emgs
the seabed logging company

May 25 2007

First quarter

Finding hydrocarbons™

First quarter 2007

Highlights

- On track for revenues of USD 160-170 million in 2007
- Strong market development
- Non-recurring cost items of approximately USD 8.6 million in Q1 2007
- Vessels and equipment to support growth plan through 2008
  - Existing vessel charters extended for years to come
  - Second purpose-built ship secured for delivery in 2008
- Capital for further growth secured. Successful listing on the Oslo Stock Exchange on March 30

Key financial figures

USD million (except per share data)	Q1 2007	Q1 2006	2006	Q4 2006
Revenues	25.9	25.6	117.7	40.4
EBITDA	(8.0)	7.3	20.7	4.2
EBIT	(10.6)	5.8	13.2	1.5
Profit/(loss) before taxes	(11.6)	4.2	(19.6)*	(30.8)*
Earnings per share	(0.28)	0.09	(0.62)	(0.79)
Average numbers of shares outstanding (in thousands)	43 337	40 919	40 933	40 974

*) Including change in fair value of conversion rights of USD 23.0 million in 2006 and USD 26.9 million in Q4 2006.

Information related to shares is for ordinary shares. Increase in Q1 2007 is related to issuance of new shares and the conversion of preference shares to ordinary shares at the listing. Total number of ordinary shares outstanding at March 31, 2007, was 73 277 903.

Strong position in fast growing oil segment

The global market for seabed logging (SBL) continues to expand rapidly. emgs was the inventor of the SBL technology and created the SBL market, and will continue to dominate this market for a long time.

emgs experienced an eventful first quarter in 2007. A growth in the number of client requests towards the end of the quarter – resulting in two significant contracts – and a successful financing and listing of the emgs shares on the Oslo Stock Exchange more than compensated for seasonally weak demand, high steaming activity and non-recurring cost items. emgs laid a solid foundation for further growth during the first quarter.

emgs believes that more and more oil companies will adopt its game-changing technology as a growing amount of survey data becomes available in the market. The company expects to see a doubling of the market in 2008 and strong growth in the years beyond. It also expects seabed logging to develop into a tool which all companies use widely and to the same extent as seismic surveys.

Access to suitable and operationally efficient vessels is therefore a priority. Many of the existing time charters were renegotiated and prolonged during the first quarter. A decision was taken early in the period to prolong the m/v Sasha charter, despite weaker activity in the Asia/Pacific region and delays in signing contracts.

emgs had originally planned to hand this vessel back at the end of 2006, but concerns about suitable vessel accessibility in the optimal geographical location during the second quarter prompted a decision to prolong the charter to September 2008. An extra cost of approximately USD 3.6 million associated with m/v Sasha has been recorded in the quarter.

The extra cost relating to m/v Sasha, a non-recurring cost of USD 0.5 million in connection with the decommissioning of the ship management company, and an extraordinary charge of USD 4.5 million relating to employer taxes on employee option gains – totalling almost USD 9 million – are factors which need to be considered when evaluating financial performance in the first quarter.

emgs secured a second purpose-built vessel from BOA/Taubåtkompaniet during the first quarter for delivery in December 2008. The company will charter these vessels for five years firm, but also holds three one-year options for both charters. emgs's objective is to increase operational efficiency significantly with these new vessels. The company has also secured a complete back-deck solution for these two vessels. Equipment required to support expected market growth has accordingly been secured through 2008.

Significant R&D achievements are under way in terms both of equipment improvements and software, and of method enhancements supporting new products.

Revenue is expected to pick up throughout the year. Based on the current backlog and anticipated contracts, emgs reiterates its guidance on revenues in the range of USD 160-170 million for 2007.

Financial review

Revenues and EBITDA

Revenues for the first quarter totalled USD 25.9 million, an increase of 1.2 per cent from the corresponding period of 2006. Revenues decreased by 35.9 per cent from USD 40.4 million in the fourth quarter of 2006, reflecting anticipated seasonal effects and lower-than-normal fleet utilisation owing to a high level of steaming and standby. M/v Sasha was idle for most of the first quarter.

Utilisation was negatively affected by the strategic decision to prolong the m/v Sasha charter instead of returning this vessel at the end of 2006. Securing this capacity through 2007 and beyond was considered important for achieving growth in coming quarters. The cost associated with m/v Sasha during the first quarter was USD 3.6 million, recorded as charter hire, fuel and crew expense.

Approximately USD 0.5 million has also been recorded under charter hire, fuel and crew expense during the quarter as a non-recurring cost associated with the decommissioning of a ship management company.

The most significant one-off cost during the first quarter was a charge of USD 4.5 million relating to the emgs option programme. Recorded under employee expenses, this has no immediate cash effect and reflects the anticipated future employer tax obligation. The basis for this calculation is a share price of NOK 145.

EBITDA was negative at USD 8 million for the first quarter as a result of relatively low revenues and the above-mentioned one-off costs, compared with a positive figure of USD 7.3 million in the same period of 2006. An EBITDA of USD 4.2 million was posted for the fourth quarter of last year.

Depreciation and amortisation

Depreciation was USD 2.6 million in the first quarter, up from USD 1.5 million in the same period of last year and in line with the USD 2.6 million recorded for the fourth quarter of 2006. The year-on-year increase reflects higher capital expenditures associated with increased operational capacity.

Net financial items

A net financial expense of USD 1 million was reported for the first quarter, down from USD 1.6 million in the same period of last year. The decrease from January-March 2006 primarily reflects that the preference shares were classified as a liability until 29 December 2006, and a large proportion of the financial expense was associated with this liability. The preference shares were converted to ordinary shares in a ratio of 1:1 at the time of the initial public offering.

Result before income tax

A loss of USD 11.6 million before tax in the first quarter compares with a profit of USD 4.2 million for the same period of 2006. A loss of USD 30.8 million before tax was posted for the fourth quarter of 2006, reflecting financial expenses and a change in the fair value of conversion rights related to the preference shares.

Income tax

An income tax expense of USD 0.7 million was recorded for the first quarter, compared with USD 0.5 million in the same period of 2006 and USD 1.4 million in the fourth quarter of last year. These expenses relate to foreign income taxes.

The future tax rate will depend on geographical fleet activity, but the company expects to benefit from a tax credit in Norway. This will be applied wholly or mainly during 2007. In the long term, a tax rate of approximately 30 per cent is to be expected.

Net result for the period

emgs booked a net loss of USD 12.3 million for the first quarter, compared with a net profit of USD 3.7 million in the same period of last year. The net loss for the fourth quarter of 2006 was USD 32.2 million.

Balance sheet and cash flow

Net cash flow from operating activities was negative at USD 3.0 million for the first quarter, compared with a negative USD 5.7 million in the same period of 2006. Seasonal effects as well as fleet expansion and utilisation are reflected in these cash flows. Cash used in investing activities in the first quarters of 2007 and 2006 was USD 4.1 million and USD 2.2 million respectively, yielding a net decrease in cash of USD 7.7 million.

emgs is currently in an expansion phase, and the company will continue to invest in new capacity and in R&D.

On 31 January 2007, emgs repaid a financial lease arrangement with Norwegian shipping company REM Offshore AS earlier than anticipated. The amount repaid was USD 1 million.

emgs maintains a NOK 115 million multi-currency credit and guarantee facility with Nordea Bank ASA.

USD 14.2 had been drawn under this facility at 31 March 2007.

Cash and cash equivalent totalled USD 12.8 million at 31 March, compared with USD 2.6 million a year earlier.

emgs completed an IPO in late March. However, the net proceeds of USD 114 million from the issue were received in early April.

Operational review

Vessel performance

M/v Rem Angler was positioned in the Gulf of Mexico and off Brazil in the first quarter of 2007. Performance has been in line with expectations. This vessel will be positioned in the North Sea for the second quarter.

M/v Atlantic Guardian had a planned yard stay in Greece during January. The vessel then started a transit to Australia to conduct data acquisition on the north-west shelf. The vessel is contracted to continue working in this region during the second quarter.

M/v Sasha was initially due to be returned to its owner in late December 2006. emgs changed its view in the light of both rates and the vessel market, and decided to prolong the time charter for the vessel in order to secure capacity for future periods. During the second quarter, m/v Sasha will be working off Malaysia, Indonesia and India.

M/v Relume was acquiring data off the west coast of Africa in the first quarter of 2007. During the second quarter, this vessel will be in the North Sea working for Norwegian clients.

Standby time during the quarter was used to upgrade vessels with new state-of-the-art equipment. A number of important and successful R&D tests were also conducted.

To meet local demand, emgs plans to have at least two vessels in operation for most of the summer season on the Norwegian continental shelf (NCS).

Vessel leases

emgs currently operates four vessels. It recently chartered m/v Siem Mollie, which will be operational in August 2007.

External crew cost

The ship management contracts with Multiwave were cancelled during the first quarter. Under the new business model, emgs crew are in charge of all non-maritime operations. However, termination of the ship management contracts for m/v Rem Angler and m/v Atlantic Guardian meant that external crew expense was temporarily higher than normal during the first quarter owing to the hand-over process.

emgs expects a pro rata reduction in crew expense in the future, with a corresponding increase in employee expense.

Market trends

emgs experienced a breakthrough in the Norwegian market during the first quarter, with two major contracts in this region. Rocksource placed a contract worth a minimum of USD 12 million, and Aker Exploration awarded a contract worth some USD 31 million. Ranked as the company's largest contract to date, the latter also includes a four-year option which represents a maximum value of USD 196 million.

emgs also experienced a breakthrough off Australia during the first quarter, when a contract which represents the company's first business in this region was secured. In addition to the high level of activity anticipated in 2007, emgs sees signs of greater opportunities for 2008.

The company expects seabed logging to form an integral and growing element of oil and gas company exploration processes as the resulting data are integrated with conventional geophysical information. This technology is now widely accepted, and emgs is convinced that it will be used more extensively than at present once the oil companies fully understand all its aspects and potentially major impact on their success.

Government agencies responsible for access to offshore acreage have also started to accept seabed logging for evaluating the potential of licence blocks.

In addition, emgs sees a huge application for seabed logging scanning. This uses coarse survey grids designed to identify the presence of reservoirs of significant size, but without attempting to characterise them in any detail. Scanning has particular value in frontier exploration areas, and emgs sees a potential for developing this application into a volume product.

Recent events

emgs was awarded a contract by an independent oil company on 16 April for a seabed logging project off India. The firm programme includes a 1 400 square-kilometre scan followed by 510 kilometres of traditional line acquisition, worth no less than USD 13.9 million. Actual contract value is dependent on final decisions concerning acquisition geometry.

This contract will commence in late May 2007 and provides the oil company with an option to extend the scope of work substantially.

Outlook

Following a soft first quarter in the line with emgs' expectations and the successful listing of the company on the Oslo Stock Exchange on 30 March, emgs expects better operational and financial performance in the coming months. The company expects to see revenues in the range of USD 35-40 million in the second quarter of 2007.

The summer season is expected to be stronger, and the financial performance for the second half of 2007 will be better than in the first six months. For the full year, emgs expects revenues of USD 160-170 million.

emgs currently has four vessels in operation, with a fifth due to be added in August. The current expansion programme will increase the fleet by two new vessels in 2008 and two in 2009.

In addition to fleet capacity, emgs also controls a combination of in-house, proprietary and off-the-shelf equipment. The company is planning major investments in new receivers, in the expansion of its main computer cluster, and in the addition of equipment sets for the planned growth of the vessel fleet. This will underpin a very sound platform for further expansion, with the current growth plan secure through 2008.

emgs currently employs more than 100 people with either a PhD or a master's degree, including geologists, geophysicists and engineers. The company is planning a significant expansion in its geological and geophysical headcount during 2007. Recruitment is on track so far, with a good response from qualified applicants.

International operations and services outside Norway accounted for about 80 per cent of revenues in 2006. This proportion will be lower in the second half of 2007 because two vessels will be working on the NCS.

Oslo, May 24, 2007
Board of Directors'

Consolidated income statement

(USD 1 000)	Q1 2007 Unaudited	Q1 2006 Unaudited	2006 Audited
Operating revenues:			
Contract sales	25 878	25 607	117 748
Total revenues	**25 878**	**25 607**	**117 748**
Operating expenses:			
Charter hire, fuel and crew expenses	18 827	13 379	62 744
Employee expenses	11 137	2 663	18 154
Depreciation and amortisation	2 599	1 475	7 510
Other operating expenses	3 872	2 298	16 162
Total operating expenses	**36 435**	**19 815**	**104 570**
Operating profit/(loss)	(10 557)	5 792	13 178
Financial income	917	114	2 236
Financial expenses	(1 938)	(1 816)	(12 074)
Change in fair value of conversion rights	-	112	(22 969)
Net financial expenses	**(1 021)**	**(1 589)**	**(32 807)**
Income/(loss) before income tax	**(11 578)**	**4 203**	**(19 629)**
Income tax expense	733	471	5 642
Income/(loss) for the period	**(12 311)**	**3 732**	**(25 271)**
Other financial data			
EBITDA	(7 959)	7 267	20 688

Consolidated balance sheet

(USD 1 000)	Quarter ended 31 March 2007	Quarter ended 31 March 2006	Year ended 31 December 2006
ASSETS			
Current assets			
Cash and cash equivalents	12 834	2 578	20 485
Trade receivables	24 309	15 751	31 910
Other receivables	126 570	409	3 142
Inventories	12 036	2 447	5 625
Total current assets	**175 750**	**21 185**	**61 162**
Fixed assets			
Intangible assets	2 330	1 201	2 430
Property, plant and equipment	25 324	18 232	23 302
Total fixed assets	**27 654**	**19 433**	**25 732**
Total assets	**203 404**	**40 618**	**86 894**
LIABILITIES			
Current liabilities			
Trade payables	23 973	12 585	20 677
Borrowings	30 696	17 148	13 623
Current tax liabilities	5 036	942	4 843
Fair value conversion rights	-	24 978	-
Other current liabilities	15 530	11 351	7 751
Total current liabilities	**58 740**	**67 003**	**46 894**
Long-term liabilities			
Borrowings	6 666	2 781	21 459
Employee benefit obligations	1 782	862	1 421
Total long-term liabilities	**24 942**	**3 643**	**22 880**
Total liabilities	**83 683**	**70 646**	**69 774**
EQUITY			
Capital and reserves attributable to equity holders			
Share capital, share premium and other paid-in equity	192 734	2 080	77 940
Other reserves	15	(396)	(104)
Retained earnings	(73 027)	(31 713)	(60 716)
Total equity	119 722	(30 029)	17 120
Total equity and liabilities	**203 404**	**40 618**	**86 894**

Statement of cash flow

(USD 1 000)	Quarter ended 31 March 2007	Quarter ended 31 March 2006	31 December 2006
Net cash flow from operating activities			
Loss after income tax	(12 311)		
Loss before income tax		4 203	(19 629)
Adjustments for:			
Total tax expenses	1 485	-	-
Taxes paid	(1 091)	(423)	(799)
Amortisation of interest	610	-	-
Depreciation and amortisation	2 599	1 474	7 510
Impairment of disposal of property, plant and equipment	-	-	892
Non-cash portion of pension expense	361	24	583
Cost of share-based payments	511	122	1 022
Non-cash cost of preference shares and bond	-	-	5 046
Change in trade receivables	6 927	(8 688)	(24 388)
Change in inventories	(6 411)	(1 148)	(4 326)
Change in trade payables	3 406	(1 066)	7 026
Change in other working capital	546	(254)	77
Change in fair value of conversion rights	-	(112)	22 969
Currency translation effect	367	136	-
Net cash flow from operating activities	**(3 001)**	**(5 732)**	**(4 017)**
Investing activities			
Purchase of property, plant and equipment	(3 951)	(2 160)	(12 666)
Purchase of intangible assets	(136)	(56)	(1 686)
Cash used in investing activities	**(4 087)**	**(2 216)**	**(14 352)**
Financial activities			
Financial lease payments - principal	(1 784)	(225)	(1 773)
Proceeds from bond offering	-	-	19 450
Proceeds from issue of ordinary shares	(2 326)	-	2 299
Proceeds from preferance share issuance	-	-	6 475
Additional proceeds from bank borrowings	2 939	2 115	9 854
Change in other debt	608	6 086	-
Cash provided by financial activities	**(563)**	**7 976**	**36 305**
Net increase in cash	**(7 651)**	**29**	**17 936**
Cash balance beginning of period	20 485	2 549	2 549
Cash balance end of period	12 834	2 578	20 485
Increase in cash	**(7 651)**	**29**	**17 936**

Consolidated statement of changes in equity

Attributable to equity holders of the Company (USD 1 000)	Share capital, share premium and other paid in equity	Other reserves	Retained earnings	Total equity
Balance at 1 January 2006	**1 958**	**(8)**	**(35 445)**	**(33 495)**
Currency translation differences	-	(96)	-	(96)
Net income/(expense) recognised directly in equity	**-**	**(96)**	**-**	**(96)**
Loss for the year	-	-	(25 271)	(25 271)
Total recognised loss for 2006	**-**	**(96)**	**(25 271)**	**(25 367)**
Reclassification of preference shares (note 13)	72 660			72 660
Cost of share-based payment	1 022	-	-	1 022
Proceeds from shares issued	2 299	-	-	2 299
Balance at 31 December 2006	**77 940**	**(104)**	**(60 716)**	**17 120**
Currency translation differences		119		119
Net income/(expense) recognised directly in equity	**-**	**119**	**-**	**119**
Loss for the period			(12 311)	(12 311)
Recognised loss as of 31 March 2007	**-**	**119**	**(12 311)**	**(12 192)**
Cost of share-based payment	511			511
Proceeds from shares issued - options exercised	307			307
Proceeds from shares issued - IPO	113 976			113 976
Balance at 31 March 2007	**192 734**	**15**	**(73 027)**	**119 721**
Detailed information related to proceeds from shares issued - IPO:				
Increase in share capital, par value	227			
Share premium	122 137			
Issuance cost	(8 387)			
Proceeds from shares issued - IPO	113 976			

Issuance costs are estimated in Q1, final figures will be reported in the Q2 report.

Segment reporting

emgs is organized into one reportable segment. emgs offers one product; SeaBed Logging and the sales revenues and related costs are incurred worldwide.

The numbers below show sales reported per region.

(USD million)	**Q1 2007**	**Q1 2006**	**2006**
Americas	8.3	6.5	24.4
Asia	0.6	19.1	70.0
Europe	0.5		12.5
Africa	11.9		10.8
Australia	4.6		
Total	25.9	25.6	117.7

Statement of compliance

These condensed consolidated interim accounts have been prepared in accordance with IAS 34 and should be read in conjunction with the consolidated financial statements for the group for the year ending 31 December 2006. The group's financial statements are available upon request from the company's registered office in Trondheim or at www.emgs.com.

Accounting principles

The group has applied the same accounting standards and policies as in the group's financial statements at 31 December 2006, and has implemented standards, interpretations and amendments which were effective from 1 January 2007.

Disclaimer for forward-looking statements

This quarterly report includes and is based, inter alia, on forward-looking information and statements that are subject to risks and uncertainties that could cause actual results to differ. Such forward-looking information and statements are based on current expectations, estimates and projections about global economic conditions, the economic conditions of the regions and industries that are major markets for emgs ASA and its subsidiaries. These expectations, estimates and projections are generally identifiable by statements containing words such as "expects", "believes", "estimates" or similar expressions. Important factors that could cause actual results to differ materially from those expectations include, among others, economic and market conditions in the geographic areas and industries that are or will be major markets for the emgs's businesses, oil prices, market acceptance of new products and services, changes in governmental regulations, interest rates, fluctuations in currency exchange rates and such other factors as may be discussed from time to time. Although emgs ASA believes that its expectations and the information in this report were based upon reasonable assumptions at the time when they were made, it can give no assurance that those expectations will be achieved or that the actual results will be as set out in this report. emgs ASA nor any other company within the emgs group is making any representation or warranty, expressed or implied, as to the accuracy, reliability or completeness of the information in the report, and neither emgs ASA, any other company within the emgs group nor any of their directors, officers or employees will have any liability to you or any other persons resulting from your use of the information in the report. emgs ASA undertakes no obligation to publicly update or revise any forward-looking information or statements in the report.

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Notes

emgs is the global market leader for the provision of seabed logging services, a technology which enables the detection of hydrocarbons beneath the seabed prior to drilling. The company has developed this proprietary and patented technology over the past 10 years. Since its incorporation as a separate company in 2002, emgs has conducted more than 200 commercial surveys for many of the world's leading oil and gas companies and offshore operators.

Finding hydrocarbons™

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