# EMGS fourth quarter 2013

06/02/2014

# Highlights in the fourth quarter 2013

## Operational highlights

- Two vessels operating for Pemex – challenging conditions
- Substantial multi-client sale and strategic partnership with North Energy
- Expansion of partnership with TGS for the Barents Sea
- Multi-client sales to Tullow Oil and OMV Norge
- Contract for BOA Thalassa with Apache in Australia

## Financial highlights

- Fourth quarter revenues of USD 44.9 million
- Fourth quarter EBITDA of USD 6.5 million
- Full-year revenues of USD 144.6 million
- Full-year EBITDA of USD 17.5 million

## Outlook and guidance

- Full year 2014 revenue guiding of more than USD 200 million

**Key financial figures**

| USD million (except per share data) | Q4 2013 | Q4 2012 | 2013 | 2012 | Q3 2013 |
|---|---|---|---|---|---|
| Contract sales | **40.1** | 34.6 | 111.3 | 176.1 | 21.5 |
| Multi-client sales | **4.8** | 10.4 | 33.3 | 24.7 | 2.1 |
| Total revenues | **44.9** | 45.0 | 144.6 | 200.8 | 23.6 |
| Operating profit/ (loss) | **1.1** | 1.7 | (12.3) | 29.2 | (9.4) |
| Income/ (loss) before income taxes | **1.4** | (1.2) | (13.2) | 17.9 | (11.8) |
| Net income/ (loss) | **1.3** | (0.7) | (15.1) | 11.9 | (12.2) |
| Earnings/ (loss) per share | **0.01** | (0.00) | (0.08) | 0.06 | (0.06) |
| Average number of shares outstanding (in thousands) | **199 512** | 198 690 | 199 310 | 198 161 | 199 110 |
| EBITDA | **6.5** | 10.1 | 17.5 | 55.9 | (3.5) |
| Multi-client investment | **1.5** | 8.3 | 32.0 | 21.4 | 10.2 |
| Adjusted EBITDA | **5.0** | 1.8 | (14.5) | 34.5 | (13.7) |

# Financial review

## Revenues and operating expenses

EMGS recorded revenues of USD 44.9 million in the fourth quarter of 2013, in line with the USD 45.0 million reported for the fourth quarter of 2012. Contract sales totalled USD 40.1 million while multi-client sales came in at USD 4.8 million in the quarter, including EMGS' share of the joint project with TGS. This compares to contract sales of USD 34.6 million and multi-client sales of USD 10.4 million in the corresponding period in 2012.

The Company recorded 11.1 vessel months in the fourth quarter of 2013 as opposed to 11.0 in the fourth quarter of 2012. Vessel utilisation came in at 50% in the fourth quarter of 2013, with an allocation of 46% to contract and 4% to multi-client programmes. For the corresponding period of 2012, the Company had a total utilisation of 84%, with 44% allocated to contract and 40% to multi-client programmes. Vessel utilisation for the full year 2013 came in at 67%, compared with 76% for 2012.

Revenues for the full year 2013 came in at USD 144.6 million, compared with USD 200.8 million in 2012.

Charter hire, fuel and crew expenses totalled USD 20.3 million in the fourth quarter of 2013, up from USD 12.7 million in the corresponding quarter in 2012. The increase is related to reduction of capitalisation of multi-client costs from USD 8.3 million in the fourth quarter of 2012 to USD 1.5 million in the corresponding period in 2013. For the full year 2013, charter hire, fuel and crew expenses came in at USD 51.2 million, down from USD 68.8 million in 2012.

Employee expenses decreased from USD 16.2 million in the fourth quarter of 2012 to USD 12.9 million in the fourth quarter 2013 owing to release of accrued bonus in 2013. These expenses totalled USD 54.3 million for the full year 2013, down from USD 55.1 million the previous year.

Other operating expenses decreased from USD 6.0 million in the fourth quarter 2012 to USD 5.1 million in the last quarter of 2013. For the full year 2013, other operating expenses came in at USD 21.5 million, up from USD 21.1 million.

## Depreciation and amortisation

Depreciation and ordinary amortisation totalled USD 4.3 million in the fourth quarter 2013, up from USD 4.1 million in the same quarter in 2012. The increase is due to investment in equipment. Depreciation and ordinary amortisation increased from USD 13.9 million for the full year 2012 to USD 17.5 million for the full year 2013.

Multi-client amortisation totalled USD 1.1 million in the fourth quarter of 2013, down from USD 4.3 million in the fourth quarter 2012. For the full year 2013, multi-client amortisation came in at USD 12.3 million, down from USD 12.7 million in 2012.

## Net financial items

Interest expenses decreased from USD 1.3 million in the fourth quarter of 2012 to USD 1.1 million this quarter. The Company recorded a gain on net foreign currency of USD 1.2 million this quarter, while a loss of USD 1.6 million was recorded in the corresponding quarter in 2012. Net financial items ended at positive USD 0.3 million, compared with a loss of USD 2.9 million in the fourth quarter 2012. For the full year 2013, net financial items came in at a negative USD 0.9 million, up from a negative USD 11.3 million in 2012.

## Income/(loss) before income taxes

Income before income taxes came in at USD 1.4 million in the fourth quarter 2013, compared with a loss before income taxes of USD 1.2 million in the corresponding quarter in 2012. For the full year, income/(loss) before income taxes decreased from an income of USD 17.9 million to a loss of USD 13.2 million in 2013.

## Income tax expenses

Income tax expenses of USD 0.1 million were recorded in the fourth quarter of 2013, compared with an income tax expense of negative USD 0.5 million in the fourth quarter of 2012. These taxes relate to results in foreign jurisdictions. For the full year 2013, an income tax expense of USD 1.9 million was recorded, compared with USD 6.0 million for the full year 2012.

## Net income for the period

Income for the fourth quarter of 2013 ended at USD 1.3 million, up from a loss of USD 0.7 million in the same period last year. Loss for the full year 2013 was USD 15.1 million, down from a net income of USD 11.9 million in 2012.

## Cash flow and balance sheet

In the fourth quarter of 2013, net cash flow from operating activities was USD 18.6 million, compared with USD 4.8 million the same period last year. The positive cash flow in 2013 is mainly caused by a positive change in other working capital. Other receivables have decreased by USD 3.6 million and other short term liabilities and provisions have increased by USD 5.9 million and USD 1.7 million during the fourth quarter of 2013.

Trade receivables increased from USD 27.4 million at the end of the third quarter of 2013 to USD 31.5 million at the end of the fourth quarter. Trade payables increased from USD 15.6 million to USD 15.9 million during the fourth quarter.

Cash flow from operating activities was positive USD 57.6 million for the year ended 31 December 2013, compared with a positive cash flow from operating activities of USD 28.7 million in the comparable period in 2012.

EMGS applied USD 7.7 million in investing activities in the fourth quarter of 2013. The investments consist of USD 1.5 million in multi-client library and USD 6.2 million in property, plant and equipment. The ending multi-client library balance on 31 December 2013 was USD 28.1 million, down from USD 31.0 million at 30 September 2013. The carrying value of the library balance is net of the contribution from TGS of USD 3.4 million from the expansion of the joint project in the Barents Sea, and includes our 70% share of the joint project. In the same period in 2012, cash applied in investing activities amounted to USD 15.2 million. Cash applied in investing activities for the full year 2013 amounted to USD 51.1 million, of which USD 32.1 million in multi-client data and USD 19.0 million in property, plant and equipment, compared with a total of USD 42.8 million in 2012.

Cash flow from financial activities was negative USD 1.4 million in the fourth quarter of 2013, compared with negative USD 1.7 million in the same period of 2012. Total borrowings were USD 56.8 million at 31 December 2013, compared with USD 58.6 million at 30 September 2013. Cash flow from financial activities was USD 9.5 million in the full year of 2013, compared with a negative USD 4.5 million in 2012.

Cash increased by USD 9.5 million and USD 16.0 million in the fourth quarter and the full year of 2013 respectively. At 31 December 2013, cash and cash equivalents totalled USD 56.5 million, including USD 1.2 million restricted cash.

# Operational review

**Vessel utilisation**

| | Q4 2013 | Q3 2013 | Q2 2013 | Q1 2013 | Q4 2012 |
|---|---|---|---|---|---|
| **Contract** | **46%** | 35% | 32% | 29% | 44% |
| **Multi-client** | **4%** | 42% | 46% | 34% | 40% |
| **Total utilisation** | **50%** | 77% | 78% | 63% | 84% |

**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 fourth quarter of 2013 came in at 50% compared with 84% in the corresponding quarter of 2012.

In the fourth quarter of 2013, the Company's vessels were allocated 46% to contract and 4% to multi-client programmes, whereas the allocation was 44% and 40% respectively in the fourth quarter 2012.

EMGS recorded 11.1 vessel months this quarter, compared with 11.0 in the fourth quarter of 2012. The vessel EM Leader was chartered from 3 September to 3 December 2013 and thus contributes with 2.1 vessel months this quarter.

For the full year 2013, the Company had a utilisation of 67%, compared with 76% for 2012.

**Vessel activity**

*BOA Thalassa*
The BOA Thalassa spent the first half of October to complete a regional, USD 50 million contract in Brunei, Asia. The vessel then had a yard stay of 14 days, which was the "5 year class renewal". Thereafter, the vessel completed a contract in Malaysia.

In November, EMGS announced that the Company had received a letter of intent in North West Australia for BOA Thalassa. The vessel started operating on the contract for Apache on 25 January 2014 and is expected to complete the survey in February.

The vessel's utilisation for the fourth quarter was 37%.

*BOA Galatea*
The BOA Galatea spent the entire fourth quarter acquiring 3D EM data on the USD 99.8 million contract with PEMEX. The operational conditions in Mexico was challenging due to harsh weather conditions and the deep waters. The technical down-time for the vessel (8.4%) for the quarter was therefore higher than normal.

The vessel's utilisation came in at 89% for the fourth quarter.

*Atlantic Guardian*
The Atlantic Guardian completed its multi-client programme in the Barents Sea in the beginning of the fourth quarter. The vessel then mobilised to Mexico, where the start-up was delayed by nearly 3 weeks of maritime down-time due to repair of a thruster. The vessel started operating on the PEMEX contract on 4 December. The vessel has had somewhat higher than normal down-time in December, mainly as a result of the mentioned operational conditions.

The Atlantic Guardian's utilisation for the quarter was 38%.

*EM Leader*
During the quarter, the EM Leader completed a survey in Angola. The vessel's firm charter period expired on 3 December.

The EM Leader had a utilization of 27%.

**Backlog**
As of 31 December 2013, EMGS' backlog was at USD 79 million. Of this, about USD 73 million is related to the PEMEX contract and approximately USD 5 million to the contract with Apache in North West Australia. The latter will be completed by BOA Thalassa in February.

In addition, the Company signed an agreement with North Energy in January. This agreement, if completed at North Energy's extraordinary general meeting, adds approximately USD 15 million to the backlog, bringing the total backlog as of 5 February 2014 to USD 94 million.

| | Utilisation Q4 | Status Q4 | Firm charter period | Optional charter period |
|---|---|---|---|---|
| **BOA Thalassa** | **37%** | In operation | 18 December 2014 | 1 x 12 months |
| **BOA Galatea** | **89%** | In operation | 17 July 2015 | 2 x 12 months |
| **Atlantic Guardian** | **38%** | In operation | 1 March 2016 | 3 x 12 months |
| **EM Leader** | **27%** | Charter expired on 3 December | Not applicable | 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

**Expansion of cooperation with TGS**

In December, EMGS and TGS announced that the companies had agreed to expand their cooperation agreement (further described in stock exchange notice of 23 May 2013) in the Barents Sea. The number of blocks covered by the agreement is increased from 11 to 17 blocks. In addition, TGS increase its share in all the 17 blocks from 20 to 30%.

The contribution from TGS following the expansion amounts to approximately USD 3.4 million and is booked as a reduction of the carrying value of EMGS existing multi-client library at 31 December 2013

**Patent infringement claims against PGS**

On 18 December EMGS announced that the Company had issued claims against Petroleum Geo-Services[1] (PGS) in the High Court of Justice, Patent Court, in London, UK. The basis for the claims was the evaluation by EMGS that PGS has used the Towed Streamer EM in the United Kingdom and Ireland in violation of EMGS' patents. The evaluation was based on technical and commercial papers published by PGS as well as other public documents issued by PGS.

EMGS also sent a warning letter to PGS that similar claims will be filed in Norwegian courts based on PGS' use of the Towed Streamer EM in Norwegian territory infringing EMGS' Norwegian patent.

The Patent was successfully defended by EMGS against claims of invalidity from Schlumberger Holding Ltd in the UK Court of Appeal in July 2010 and through several oppositions in the European Patent Office appeal division in December 2011.

## Recent events

**Agreement with North Energy**

On 21 January, EMGS announced that the Company had signed an agreement with North Energy worth NOK 100 million (USD 16.1 million). The agreement includes a sale of EMGS' full 3D EM multi-client data library in the Barents Sea for USD 12.1 million and sale of services related to EM inversion and integrated interpretation for USD 2.4 million. In addition, North Energy has committed to pre-funding of USD 1.6 million for a 2014 Barents Sea program.

The payment for the 3D EM data will be in the form of a convertible bond issued by North Energy with a strike price of NOK 4.15, coupon of 6% and with a maturity of 6 months. At maturity, unless converted, EMGS will receive NOK 75 million (USD 12.1 million) plus interest. The remaining part of the payment of NOK 25 million (USD 4.0 million) will be settled in cash.

EMGS will participate with NOK 20 million (approximately USD 3.2 million) in North Energy's private placement totalling NOK 285 million.

The agreement confirms the substantial value in EMGS' 3D EM library in the Barents Sea. Further, the strategic partnership with North Energy, strengthened by EMGS' investment, provides EMGS with a unique opportunity to implement EM in North Energy's exploration workflow.

The agreement is subject to approval of the Extra Ordinary General Meeting (EGM) in North Energy scheduled for 13 February.

On 24 January, the nomination committee of North Energy announced its recommendation to the EGM on new directors to the Board. Jogeir Romestrand was recommended by EMGS.

**Global frame agreement with Shell**

In January, EMGS signed a global framework agreement with Shell International Exploration and Production B.V. for the provision of consultancy services including survey planning/modeling, EM processing, EM inversion and integrated interpretation.

[1]Including Petroleum Geo-Services ASA, PGS Exploration (UK) Limited and PGS Geophysical AS

**23rd licensing round & acquisition permit for the Barents Sea**
In January 2014, the Norwegian Ministry of Petroleum and Energy received nominations for the 23rd licensing round. The nominations included 160 blocks in the Norwegian Continental Shelf, whereof 140 blocks in the Barents Sea. Of the 25 blocks nominated by two or more companies in the Fingerdjupet sub basin and Hoop Fault Complex, EMGS already has 3D EM data for 18 of them.

The round reflected particular interest for the formerly disputed southeastern area of the Barents Sea. The area was opened for petroleum-related activities in 2013. EMGS is considering expanding its 3D EM library in the Barents Sea in 2014, with special focus on the southeastern area and blocks in the vicinity of the Hoop Fault Complex. EMGS has received acquisition permit from the NPD (Norwegian Petroleum Directorate) for all of the Barents Sea, including the newly opened area in the southeast.

## Share information

EMGS was listed at the Oslo Stock Exchange in March 2007. During the fourth quarter 2013, the EMGS share was traded between NOK 8.03 and NOK 6.49 per share. The last closing price before 31 December 2013 was NOK 7.87. The Company had a total of 199 340 055 shares outstanding at 31 December 2013.

On 14 November Fidelity, representing several funds, disclosed that it had exceeded the threshold of 5%. In the fourth quarter the EMGS share was excluded from the OSEBX Index and the OBX Index.

## 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

Going into the 2014, EMGS is in a better position than at the same time last year. The Company's backlog is improved and the Company's strong technology track record is continuously creating increased market awareness.

EMGS acknowledges that the rate of industry adoption remain challenging to predict. As per 5 February, the Company has approximately USD 94 million in secured revenues[2] for 2014.

Based on the current operational forecast, the Company expects to deliver 2014 revenues of more than USD 200 million. Further, the Company expects future multi-client projects to be fully pre-funded and capital expenditure of less than USD 15 million.

The first quarter of 2014 is expected to be one of the best quarters in the Company's history. Two vessels are operating for PEMEX, the BOA Thalassa will complete a survey for Apache and the multi-client sale to North Energy will all contribute to this. Following the first quarter, lower visibility and planned yard stays could yield softer quarters.

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, 5 February 2014
Board of Directors and CEO

**Bjarte H. Bruheim**
Chairman of the Board

**Stig Eide Sivertsen**

**Berit Svendsen**

**Jeffrey Alan Harris**

**Christel B. Pedersen**

**Svein Ellingsrud**

**Maria Moræus Hansen**

**Roar Bekker**
CEO

[2]Including the revenues relating to the agreement with North Energy which is subject to approval of the EGM in North Energy scheduled for 13 February 2014

Electromagnetic Geoservices Group

# Consolidated income statement

Quarter ended 31 December

| Amounts in USD 1 000 | Q4 2013 Unaudited | Q4 2012 Unaudited | 2013 Unaudited | 2012 Audited |
|---|---|---|---|---|
| **Operating revenues** | | | | |
| Contract sales | **40 094** | 34 582 | 111 284 | 176 118 |
| Multi-client pre-funding | **81** | 7 718 | 2 927 | 15 960 |
| Multi-client late sales | **4 716** | 2 697 | 30 387 | 8 753 |
| **Total operating revenues** | **44 891** | **44 997** | **144 598** | **200 831** |
| **Operating expenses** | | | | |
| Charter hire, fuel and crew expenses | **20 309** | 12 714 | 51 219 | 68 822 |
| Employee expenses | **12 920** | 16 179 | 54 344 | 55 076 |
| Depreciation and ordinary amortisation | **4 318** | 4 121 | 17 495 | 13 920 |
| Multi-client amortisation | **1 100** | 4 288 | 12 337 | 12 709 |
| Other operating expenses | **5 122** | 6 031 | 21 488 | 21 080 |
| **Total operating expenses** | **43 769** | **43 333** | **156 883** | **171 607** |
| **Operating profit/(loss)** | **1 122** | **1 664** | **-12 285** | **29 224** |
| **Financial income and expenses** | | | | |
| Interest income | **216** | 58 | 477 | 220 |
| Interest expenses | **-1 089** | -1 276 | -7 204 | -5 377 |
| Net foreign currency income/(loss | **1 154** | -1 648 | 5 782 | -6 125 |
| **Net financial items** | **281** | **-2 866** | **-945** | **-11 282** |
| **Income/(loss) before income taxes** | **1 403** | **-1 202** | **-13 230** | **17 942** |
| Income tax expense | **106** | -497 | 1 865 | 6 047 |
| **Income/(loss) for the period** | **1 297** | **-705** | **-15 095** | **11 895** |

## Consolidated statement of comprehensive income

| | | | | |
|---|---|---|---|---|
| **Income/(loss) for the period** | **1 297** | **-705** | **-15 095** | **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 | **-240** | -336 | 34 | 4 619 |
| *Items not to be reclassified to profit or loss in subsequent periods:* | | | | |
| Actuarial gains/(losses) on defined benefit plans | **-1 055** | 3 075 | -1 055 | 3 075 |
| **Other comprehensive income** | **-1 295** | **2 739** | **-1 021** | **7 694** |
| **Total comprehensive income/(loss) for the period net of tax** | **2** | **2 034** | **-16 116** | **19 589** |

Electromagnetic Geoservices Group

# Consolidated statement of financial position

Quarter ended 31 December

| Amounts in USD 1 000 | Year ended 31 December 2013 Unaudited | Year ended 31 December 2012 Audited |
|---|---|---|
| **ASSETS** | | |
| **Non-current assets** | | |
| Goodwill | **14 422** | 14 422 |
| Multi-client library | **28 108** | 14 126 |
| Other intangible assets | **3 353** | 4 877 |
| Property, plant and equipment | **27 682** | 32 233 |
| Assets under construction | **19 200** | 10 893 |
| **Total non-current assets** | **92 765** | **76 551** |
| **Current assets** | | |
| Spare parts, fuel, anchors and batteries | **12 990** | 12 874 |
| Trade receivables | **31 520** | 47 000 |
| Other receivables | **16 438** | 14 960 |
| Cash and cash equivalents | **55 305** | 39 259 |
| Restricted cash | **1 240** | 8 543 |
| **Total current assets** | **117 493** | **122 637** |
| **Total assets** | **210 258** | **199 189** |
| **EQUITY** | | |
| **Capital and reserves attributable to equity holders** | | |
| Share capital, share premium and other paid-in equity | **285 248** | 268 709 |
| Other reserves | **-1 716** | -383 |
| Actuarial gains/(losses) | **2 508** | 3 563 |
| Retained earnings | **-183 824** | -157 939 |
| **Total equity** | **102 217** | **113 951** |
| **LIABILITIES** | | |
| **Non-current liabilities** | | |
| Employee benefit obligations | **3 452** | 2 285 |
| Non-current tax liability | **35** | 351 |
| Provisions | **7 164** | 3 811 |
| Borrowings | **56 628** | 45 608 |
| **Total non-current liabilities** | **67 279** | **52 055** |
| **Current liabilities** | | |
| Trade payables | **15 942** | 9 616 |
| Current tax liabilities | **2 299** | 2 383 |
| Other short term liabilities | **22 393** | 19 843 |
| Borrowings | **128** | 1 340 |
| **Total current liabilities** | **40 762** | **33 183** |
| **Total liabilities** | **108 041** | **85 238** |
| **Total equity and liabilities** | **210 258** | **199 189** |

Electromagnetic Geoservices Group

# Consolidated statement of cash flows

Quarter ended 31 December

| Amounts in USD 1 000 | Q4 2013 Unaudited | Q4 2012 Unaudited | Year ended 31 December 2013 Unaudited | Year ended 31 December 2012 Audited |
|---|---|---|---|---|
| **Net cash flow from operating activities:** | | | | |
| Income/-loss before income tax | **1 403** | -1 202 | -13 230 | 17 942 |
| **Adjustments for:** | | | | |
| Withholding tax expenses | **1 509** | 978 | 3 231 | 10 847 |
| Total taxes paid | **-1 279** | -1 600 | -5 180 | -21 594 |
| Depreciation and ordinary amortisation | **4 318** | 4 121 | 17 495 | 13 920 |
| Multi-client amortisation | **1 100** | 4 288 | 12 337 | 12 709 |
| Impairment of disposal of property, plant and equipment | **-** | - | - | - |
| Non-cash portion of pension expense | **1 184** | -3 230 | 1 167 | -1 769 |
| Cost of share-based payment | **523** | 686 | 5 173 | 2 305 |
| Change in trade receivables | **-4 163** | -8 150 | 15 480 | -19 239 |
| Change in inventories | **990** | -1 241 | -116 | -3 142 |
| Change in trade payables | **373** | -5 739 | 6 326 | -4 660 |
| Change in other working capital | **12 225** | 14 257 | 9 692 | 16 071 |
| Amortisation of interest | **414** | 1 621 | 5 273 | 5 347 |
| **Net cash flow from operating activities** | **18 597** | **4 789** | **57 648** | **28 737** |
| **Investing activities:** | | | | |
| Purchases of property, plant and equipment | **-5 391** | -6 657 | -10 707 | -21 171 |
| Purchases of intangible assets | **-855** | -263 | -8 306 | -263 |
| Investment in multi-client library | **-1 494** | -8 286 | -32 056 | -21 362 |
| **Cash used in investing activities** | **-7 740** | **-15 206** | **-51 069** | **-42 796** |
| **Financial activities:** | | | | |
| Financial lease payments - principal | **-656** | -303 | -1 753 | -1 159 |
| Proceeds from issuance of ordinary shares | **374** | 3 | 792 | 1 377 |
| Proceeds of bond offering | **-** | - | 56 550 | - |
| Repayment of bond | **-** | - | -41 873 | - |
| Payment of interest on bonds | **-1 122** | -1 432 | -4 249 | -4 696 |
| **Cash provided by financial activities** | **-1 404** | **-1 732** | **9 467** | **-4 478** |
| **Net increase in cash** | **9 453** | **-12 149** | **16 046** | **-18 537** |
| Cash balance beginning of period | **45 852** | 51 408 | 39 259 | 57 796 |
| Cash balance end of period | **55 305** | 39 259 | 55 305 | 39 259 |
| **Increase in cash** | **9 453** | **-12 149** | **16 046** | **-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 2012** | **265 027** | **-4 428** | **-** | **-169 836** | **90 765** |
| 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 | 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** | **-185 121** | **101 318** |
| **Total comprehensive income** | **-** | **-240** | **-1 055** | **1 297** | **2** |
| Cost of share-based payment | 523 | - | - | - | **523** |
| Proceeds from shares issued - private placement and options exercised - shares not registered | 374 | - | | - | **374** |
| **Balance at 31 December 2013 (Unaudited** | **285 248** | **-1 716** | **2 508** | **-183 824** | **102 217** |

# 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 "corridor mechanism" 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 | **Q4 2013 Unaudited** | Q4 2012 Unaudited | 2013 Unaudited | 2012 Audited |
|---|---|---|---|---|
| Americas | **23.3** | 15.2 | 29.8 | 143.5 |
| Asia/Pacific | **8.7** | 19.2 | 76.4 | 30.1 |
| EAME | **13.0** | 10.6 | 38.5 | 27.2 |
| **Total** | **44.9** | **45.0** | **144.6** | **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.

For further information visit www.emgs.com, or contact:

Roar Bekker
CEO
Email: rbekker@emgs.com
Phone: +47 22 01 14 00

Svein T. Knudsen
CFO
Email: sk@emgs.com
Phone: +47 22 01 14 00

Charlotte Knudsen
IRO
Email: cknudsen@emgs.com
Phone: +47 9756 1959

# Notes

# Notes

**EMGS Headquarters**
Stiklestadveien 1
N-7041 Trondheim, Norway
Telephone +47 73 56 88 10

**Europe, Africa & Middle East**
Dronning Mauds gate 15
7th floor
N-0250 Oslo, Norway
Telephone +47 22 01 14 00

**North & South America**
15021 Katy Freeway, Suite 500
Houston, TX 77094, USA
Telephone +1 281 920 5601

**Asia Pacific**
Unit E-15.2-4, 15th Floor
East Wing
Rohas Perkasa
No. 9 Jalan P. Ramlee
50250 Kuala Lumpur
Telephone +603 21 66 06 13

www.emgs.com