

The Central UK North Sea oil and gas assets, acquired at the beginning of the year and successfully integrated on 28 June 2013, continue to perform well. The assets, which have driven a 118% increase in gas production, are making a significant financial contribution. From the date of acquisition, these assets have contributed nearly AED 1 billion to revenues.

Netherlands

Production in the Netherlands continued to improve, increasing to 8.3 mboed, 12% higher than the same period last year. As per last quarter, this was driven by the acceleration of Groet-Oost production near Alkmaar and a strong performance from the P15 and P18 and offshore partner-operated fields, as well as higher flow rates at L11-A08.

Construction at TAQA's flagship gas storage facility at Bergermeer continues to progress well with phase one operations scheduled to begin in mid-2014 with a full start-up in 2015.

Iraq

In October, TAQA received approval from the Kurdistan Regional Government for the first phase in the development of the Atrush Block in the Kurdistan region of Iraq. The block, which is located 85 km northwest of Erbil, is expected to initially produce approximately 30,000 boed, with first oil by early 2015. The approval covers a 25 year period to maximise recovery of the oil resources. In total, TAQA is expecting to invest more than $300 million in Phase 1 drilling three production wells and constructing a central processing facility.

In August, TAQA and its partners announced that they had drilled an additional test well at Atrush and were conducting an analysis of core samples, including appraisal of oil/water contact definition, oil gravity/viscosity variations, extent of quality reservoir, permeability and porosity data.

Commodity price environment

Global oil prices strengthened during the course of Q3 2013 as Syrian unrest and the related potential export disruptions from the Middle East provided some price support. WTI averaged $105.82/bbl, 15% above the average of $92.20/bbl a year earlier. The WTI/Brent pricing differential continued, although narrowing, with Brent averaging $110.04/bbl in Q3 2013 versus $109.42/bbl in Q3 2012.

North American natural gas prices weakened mid quarter but recovered marginally heading into the fall months. NYMEX gas prices for Q3 2013 averaged $3.55/mmbtu, versus $2.89 for the equivalent period in 2012. During Q3, the Alberta AECO differential to NYMEX gas widened as the TransCanada mainline pipeline toll increase discouraged gas flows from leaving Alberta. This basis is expected to narrow as the winter gas firm contracting season begins in the fall. Longer term, we expect the North American natural gas price environment to continue to improve, as infrastructure to transport gas comes on stream and as the price differential between gas and other energy sources is arbitraged.

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About TAQA

TAQA means energy in Arabic. We are an international energy and water company listed in Abu Dhabi operating in 11 countries across four continents.

We strive to run our company safely and sustainably, operating to the highest ethical standards. We are proud to align our strategy to Abu Dhabi's Economic Vision 2030, a roadmap for a sustainable economy with a focus on knowledge-based industry.

Our interests lie in conventional and alternative power generation, water desalination, oil and gas exploration and production, pipelines and gas storage. We operate in Canada, Ghana, India, Kurdistan Region of Iraq, Morocco, the Netherlands, Oman, Saudi Arabia, the United Arab Emirates, the United Kingdom and the United States.