# EMGS third quarter 2013

14/11/2013

# Highlights in the third quarter 2013

## Operational highlights

- Successful completion of contract in Brunei
- Start-up of PEMEX contract and subsequently adding a second vessel
- New contract with Maersk Oil Angola and Nippon in Malaysia, LOI for north west Australia
- First results from sub-salt imaging project in US Gulf of Mexico shows that using EM provides significant improvement compared to seismic alone

## Financial highlights

- Revenues of USD 23.6 million
- EBITDA of USD -3.5 million

## Outlook and guidance

- Good contract coverage for Q413 and Q114
- Wisting discovery important for future multi-client sales in the Barents Sea
- Full year 2013 guiding remains dependent on closing of multi-client late sales Q4
- Long-term outlook intact

**Key financial figures**

| USD million (except per share data) | Q3 2013 | Q3 2012 | Year to date 2013 | Year to date 2012 | 2012 | Q2 2013 |
|---|---|---|---|---|---|---|
| Contract sales | **21.5** | 39.0 | 71.2 | 141.6 | 176.1 | 29.6 |
| Multi-client sales | **2.1** | 4.2 | 28.5 | 14.3 | 24.7 | 14.8 |
| Total revenues | **23.6** | 43.2 | 99.7 | 155.8 | 200.8 | 44.4 |
| Operating profit/ (loss) | **(9.4)** | 1.1 | (13.4) | 27.6 | 29.2 | 2.0 |
| Income/ (loss) before income taxes | **(11.8)** | (2.9) | (14.6) | 19.1 | 17.9 | (1.6) |
| Net income/ (loss) | **(12.2)** | (5.8) | (16.4) | 12.6 | 11.9 | (1.6) |
| Earnings/ (loss) per share | **(0.06)** | (0.03) | (0.08) | 0.06 | 0.06 | (0.01) |
| Average number of shares outstanding (in thousands) | **199 110** | 198 500 | 199 082 | 197 971 | 198 161 | 198 936 |
| EBITDA | **(3.5)** | 7.3 | 11.0 | 45.8 | 55.9 | 13.2 |
| Multi-client investment | **10.2** | 3.2 | 30.5 | 13.0 | 21.4 | 11.9 |
| Adjusted EBITDA | **(13.7)** | 4.1 | (19.5) | 32.8 | 34.5 | 1.3 |

# Financial review

## Revenues and operating expenses

EMGS recorded revenues of USD 23.6 million in the third quarter of 2013, down from USD 43.2 million in the third quarter of 2012. Contract sales totalled USD 21.5 million while multi-client sales came in at USD 2.1 million in the third quarter of 2013, compared to contract sales of USD 39.0 million and multi-client sales of USD 4.2 million in the corresponding period last year. The multi-client sales in 2013 do not include the contribution from TGS to the joint project, as this is booked as a reduction of the carrying value of the multi-client library. The reduction in revenues is mainly explained by the steaming of the BOA Galatea to Mexico and the EM Leader steaming towards Angola in September, as well as the higher level of time spent on multi-client work this quarter compared to the corresponding quarter last year.

The Company recorded 9.9 vessel months in the third quarter of 2013 as opposed to 9.6 in the third quarter of 2012. EMGS's vessels were allocated 35% to contract and 42% to multi-client programmes in the third quarter of 2013, compared to 53% to contract and 16% to multi-client programmes the corresponding period last year.

Charter hire, fuel and crew expenses totalled USD 8.9 million in the third quarter of 2013, down from USD 17.9 million in the corresponding quarter in 2012. The reduction is related to capitalisation of multi-client costs of USD 10.2 million in the third quarter of 2013, compared with USD 3.2 million in the corresponding period last year.

Employee expenses increased from USD 12.9 million in the third quarter of 2012 to USD 13.1 million in the third quarter 2013 owing to higher operational activity throughout 2012 and a corresponding increase in the work force during 2012.

Other operating expenses were stabile USD 5.1 million in the third quarter 2013 and 2012.

## Depreciation and amortisation

Depreciation and ordinary amortisation totalled USD 4.5 million in the third quarter 2013, up from USD 3.6 million in the same quarter in 2012. The increase is due to investment in equipment.

Multi-client amortisation totalled USD 1.4 million in the third quarter of 2013, down from USD 2.7 million in the third quarter last year.

## Net financial items

Interest expenses increased from USD 1.3 million in the third quarter of 2012 to USD 1.5 million this quarter. The Company recorded a loss on net foreign currency of USD 1.1 million this quarter, while a loss of USD 2.8 million was recorded in the corresponding quarter last year. Net financial items ended at negative USD 2.5 million, compared with a loss of USD 4.0 million in the third quarter 2012.

## Income/(loss) before income taxes

Loss before income taxes came in at USD 11.8 million in the third quarter 2013, compared with a loss before income taxes of USD 2.9 million in the corresponding quarter in 2012.

## Income tax expenses

Income tax expenses of USD 0.4 million were recorded in the third quarter of 2013, compared with an income tax expense of USD 2.8 million in the third quarter of 2012. These taxes relate to results in foreign jurisdictions.

## Net income for the period

Loss for the third quarter of 2013 ended at USD 12.2 million, down from a loss of USD 5.8 million in the same period last year.

## Cash flow and balance sheet

In the third quarter of 2013, net cash flow from operating activities was USD 30.8 million, compared with USD 19.8 million the same period last year. The positive cash flow in 2013 is mainly caused by a strong working capital reduction. Trade receivables decreased from USD 48.6 million at the end of the second quarter of 2013 to USD 27.4 million at the end of the third quarter. Trade payables increased from USD 13.2 million to USD 15.6 million during the third quarter. In addition, other receivables decreased from USD 30.0 million to USD 20.1 million the same period.

For the first nine months of 2013, cash flow from operating activities was USD 39.1 million, compared with USD 23.9 million for the comparable period in 2012.

EMGS applied USD 13.8 million in investing activities in the third quarter of 2013. The investments consist of USD 10.2 million in multi-client library and USD 3.6 million in property, plant and equipment. The ending multi-client library balance on 30 September 2013 was USD 31.0 million, up from USD 22.8 million at 30 June 2013. The carrying value of the multi-client library balance was in the third quarter reduced by USD 0.7 million through the contribution from TGS to the joint project in the Barents Sea.

In the same period in 2012, cash applied in investing activities amounted to USD 8.5 million.

Cash applied in investing activities in the first nine months this year amounted to USD 43.3 million, of which USD 30.5 million in multi-client data and USD 12.8 million in property, plant and equipment, compared with a total of USD 27.6 million in the same period in 2012.

Cash flow from financial activities was negative USD 16.1 million in the third quarter of 2013, compared with USD 2.1 million in the same period of 2012. In the third quarter of 2013, USD 14.9 million was used to repay the remaining part of the NOK 250 million bond which matured in May 2014. Total borrowings were USD 58.6 million at 30 September 2013, compared with USD 73.0 million at 30 June 2013.

Cash flow from financial activities was USD 10.9 million in the first nine months of 2013, compared with a negative USD 2.7 million in the same period in 2012.

Cash increased by USD 0.9 million and USD 6.6 million in the third quarter and the first nine months 2013 respectively. At 30 September 2013 cash and cash equivalents totalled USD 46.9 million, including USD 1.0 million restricted cash.

# Operational review

### Vessel utilisation

| | Q3 2013 | Q2 2013 | Q1 2013 | Q4 2012 | Q3 2012 |
|---|---|---|---|---|---|
| **Contract** | **35%** | 32% | 29% | 44% | 53% |
| **Multi-client** | **42%** | 46% | 34% | 40% | 16% |
| **Total utilisation** | **77%** | 78% | 63% | 84% | 69% |

**Vessel utilisation and fleet allocation**
EMGS defines "vessel utilisation" as the percentage of the vessel charter period spent on contracted or multi-client data acquisition.

Vessel utilisation for the third quarter of 2013 came in at 77% compared with 69% in the third quarter of 2012.

In the third quarter of 2013, the Company's vessels were allocated 35% to contract and 42% to multi-client programmes, whereas the allocation was 53% and 16% respectively in the corresponding quarter last year. EMGS recorded 9.9 vessel months in the third quarter, compared with 9.6 in the third quarter of 2012.

**Vessel activity**

*BOA Thalassa*
The BOA Thalassa spent the entire third quarter of 2013 acquiring 3D electromagnetic (EM) data under a USD 35 million contract in Brunei, which was extended by USD 15 million in June. The survey was completed mid-October, after which the vessel went to a scheduled yard stay in Singapore for about two weeks.

On 24 September, the Company announced that it had received a Letter of Intent for approximately one month of EM acquisition in Malaysia. The vessel started operating on this contract for Nippon in Malaysia mid-November, following the yard stay.

The vessel's utilisation for the third quarter was 91%.

*BOA Galatea*
The BOA Galatea spent the first half of the third quarter acquiring 3D EM data under multi-client programme in the Foz do Amazonas area in the equatorial margin of Brazil. On 15 August, the vessel started mobilising to Mexico and was prepared for the USD 99.8 million contract with PEMEX, which the vessel started operating on from 14 September.

The vessel's utilisation came in at 71% for the third quarter.

*Atlantic Guardian*
The Atlantic Guardian acquired 3D EM data under a multi-client programme in the Barents Sea in the entire third quarter.

As previously communicated, the EMGS and TGS signed an agreement in June 2013 to jointly invest in a 3D electromagnetic (EM) multi-client survey programme covering 11 blocks, or approximately 3300 km2, in the Hoop area of the Barents Sea. The majority of these blocks were acquired by the Atlantic Guardian in the second quarter, while the remaining part of the survey was completed in the third quarter.

After the joint survey was completed, the vessel continued to expand EMGS' multi-client library in the Barents Sea, which now includes more than 30 000 $km^2$ of multi-client 3D EM data.

The Atlantic Guardian's utilisation for the third quarter was 95%.

*EM Leader*
The EM Leader's firm charter period expired on 15 June. On 3 September, EMGS chartered the vessel for a period of 3 months and the vessel started mobilising towards Angola to work on a contract with Maersk Oil Angola worth a minimum of USD 8 million. The vessel started operating on the contract on 21 October.

The EM Leader recorded 0.9 vessel months in this quarter and had a utilization of 0%.

| | Utilisation Q3 | Status Q3 | Firm charter period | Optional charter period |
|---|---|---|---|---|
| **BOA Thalassa** | **91%** | In operation | 18 December 2014 | 2 x 12 months |
| **BOA Galatea** | **71%** | In operation | 17 July 2015 | 2 x 12 months |
| **Atlantic Guardian** | **95%** | In operation | 1 March 2016 | 3 x 12 months |
| **EM Leader** | **0%** | Standby until expiration of charter on 15 June, new charter hire from 3 September | 3 December 2013 | Optional 1-, 3-, 6- or 12-month charters until 9 March 2015 |
| **EM Express** | **Not applicable** | Standby at no cost in Bergen | Not applicable | Optional 3-, 6- or 12-month charters until 9 May 2014. Note that vessel owner has the option to terminate the agreement with 45 days' notice. |

## Other events in the quarter

**Wisting discovery**
On 6 September 2013, the Norwegian Petroleum Directorate announced that the operator had found oil in the first, wildcat well drilled in production license 537 in the Hoop area in the Barents Sea. The exploration well, also known as the Wisting Central, is the northernmost oil discovery on the Norwegian continental shelf.

Tullow Oil plc, which has a 20% interest in the licence, said the discovery demonstrates the effectiveness of exploration techniques that combine shallow seismic and electromagnetic survey data.

To EMGS, the discovery was important as it once again proved how EM data can be used in the exploration workflow. Every drilling result that matches the conclusions from the predictions based on EM data contributes to strengthen the market's awareness, adoption and integration of the EMGS services.

**Joint Schlumberger-EMGS sub-salt project in US GoM**
At the SEG conference in Houston, Schlumberger and EMGS presented the first results from their joint sub-salt project in the US Gulf of Mexico. The results show that using EM provides significant improvement in prestack depth migrated images compared to seismic alone under complex salt structures. This is the first time EM data has been used to improve seismic images below complex salt structures.

## Recent events

On 12 November, EMGS announced that the vessel Atlantic Guardian was added to the contract worth USD 99.8 million with PEMEX and that the vessel would commence operations in Mexico mid-November. The vessel is expected to work on the PEMEX campaign throughout first quarter of 2014.

Also, the company announced an additional Letter of Intent in north west Australia for the vessel BOA Thalassa to award a contract of one month minimum 3D EM data acquisition in the region.

The new fleet allocation adds important operational and financial visibility for EMGS over the next winter months.

## Share information

EMGS was listed at the Oslo Stock Exchange in March 2007. During the third quarter 2013, the EMGS share was traded between NOK 10.01 and NOK 7.03 per share.

The last closing price before 30 September 2013 was NOK 7.54. The Company had a total of 199 340 055 shares outstanding at 30 September 2013.

## Risks factors

EMGS is subject to a number of risk factors, of which the most important is the demand for EM services. EM technology is still a technology in its adoption phase, and considerable effort has to be undertaken in order to strengthen the market's awareness, adoption and integration of the services offered. EMGS intends to maintain a proper cost level and funding to match the future demand for its products and services.

The demand from the oil and gas companies is also dependent upon a number of factors that affect offshore exploration and production expenditures in general.
In addition, there are risks associated with EM marine operations which might affect the profitability of projects. Examples include: Change in governmental regulations affecting EMGS's markets, technical downtime, adverse weather conditions, licenses and permitting, as well as delays in closing revenue-generating contracts. For a further description of other relevant risk factors, please refer to the Annual Report for 2012.

## Outlook

During the third quarter, EMGS mobilised the two vessels BOA Galatea and EM Leader to regions with better prospects. Also, the Company made important investments in multi-client programmes in Brazil and the Barents Sea in Norway. Although this affected the Company's third quarter results, it also gives the Company a positive outlook for the next quarters.

Adding the Atlantic Guardian to the PEMEX contract further improves visibility, giving the Company good contract coverage for all four operating vessels for the fourth quarter 2013 and the first quarter of 2014.

The Company's full year 2013 revenue guidance remains dependant on closing of multi-client late sales in the fourth quarter. The Company expects to have approximately USD 50 million in contract revenues for the fourth quarter, in addition to multi-client late sales closed in the quarter. The Company experiences increased uncertainty related to the timing of the multi-client sales.

Going into the 2014, the Company is in a better position than at the same time last year. The contract coverage is improved, the price level remains attractive and the product portfolio is expanded. Also, customer's exploration achievements, in particular in Mexico and the Barents Sea, further confirm the technology's value proposition and contribute to increased market awareness.

EMGS's long-term outlook is positive and the Company reiterates its strategy to achieve industry-wide integration of EM into the exploration workflow.

Oslo, 13 November 2013
Board of Directors and CEO

Electromagnetic Geoservices Group

# Consolidated income statement

Quarter ended 30 September

| Amounts in USD 1 000 | Q3 2013 Unaudited | Q3 2012 Unaudited | YTD 2013 Unaudited | YTD 2012 Unaudited | 2012 Audited |
|---|---|---|---|---|---|
| **Operating revenues** | | | | | |
| Contract sales | **21 526** | 38 959 | 71 190 | 141 554 | 176 118 |
| Multi-client pre-funding | **2 046** | 3 329 | 2 846 | 8 225 | 15 960 |
| Multi-client late sales | **38** | 904 | 25 671 | 6 056 | 8 753 |
| **Total operating revenues** | **23 610** | **43 192** | **99 707** | **155 835** | **200 831** |
| **Operating expenses** | | | | | |
| Charter hire, fuel and crew expenses | **8 947** | 17 894 | 30 910 | 56 107 | 68 822 |
| Employee expenses | **13 065** | 12 899 | 41 424 | 38 897 | 55 076 |
| Depreciation and ordinary amortisation | **4 504** | 3 557 | 13 177 | 9 799 | 13 920 |
| Multi-client amortisation | **1 370** | 2 665 | 11 237 | 8 421 | 12 709 |
| Other operating expenses | **5 080** | 5 071 | 16 366 | 15 049 | 21 080 |
| **Total operating expenses** | **32 966** | **42 086** | **113 114** | **128 273** | **171 607** |
| **Operating profit/(loss)** | **-9 356** | **1 106** | **-13 407** | **27 562** | **29 224** |
| **Financial income and expenses** | | | | | |
| Interest income | **150** | 69 | 261 | 162 | 220 |
| Interest expenses | **-1 526** | -1 276 | -6 115 | -4 101 | -5 377 |
| Net foreign currency income/(loss | **-1 106** | -2 826 | 4 628 | -4 478 | -6 125 |
| **Net financial items** | **-2 482** | **-4 033** | **-1 226** | **-8 417** | **-11 282** |
| **Income/(loss) before income taxes** | **-11 838** | **-2 927** | **-14 633** | **19 145** | **17 942** |
| Income tax expense | **376** | 2 845 | 1 759 | 6 545 | 6 047 |
| **Income/(loss) for the period** | **-12 214** | **-5 772** | **-16 392** | **12 600** | **11 895** |

## Consolidated statement of comprehensive income

| | Q3 2013 Unaudited | Q3 2012 Unaudited | YTD 2013 Unaudited | YTD 2012 Unaudited | 2012 Audited |
|---|---|---|---|---|---|
| **Income/(loss) for the period** | **-12 214** | **-5 772** | **-16 392** | **12 600** | **11 895** |
| **Other comprehensive income** | | | | | |
| *Other comprehensive income to be reclassified to profit or loss in subsequent periods:* | | | | | |
| Exchange differences on translation of foreign operations | **-289** | 4 374 | -15 | 4 382 | 4 619 |
| *Items not to be reclassified to profit or loss in subsequent periods:* | | | | | |
| Actuarial gains/(losses) on defined benefit plans | **-** | - | - | - | 3 075 |
| **Other comprehensive income** | **-289** | **4 374** | **-15** | **4 382** | **7 694** |
| **Total comprehensive income/(loss) for the period net of tax** | **-12 503** | **-1 398** | **-16 407** | **16 982** | **19 589** |

Electromagnetic Geoservices Group

# Consolidated statement of financial position

Quarter ended 30 September

| Amounts in USD 1 000 | Nine months ended 30 September 2013 Unaudited | Half year ended 30 June 2013 Unaudited | Year ended 31 December 2012 Audited |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Goodwill | **14 422** | 14 422 | 14 422 |
| Multi-client library | **30 977** | 22 775 | 14 126 |
| Other intangible assets | **3 812** | 4 614 | 4 877 |
| Property, plant and equipment | **25 934** | 27 364 | 32 233 |
| Assets under construction | **18 344** | 17 112 | 10 893 |
| **Total non-current assets** | **93 489** | **86 287** | **76 551** |
| **Current assets** | | | |
| Spare parts, fuel, anchors and batteries | **13 980** | 11 907 | 12 874 |
| Trade receivables | **27 357** | 48 563 | 47 000 |
| Other receivables | **20 073** | 29 976 | 14 960 |
| Cash and cash equivalents | **45 852** | 44 927 | 39 259 |
| Restricted cash | **1 002** | 1 308 | 8 543 |
| **Total current assets** | **108 265** | **136 682** | **122 637** |
| **Total assets** | **201 754** | **222 969** | **199 189** |
| **EQUITY** | | | |
| **Capital and reserves attributable to equity holders** | | | |
| Share capital, share premium and other paid-in equity | **284 351** | 283 392 | 268 709 |
| Other reserves | **-1 476** | -1 187 | -383 |
| Actuarial gains/(losses) | **3 563** | 3 563 | 3 563 |
| Retained earnings | **-185 122** | -172 908 | -157 939 |
| **Total equity** | **101 317** | **112 861** | **113 951** |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Employee benefit obligations | **2 268** | 2 150 | 2 285 |
| Non-current tax liability | **88** | 193 | 351 |
| Provisions | **5 513** | 4 260 | 3 811 |
| Borrowings | **57 922** | 57 186 | 45 608 |
| **Total non-current liabilities** | **65 791** | **63 789** | **52 055** |
| **Current liabilities** | | | |
| Trade payables | **15 569** | 13 206 | 9 616 |
| Current tax liabilities | **1 962** | 1 391 | 2 383 |
| Other short term liabilities | **16 463** | 15 939 | 19 843 |
| Borrowings | **650** | 15 781 | 1 340 |
| **Total current liabilities** | **34 645** | **46 318** | **33 183** |
| **Total liabilities** | **100 436** | **110 107** | **85 238** |
| **Total equity and liabilities** | **201 754** | **222 969** | **199 189** |

# Consolidated statement of cash flows

Quarter ended 30 September

| Amounts in USD 1 000 | Q3 2013 Unaudited | Q3 2012 Unaudited | Nine months ended 30 Sep 2013 Unaudited | Nine months ended 30 Sep 2012 Unaudited | Year ended 31 December 2012 Audited |
|---|---|---|---|---|---|
| **Net cash flow from operating activities:** | | | | | |
| Income/-loss before income tax | **-11 838** | -2 927 | -14 633 | 19 145 | 17 942 |
| **Adjustments for:** | | | | | |
| Withholding tax expenses | **439** | 7 574 | 1 723 | 9 869 | 10 847 |
| Total taxes paid | **-242** | -7 146 | -3 901 | -19 994 | -21 594 |
| Depreciation and ordinary amortisation | **4 504** | 3 557 | 13 177 | 9 799 | 13 920 |
| Multi-client amortisation | **1 371** | 2 665 | 11 237 | 8 421 | 12 709 |
| Non-cash portion of pension expense | **118** | 846 | -17 | 1 461 | -1 769 |
| Cost of share-based payment | **645** | 539 | 4 650 | 1 619 | 2 305 |
| Change in trade receivables | **21 206** | 15 520 | 19 643 | -11 089 | -19 239 |
| Change in inventories | **-2 073** | -193 | -1 106 | -1 901 | -3 142 |
| Change in trade payables | **2 363** | 954 | 5 953 | 1 079 | -4 660 |
| Change in other working capital | **12 331** | -3 967 | -2 533 | 1 813 | 16 071 |
| Amortisation of interest | **1 975** | 2 333 | 4 858 | 3 726 | 5 347 |
| **Net cash flow from operating activities** | **30 799** | **19 755** | **39 051** | **23 948** | **28 737** |
| **Investing activities:** | | | | | |
| Purchases of property, plant and equipment | **-3 580** | -5 119 | -12 767 | -14 514 | -21 171 |
| Purchases of intangible assets | **-** | - | - | - | -263 |
| Investment in multi-client library | **-10 202** | -3 377 | -30 562 | -13 076 | -21 362 |
| **Cash used in investing activities** | **-13 782** | **-8 496** | **-43 329** | **-27 590** | **-42 796** |
| **Financial activities:** | | | | | |
| Financial lease payments - principal | **-300** | -214 | -1 097 | -856 | -1 159 |
| Proceeds from issuance of ordinary shares | **314** | 352 | 418 | 1 374 | 1 377 |
| Proceeds of bond offering | **-** | - | 56 550 | - | - |
| Repayment of bond | **-14 945** | - | -41 873 | - | - |
| Payment of interest on bonds | **-1 161** | -2 236 | -3 127 | -3 264 | -4 696 |
| **Cash provided by financial activities** | **-16 092** | **-2 098** | **10 871** | **-2 746** | **-4 478** |
| **Net increase in cash** | **925** | **9 161** | **6 593** | **-6 388** | **-18 537** |
| Cash balance beginning of period | **44 927** | 42 247 | 39 259 | 57 796 | 57 796 |
| Cash balance end of period | **45 852** | 51 408 | 45 852 | 51 408 | 39 259 |
| **Increase in cash** | **925** | **9 161** | **6 593** | **-6 388** | **-18 537** |

Electromagnetic Geoservices Group

# Consolidated statement of changes in equity

Attributable to equity holders of the Company

| Amounts in USD 1 000 | Share capital share premium and other paid-in equity | Foreign currency translation reserves | Actuarial gains/ (losses) | Retained earnings | Total equity |
|---|---|---|---|---|---|
| **Balance at 31 December 2011** | **265 027** | **-4 428** | **-** | **-169 836** | **90 765** |
| Implementation of IAS 19 | - | - | 488 | - | **488** |
| **Balance at 1 January 2012** | **265 027** | **-4 428** | **488** | **-169 836** | **91 252** |
| **Total comprehensive income** | **-** | **2 379** | **-** | **6 972** | **9 351** |
| Cost of share-based payment | 504 | - | - | - | **504** |
| Proceeds from shares issued - private placement and options exercised | 915 | - | - | - | **915** |
| **Balance at 31 March 2012 (Unaudited)** | **266 446** | **-2 049** | **488** | **-162 864** | **102 022** |
| **Total comprehensive income** | **-** | **-2 371** | **-** | **11 401** | **9 030** |
| Cost of share-based payment | 576 | - | - | - | **576** |
| Proceeds from shares issued - private placement and options exercised | 107 | - | - | - | **107** |
| **Balance at 30 June 2012 (Unaudited)** | **267 129** | **-4 420** | **488** | **-151 463** | **111 735** |
| **Total comprehensive income** | **-** | **4 373** | **-** | **-5 771** | **-1 398** |
| Cost of share-based payment | 539 | - | - | - | **539** |
| Proceeds from shares issued - private placement and options exercised - shares not registered | 352 | - | - | - | **352** |
| **Balance at 30 September 2012 (Unaudited)** | **268 020** | **-47** | **488** | **-157 234** | **111 228** |
| **Total comprehensive income** | **-** | **-336** | **3 075** | **-705** | **2 034** |
| Cost of share-based payment | 686 | - | - | - | **686** |
| Proceeds from shares issued - private placement and options exercised - shares not registered | 3 | - | - | - | **3** |
| **Balance at 31 December 2012** | **268 709** | **-383** | **3 563** | **-157 939** | **113 951** |
| Change in functional currency | 10 574 | -1 078 | | -10 791 | **-1 295** |
| **Balance at 1 January 2013** | **279 283** | **-1 461** | **3 563** | **-168 730** | **112 655** |
| **Total comprehensive income** | **-** | **237** | **-** | **-2 536** | **-2 299** |
| Cost of share-based payment | 1 718 | - | - | - | **1 718** |
| **Balance at 31 March 2013 (Unaudited)** | **281 001** | **-1 224** | **3 563** | **-171 266** | **112 075** |
| **Total comprehensive income** | **-** | **37** | **-** | **-1 642** | **-1 605** |
| Cost of share-based payment | 2 287 | - | - | - | **2 287** |
| Proceeds from shares issued - private placement and options exercised - shares not registered | 104 | - | - | - | **104** |
| **Balance at 30 June 2013 (Unaudited)** | **283 392** | **-1 187** | **3 563** | **-172 908** | **112 861** |
| **Total comprehensive income** | **-** | **-289** | **-** | **-12 214** | **-12 503** |
| Cost of share-based payment | 645 | - | - | - | **645** |
| Proceeds from shares issued - private placement and options exercised - shares not registered | 314 | - | | - | **314** |
| **Balance at 30 September 2013 (Unaudited)** | **284 351** | **-1 476** | **3 563** | **-185 122** | **101 317** |

# Notes to the financial statements

## Accounting principles

The Group has applied the same accounting standards and policies as in the Group's financial statements at 31 December 2012, and has implied standards, interpretations and amendments which were effective from 1 January 2013.

**IAS 19 Employee Benefits (Revised 2011) (IAS 19R)**
IAS 19R includes a number of amendments to the accounting for defined benefit plans, including actuarial gains and losses that are now recognised in other comprehensive income (OCI) and permanently excluded from profit and loss. Expected returns on plan assets that are no longer recognised in profit or loss, instead, there is a requirement to recognise interest on the net defined benefit liability (asset) in profit or loss, calculated using the discount rate used to measure the defined benefit obligation, and; unvested past service costs are now recognised in profit or loss at the earlier of when the amendment occurs or when the related restructuring or termination costs are recognised.

The Group has applied IAS19R retrospectively from 1 January 2012 and comparative figures have been changed. The Group has previously used the corridormechanism , which allowed the Group to not recognise changes resulting actuarial gains or losses as long as these were within in a pre-defined bandwith when accounting for actuarial gains and losses. The removal of the corridor mechanism implies that actuarial gains and losses shall be recognised in OCI in the current period. The gain within the corridor stood at USD 0.5 million as of 1 January 2012, and it has been dissolved, and the pension obligation decreased by the same amount, whereas equity increased by USD 0.5 million.

The amended standard will impact the net benefit expense as the expected return on plan assets will be calculated using the same interest rate as applied for the purpose of discounting the benefit obligation. The difference between actual return of assets and the estimated return will be accounted for in OCI. The pension expense under previous standard was USD 2.3 million in 2012. No changes are made in the 2012 pension expense, as the changes are immaterial. Under the new standard, changes in actuarial assumptions recognised under OCI is USD 3.1 million. The pension obligation as of 31 Desember 2012 decreased from USD 5.8 million to USD 2.3 million. Since the Group has unrecognised deferred tax assets, no tax obligation has been recognised as a result of the implementation which these will be deducted from the asset.

**Functional currency**
EMGS ASA, the parent company, changed its functional currency from NOK to USD from 1 January 2013. The Group conducts operations in several countries around the world. Previously, contracts were entered into by wholly owned subsidiaries of EMGS ASA. From late 2012, nearly all of the Group's business has been transacted through EMGS ASA. The Company sees this trend continuing in 2013. As a consequence of these changes, management has assessed the functional currency of the parent company to be USD. The change in functional currency has no cash impact.

EMGS ASA will no longer have currency exchange effects, deriving from USD denominated monetary assets and liabilities, related to the "Net financial items". Conversely, monetary assets and liabilities, denominated in other currencies than USD, may now generate such currency effects.

## Segment reporting

EMGS reports its sales revenue as one reportable segment. The sales revenues and related costs are incurred worldwide.

The amounts below show sales revenues reported by geographic region.

| Amounts in USD 1 000 | **Q3 2013 Unaudited** | Q3 2012 Unaudited | YTD 2013 Unaudited | YTD 2012 Unaudited | 2012 Audited |
|---|---|---|---|---|---|
| Americas | **3.2** | 36.3 | 6.5 | 128.3 | 143.5 |
| Asia/Pacific | **18.3** | 0.6 | 67.7 | 10.9 | 30.1 |
| EAME | **2.1** | 6.3 | 25.5 | 16.6 | 27.2 |
| **Total** | **23.6** | **43.2** | **99.7** | **155.8** | **200.8** |

## 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 2012. The Group's financial statements are available upon request from the company's registered office in Trondheim or at www.emgs.com.

## 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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