# TGS EARNINGS RELEASE

## 3rd QUARTER 2018 RESULTS

### 3rd QUARTER 2018 FINANCIAL HIGHLIGHTS – SEGMENT REPORTING

| (All amounts in USD 1,000 unless noted otherwise) | Q3 2018 | Q3 2017 | YTD 2018 | YTD 2017 |
|---|---|---|---|---|
| **Net operating revenues** | **140,731** | **141,684** | **433,332** | **335,510** |
| -Net prefunding revenue | 32,771 | 61,809 | 70,948 | 104,371 |
| -Net late sales revenue | 105,959 | 78,535 | 356,611 | 226,050 |
| -Net proprietary revenue | 2,001 | 1,340 | 5,773 | 5,089 |
| **Operating profit** | **24,425** | **25,787** | **103,539** | **45,799** |
| -Operating profit margin | 17% | 18% | 24% | 14% |
| **Pre-tax profit** | **28,428** | **26,950** | **108,983** | **46,654** |
| **Net income** | **16,842** | **9,442** | **76,299** | **20,609** |
| **EPS (fully diluted) (USD)** | 0.16 | 0.09 | 0.74 | 0.20 |
| **Operational investments in new projects** | **100,121** | **114,371** | **193,573** | **232,156** |
| -Prefunding % on operational investments | 33% | 54% | 37% | 45% |
| **Risk-sharing investments** | **139** | **1,485** | **7,343** | **8,363** |
| **Non-operational investments** | **6,502** | **4,635** | **6,502** | **10,581** |
| Amortization | 92,857 | 94,715 | 250,222 | 225,550 |
| **MC library net book value** | **749,594** | **837,939** | **749,594** | **837,949** |
| Return on average capital employed[1] | 17% | 9% | 17% | 9% |
| Cash flow from operating activities | 96,089 | 86,365 | 326,582 | 323,987 |
| Free cash flow (after MC investments) | 10,293 | -18,716 | 135,633 | 67,184 |
| **Cash balance** | **322,150** | **204,988** | **322,150** | **204,988** |

- Continued improvement in late sales – year-on-year growth of 35%
- Asset transfers and M&A continuing to be important drivers
- Earnings per share (EPS) of USD 0.16 – year-on-year growth of 78%
- Continued strong cash flow
- Quarterly dividend of USD 0.20 per share – year-on-year growth of 33%
- 2018 guidance:
    - New multi-client investments of approximately USD 260 million
    - Additional multi-client investments expected from sales of existing surveys with risk sharing arrangements
    - Pre-funding of new multi-client investments expected to be approximately 40% compared to previous expectation of 45-50%

[1] Trailing 12 months

## CHANGE OF ACCOUNTING PRINCIPLES

TGS-NOPEC Geophysical Company ASA (TGS) and its subsidiaries have implemented the new revenue recognition standard, IFRS 15, effective January 1, 2018 as the external financial reporting method. This change impacts the timing of revenue recognition and amortization related to projects that are not yet completed. TGS will, for internal management reporting purposes, continue to use the revenue recognition principles applied historically. The numbers used for management reporting are referred to as “Segment reporting” in this report. See Note 2 for description of basis for preparation. See Note 7 for a description of the change in revenue recognition resulting from the implementation of IFRS 15. TGS will not restate prior periods.

## FINANCIALS – SEGMENT REPORTING

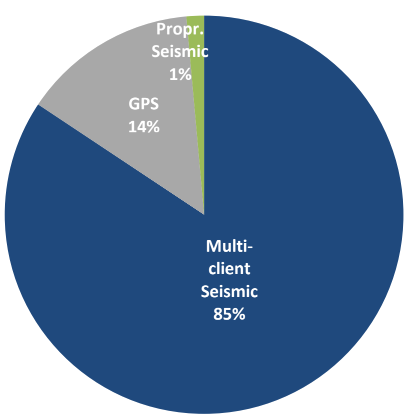
For internal reporting purposes TGS is using segment reporting with net revenues for projects in progress recognized based on Percentage of Completion. The discussion and analysis in this section are based on segment reporting.

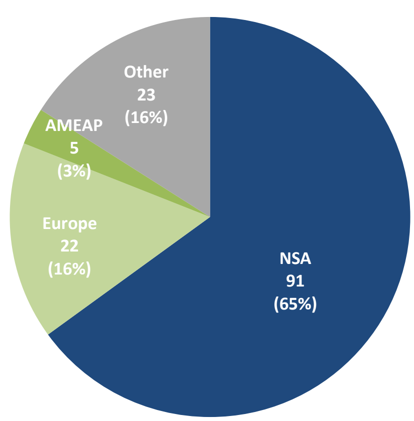
### Net operating revenues

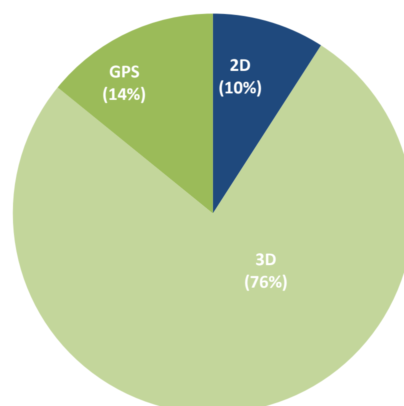
Net operating revenues for Q3 2018 amounted to USD 140.7 million, a decrease of 1% compared to the USD 141.7 million recognized in Q3 2017. Net pre-funding revenues totaled USD 32.7 million in the quarter versus USD 61.8 million in Q3 of last year. In Q3 2018 the net pre-funding revenues funded 33% of the USD 100.1 million of operational investments in the multi-client library. In the corresponding quarter of last year 54% of the operational multi-client investments of USD 114.4 million were pre-funded.

Net late sales for the quarter amounted to USD 106.0 million, a growth of 35% compared to the USD 78.5 million booked in Q3 2017. Proprietary contract revenues increased by 49% to USD 2.0 million from USD 1.3 million in Q3 2017.

**Revenue distribution**




*Source: TGS*

## Operational costs

The amortization of the multi-client library for Q3 2018 amounted to USD 92.9 million, which is down from USD 94.7 million in Q3 2017. This includes impairments of USD 10.0 million related to multi-client surveys in Brazil, Canada and US Gulf of Mexico.

Cost of goods sold (COGS) was USD 0.1 million for the quarter, compared to USD 0.2 million in Q3 2017. Personnel costs in the quarter were USD 14.8 million compared to USD 12.8 million in Q3 2017. The increase is primarily due to higher costs related to performance-linked employee incentive plans. Other operating expenses were USD 6.3 million in Q3 2018 compared to USD 6.2 million in Q3 2017.

## EBITDA and EBIT

EBITDA (Earnings Before Interest, Tax, Depreciation and Amortization) for Q3 2018 was USD 119.5 million, corresponding to a margin of 84.9%. In Q3 2017 EBITDA was USD 122.5 million, corresponding to a margin of 86%. Operating profit (EBIT) for the quarter amounted to USD 24.4 million, which is down from USD 25.8 million in Q3 2017.

## Financial items

Net financial items totaled USD 4.0 million compared to USD 1.2 million in Q3 2017. The Company recorded a net currency exchange gain of USD 0.3 million in Q3 2018, mainly because of the slight strengthening of the USD versus NOK. TGS holds NOK bank accounts primarily to pay taxes and dividends in NOK.

## Tax

TGS reports tax charges in accordance with the Accounting Standard IAS 12. Taxes are computed based on the USD value of the appropriate tax provisions according to local tax regulations and currencies in each jurisdiction. The tax charges are influenced not only by local profits, but also by fluctuations in exchange rates between the respective local currencies and USD. This method makes it difficult to predict tax charges on a quarterly or annual basis. Currency effects within the current year are classified as tax expenses.

Based on the reduced corporate income tax rate in Norway (23% in 2018) and in the US (21% in 2018), TGS has assessed the normalized operating consolidated tax rate to be at approximately 23% for 2018.

The tax rate reported for the quarter is at 40% compared to 65% last year. The higher than normal tax rate is a result of movements in currency rates, particularly NOK/USD, during the quarter.

## Net income and earnings per share (EPS)

Net income for Q3 2018 was USD 16.8 million (12 % of net revenues), up from USD 9.4 million in Q3 2017. Quarterly earnings per share (EPS) were USD 0.16 fully diluted (USD 0.16 undiluted), which is up from USD 0.09 fully diluted (USD 0.09 undiluted) in Q3 2017.

## Cash flow

Net cash flow from operations for the quarter, after taxes and before investments, totaled USD 96.1 million compared to USD 86.4 million in Q3 2017. Free cash flow amounted to USD 10.3 million versus USD -18.7 million in Q3 2017.

The Company's total cash holdings decreased by USD 15.4 million during the quarter and totaled USD 322.2 million as of 30 September 2018, compared to USD 205.0 million at 30 September 2017.

## Multi-client library

The net book value of the multi-client library was USD 749.6 million as of 30 September 2018 compared to USD 837.9 million at 30 September 2017. Combined operational multi-client investments and risk-share investments amounted to USD 100.1 million in Q3 2018 (USD 115.9 million in Q3 2017), while amortization was USD 92.9 million (USD 94.7 million in Q3 2017) (see note 5 to the interim financial statements).

During Q3 TGS acquired the Capreolus 3D Survey in Australia from Polarcus' multi-client library. This high fold, full broadband seismic survey is 22,130 $km^2$ in size and covers two hydrocarbon provinces with proven, but underexplored oil and gas plays in the Beagle and Bedout sub-basin offshore north-west Australia.

## Backlog

TGS' backlog amounted to USD 103.2 million at the end of Q3 2018, an increase of 20% from Q2 2018 and 63% higher than at the end of Q3 2017.

# FINANCIALS - IFRS REPORTING

Following the implementation of the IFRS 15 accounting standard from 1 January 2018, the IFRS accounts are no longer the same as the accounts used for internal reporting. The discussion and analysis in this section are based on IFRS reporting.

## Key figures - IFRS reporting[2]

| (All amounts in USD 1,000 unless noted otherwise) | Q3 2018 | Q3 2017[2] | YTD 2018 | YTD 2017 |
|---|---|---|---|---|
| **Net operating revenues** | **122,454** | **141,684** | **350,715** | **335,510** |
| **Operating profit** | **24,887** | **25,787** | **71,292** | **45,799** |
| -Operating profit Margin | 20% | 18% | 20% | 14% |
| **Pre-tax profit** | **28,889** | **26,950** | **76,736** | **46,654** |
| **Net income** | **17,304** | **9,442** | **44,052** | **20,609** |
| **EPS (fully diluted) (USD)** | 0.17 | 0.09 | 0.43 | 0.20 |
| Amortization | 74,118 | 94,715 | 199,852 | 225,550 |
| **MC library ending net book value** | **878,796** | **837,949** | **878,796** | **837,949** |
| **Equity ratio** | **72%** | **82%** | **72%** | **82%** |

## Income statement

Net revenues amounted to USD 122.5 million in Q3 2018, compared to USD 141.7 million in Q3 2017. Amortization of the multi-client library was USD 74.1 million versus USD 94.7 million in Q3 2017.

Operating profit totaled USD 24.9 million in Q3 2018 compared to USD 25.8 million in Q3 2017.

Net income amounted to USD 17.3 million in the quarter, while the same quarter of 2017 showed USD 9.4 million. This resulted in a fully diluted EPS of USD 0.17 compared to USD 0.09 in Q3 2017.

[2] 2017 numbers are not restated

## Balance sheet

The net book value of the multi-client library was USD 878.8 million as of 30 September 2018 compared to USD 837.9 million at 30 September 2017.

Total equity as of 30 September 2018 was USD 1,134.6 million, 72% of total assets. On 30 September 2017 total equity amounted to USD 1,157.1 million (82% of total assets). A total of 98,800 new shares were issued during Q3 2018 in relation to vesting of Restricted Share Units in August 2018. As of September 2018, TGS held 104,630 treasury shares.

## DIVIDEND

It is the ambition of TGS to pay a cash dividend that is in line with its long-term underlying cash flow. When deciding the dividend amount, the TGS Board of Directors will consider expected cash flow, investment plans, financing requirements and a level of financial flexibility that is appropriate for the TGS business model.

As from 2016, TGS has paid quarterly dividends in accordance with the resolution made by the Annual General Meeting. The aim will be to keep a stable quarterly dividend in US dollars through the year, but the actual level paid will be subject to continuous evaluation of the underlying development of the company and the market.

The Board of Directors has resolved to pay a dividend of USD 0.20 per share to be paid in Q4 2018. The dividend will be paid in the form of NOK 1.68 per share on 22 November 2018. The share will trade ex-dividend on 8 November 2018.

## OPERATIONAL HIGHLIGHTS

TGS had six 3D seismic vessels (three operated under joint venture agreements) and one coring vessel in operation in Q3 2018. In addition, TGS had one onshore crew operating in the Permian and two in the SCOOP/STACK.

In September, TGS completed acquisition of the 45,500 km$^2$ Atlantic Margin 3D survey in the central-southern Norwegian Sea using vessels from Polarcus and Shearwater. The survey is the single largest 3D survey carried out by any company in Northern Europe and covers largely open blocks in a relatively under-explored area with limited drilling to date. Fast track data from the 2017 season is already on offer with the final dataset being available 2019.

TGS used the same Polarcus vessels to acquire data in the UK West of Shetlands during Q2. The Erlend Wild West 18 is a 3D multi-client project covering 1,900 km$^2$ that ties into TGS' existing EW12 survey. It is designed to deliver high fidelity imaging of the subsurface in newly awarded acreage from the 30th Offshore UK licensing round, an area that includes several high potential prospects.

Acquisition of Nansen 3D, a joint venture survey with PGS, covering 4,200 km$^2$ in an active APA area of the Hammerfest Basin in the Barents Sea was completed in September. The project is designed to improve the imaging of the known fields and discoveries, allowing identification and development of new targets in both mature and new plays.

Throughout Q3 2018, TGS continued its acquisition season in East Canada, in collaboration with PGS. The joint venture completed the 8,000 km$^2$ Tablelands 3D survey before moving on to 3,400 km$^2$ Lewis Hills 3D survey. Data was also acquired over an area of approximately 2,700 km$^2$ to complete the 2017 Harbour Deep and Cape Broyle 3D surveys.

TGS was active in Latin America during Q3 2018 with its Brazil Southern Basins SeaSeep project. Having completed the initial phase of multibeam bathymetry in Q2, TGS commenced coring activities in Q3, using the bathymetry data to target optimal coring locations. Multibeam and coring activities will continue in Q4 2018, with data ultimately covering 200,000 km$^2$ in the Campos and Santos basins of Brazil.

During Q3 TGS worked in collaboration with Fairfield Geotechnologies to acquire the 330 km$^2$ Quail Ridge East 3D survey in the Delaware Basin, onshore U.S. This survey is part of a broader collaboration with Fairfield Geotechnologies covering an area of more than 5,000 km$^2$.

TGS was also active on the SCOOP / STACK play in the U.S onshore, continuing the 1,400 km$^2$ Canton 3D survey and commencing the 1,500 km$^2$ Gloss Mountain 3D survey. These surveys build on TGS' already significant presence in the SCOOP/STACK play with the Hackberry Complex to the east and the Loyal, Geary and Blanchard surveys to the south.

The Geologic Products and Services Division (GPS) continued to add to its inventory of multi-client products in the quarter. The well data library grew with the addition of approximately 10,000 new digital well logs, 3,300 new enhanced digital well logs and 109,000 new Validated Well Headers.

## OTHER MATTERS

On October 5, 2018, the Oslo District Court issued a split decision finding TGS guilty of charges made by Økokrim that TGS aided and abetted violations of the Tax Assessment Act in connection with the contract with Skeie Energy AS (later known as E&P Holding AS) for the purchase of licenses to seismic data and services in 2009. The court sentenced TGS to pay a corporate fine of NOK 90 million (approximately USD 11 million). TGS categorically disagrees with the court's decision and has appealed the verdict. The appellate trial is expected to occur late in 2019. Refer to Note 9 in TGS' Interim Consolidated Financial Statements attached to this release for additional information regarding this matter.

## OUTLOOK

TGS has grown net revenues by 29% in the first nine months of 2018. However, while E&P companies have benefited from lower costs and higher oil price, they have for the most part maintained a cautious approach to exploration spending. Although some of the improvement in TGS revenues can be attributed to increased exploration spend associated with licensing rounds and exploration drilling, a larger part of the increased revenues is related to acreage turnover, either through M&A between E&P companies or asset swaps and purchases.

Because of lower costs and higher oil prices E&P companies' cash flow has improved substantially over the past couple of years. With the market fundamentals continuing to improve, they are likely to come under increasing pressure to replenish reserves and secure growing production in the longer-term. Furthermore, many smaller E&P companies which paused spending during the downcycle, will ultimately return to exploration as they move back to a growth agenda. As a result, exploration budgets are likely to increase from the current unsustainably low levels.

TGS is well positioned to benefit from improved market conditions going into 2019, supporting further investment growth. TGS' counter-cyclical investment during the downturn, with high volumes of data acquired at record-low cost, bodes well for continued industry-leading return on capital going forward.

As E&P companies are still spending out of their 2018 budgets, which on aggregate were flat compared to the year before, it continues to be challenging to get pre-funding commitments for new multi-client surveys. With attractive vessel pricing and an improving outlook TGS has, however, chosen to take more risk and initiate projects with less pre-funding commitments than originally planned. Consequently, the pre-funding rate for 2018 is expected to be approximately 40% compared to previous guidance of 45-50%.

2018 guidance can thus be summarized as follows:

- New multi-client investments[3] of approximately USD 260 million
- Additional multi-client investments expected from sales of existing surveys with risk sharing arrangements
- Pre-funding of new multi-client investments[3] expected to be approximately 40%

**Asker, 31 October 2018**

The Board of Directors of TGS-NOPEC Geophysical Company ASA

## ABOUT TGS

TGS provides multi-client geoscience data to oil and gas Exploration and Production companies worldwide. In addition to extensive global geophysical and geological data libraries that include multi-client seismic data, magnetic and gravity data, digital well logs, production data and directional surveys, TGS also offers advanced processing and imaging services, interpretation products and data integration solutions.

TGS-NOPEC Geophysical Company ASA is listed on the Oslo Stock Exchange (OSLO:TGS).
TGS sponsored American Depositary Shares trade on the U.S. over-the-counter market under the symbol "TGSGY".
Website: www.tgs.com

## CONTACT FOR ADDITIONAL INFORMATION

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[3] New multi-client investments excluding investments related to surveys with risk sharing arrangements

TGS Energy starts with us.

## INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| (All amounts in USD 1,000s unless noted otherwise) | Note | 2018 Q3 Unaudited | 2017 Q3 Unaudited | 2018 YTD Unaudited | 2017 YTD Unaudited |
|---|---|---|---|---|---|
| **Net revenues** | 4 | **122,454** | **141,684** | **350,715** | **335,510** |
| *Operating expenses* | | | | | |
| Cost of goods sold - proprietary and other | | 88 | 154 | 306 | 484 |
| Amortization and impairment of multi-client library | 5 | 74,118 | 94,715 | 199,852 | 225,550 |
| Personnel costs | | 14,822 | 12,794 | 48,725 | 36,938 |
| Cost of stock options | | 0 | 56 | 0 | 243 |
| Other operating expenses | | 6,305 | 6,166 | 23,840 | 19,106 |
| Depreciation, amortization and impairment | | 2,234 | 2,013 | 6,700 | 7,390 |
| **Total operating expenses** | | **97,567** | **115,897** | **279,423** | **289,711** |
| **Operating profit** | 4 | **24,887** | **25,787** | **71,292** | **45,799** |
| *Financial income and expenses* | | | | | |
| Financial income | | 3,890 | 634 | 5,947 | 1,422 |
| Financial expenses | | -236 | -204 | -608 | -1,422 |
| Net exchange gains/(losses) | | 349 | 733 | 104 | 855 |
| **Net financial items** | | **4,003** | **1,163** | **5,443** | **855** |
| **Profit before taxes** | | **28,889** | **26,950** | **76,736** | **46,654** |
| Taxes | | 11,585 | 17,508 | 32,683 | 26,044 |
| **Net income** | | **17,304** | **9,442** | **44,052** | **20,609** |
| **EPS USD** | | **0.17** | **0.09** | **0.43** | **0.20** |
| **EPS USD, fully diluted** | | **0.17** | **0.09** | **0.43** | **0.20** |
| *Other comprehensive income:* | | | | | |
| Exchange differences on translation of foreign operations | | -2,088 | 947 | -1,984 | 1,391 |
| Other comprehensive income/(loss) for the period, net of tax | | -2,088 | 947 | -1,984 | 1,391 |
| **Total comprehensive income for the period** | | **15,216** | **10,389** | **42,068** | **22,001** |

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## INTERIM CONSOLIDATED BALANCE SHEET

| (All amounts in USD 1,000s) | Note | 2018 30-Sep Unaudited | 2017 30-Sep Unaudited | 2017 31-Dec Audited |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Non-current assets** | | | | |
| Goodwill | | 67,925 | 67,925 | 67,925 |
| Multi-client library | 5 | 878,796 | 837,949 | 799,015 |
| Other intangible non-current assets | | 8,707 | 8,988 | 9,045 |
| Deferred tax asset | | 681 | 5,479 | 4,390 |
| Buildings | | 3,971 | 5,635 | 5,213 |
| Machinery and equipment | | 15,322 | 14,893 | 14,452 |
| Other non-current assets | | 220 | 466 | 496 |
| **Total non-current assets** | | **975,621** | **941,335** | **900,536** |
| **Current assets** | | | | |
| Accounts receivable | | 101,468 | 92,045 | 157,423 |
| Accrued revenues | | 139,485 | 147,024 | 97,285 |
| Other receivables | | 34,730 | 32,658 | 18,939 |
| Cash and cash equivalents | | 322,150 | 204,988 | 249,917 |
| **Total current assets** | | **597,833** | **476,715** | **523,564** |
| **TOTAL ASSETS** | | **1,573,454** | **1,418,050** | **1,424,100** |
| **EQUITY AND LIABILITIES** | | | | |
| **Equity** | | | | |
| Share capital | | 3,668 | 3,654 | 3,659 |
| Other equity | | 1,130,968 | 1,153,487 | 1,196,443 |
| **Total equity** | 3 | **1,134,636** | **1,157,141** | **1,200,102** |
| **Non-current liabilities** | | | | |
| Long-term debt | | 2,500 | 2,500 | 2,500 |
| Other non-current liabilities | | 2,281 | 2,336 | 2,850 |
| Deferred taxes | | 7,234 | 32,643 | 23,721 |
| **Total non-current liabilities** | | **12,016** | **37,479** | **29,071** |
| **Current liabilities** | | | | |
| Accounts payable and debt to partners | | 39,774 | 120,084 | 101,385 |
| Taxes payable, withheld payroll tax, social security | | 47,139 | 23,274 | 25,197 |
| Other current liabilities | | 339,888 | 80,072 | 68,345 |
| **Total current liabilities** | | **426,801** | **223,430** | **194,927** |
| **TOTAL EQUITY AND LIABILITIES** | | **1,573,454** | **1,418,050** | **1,424,100** |

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## INTERIM CONSOLIDATED STATEMENT OF CASH FLOW

| (All amounts in USD 1,000s) | Note | 2018 Q3 Unaudited | 2017 Q3 Unaudited | 2018 YTD Unaudited | 2017 YTD Unaudited |
|---|---|---|---|---|---|
| ***Cash flow from operating activities:*** | | | | | |
| Received payments from customers | | 128,799 | 114,522 | 430,374 | 407,165 |
| Payments for salaries, pensions, social security tax | | -20,870 | -16,779 | -55,909 | -43,594 |
| Payments of other operational costs | | -11,451 | -8,946 | -41,106 | -28,537 |
| Paid taxes | | -389 | -2,432 | -6,776 | -11,047 |
| **Net cash flow from operating activities [1]** | | **96,089** | **86,365** | **326,582** | **323,987** |
| ***Cash flow from investing activities:*** | | | | | |
| Investments in tangible and intangible assets | | -2,202 | -1,437 | -5,966 | -8,378 |
| Investments in multi-client library | | -85,796 | -105,081 | -190,949 | -256,803 |
| Investments through mergers and acquisitions | | -6,501 | 0 | -6,501 | -7,776 |
| Interest received | | 3,820 | 784 | 5,633 | 1,399 |
| **Net cash flow from investing activities** | | **-90,679** | **-105,734** | **-197,783** | **-271,558** |
| ***Cash flow from financing activites:*** | | | | | |
| Interest paid | | -289 | -41 | -608 | -152 |
| Dividend payments | 3 | -20,489 | -15,319 | -60,932 | -47,472 |
| Proceeds from share issuances | 3 | 3 | 0 | 4,977 | 9,193 |
| **Net cash flow from financing activites** | | **-20,775** | **-15,360** | **-56,563** | **-38,431** |
| **Net change in cash and cash equivalents** | | **-15,365** | **-34,729** | **72,236** | **13,998** |
| Cash and cash equivalents at the beginning of period | | 337,515 | 239,315 | 249,917 | 190,739 |
| Net unrealized currency gains/(losses) | | 0 | 401 | 0 | 251 |
| **Cash and cash equivalents at the end of period** | | **322,150** | **204,987** | **322,154** | **204,987** |
| ***1) Reconciliation*** | | | | | |
| Profit before taxes | | 28,889 | 26,950 | 76,736 | 46,654 |
| Depreciation/amortization/impairment | | 76,352 | 96,728 | 206,552 | 232,940 |
| Changes in accounts receivables and accrued revenues | | -14,836 | -7,159 | 13,756 | 81,273 |
| Unrealized currency gains/(losses) | | -1,932 | 1,645 | -1,984 | 1,140 |
| Changes in other receivables | | 6,027 | 3,564 | 4,801 | 18,669 |
| Changes in other balance sheet items | | 1,978 | -32,932 | 33,492 | -45,642 |
| Paid taxes | | -389 | -2,432 | -6,776 | -11,047 |
| **Net cash flow from operating activities** | | **96,090** | **86,365** | **326,577** | **323,987** |

Energy starts with us.

## INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

**For the six months ended September 30, 2018**

| (All amounts in USD 1,000s) | Share Capital | Treasury Shares | Share Premium | Other Paid-In Capital | Currency Translation Reserve | Retained Earnings | Total Equity |
|---|---|---|---|---|---|---|---|
| **Closing balance as of 31 December 2017** | **3,663** | **-6** | **62,771** | **39,722** | **-21,574** | **1,115,531** | **1,200,102** |
| Adjustements IFRS 15 | | | | | | -54,895 | -54,895 |
| **Opening balance 1 January 2018** | **3,663** | **-6** | **62,771** | **39,722** | **-21,574** | **1,060,637** | **1,145,207** |
| Net income | - | - | - | - | - | 44,052 | **44,052** |
| Other comprehensive income | - | - | - | - | -1,980 | - | **-1,980** |
| **Total comprehensive income** | **-** | **-** | **-** | **-** | **-1,980** | **44,052** | **42,072** |
| Paid-in-equity through exercise of stock options | 9 | - | 4,584 | | - | - | **4,594** |
| Distribution of treasury shares | - | - | - | | - | 377 | **377** |
| Deferred tax asset related to stock options | - | - | - | | - | -17 | **-17** |
| Cost of equity-settled long term incentive plans | - | - | - | 3,799 | - | - | **3,799** |
| Dividends | - | - | - | - | - | -61,398 | **-61,398** |
| **Closing balance as of 30 September 2018** | **3,673** | **-6** | **67,355** | **43,521** | **-23,555** | **1,043,651** | **1,134,636** |

**For the six months ended September 30, 2017**

| (All amounts in USD 1,000s) | Share Capital | Treasury Shares | Share Premium | Other Paid-In Capital | Currency Translation Reserve | Retained Earnings | Total Equity |
|---|---|---|---|---|---|---|---|
| **Opening balance 1 January 2017** | **3,657** | **-21** | **58,107** | **36,964** | **-21,933** | **1,092,352** | **1,169,124** |
| Net income | - | - | - | - | - | 20,609 | **20,609** |
| Other comprehensive income | - | - | - | | 1,391 | - | **1,391** |
| **Total comprehensive income** | **-** | **-** | **-** | **-** | **1,391** | **20,609** | **22,000** |
| Paid-in-equity through exercise of stock options | 1 | | 721 | | - | | **722** |
| Distribution of treasury shares | - | 15 | - | | - | 8,706 | **8,720** |
| Cost of equity-settled long term incentive plans | - | - | - | 2,412 | - | - | **2,412** |
| Dividends | - | - | - | - | - | -45,838 | **-45,838** |
| **Closing balance per 30 September 2017** | **3,658** | **-6** | **58,828** | **39,376** | **-20,542** | **1,075,829** | **1,157,140** |

## NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

### Note 1 General information

TGS-NOPEC Geophysical Company ASA (TGS or the Company) is a public limited company listed on the Oslo Stock Exchange. The address of its registered office is Lensmannslia 4, 1386 Asker, Norway.

### Note 2 Basis for Preparation

The condensed consolidated interim financial statements of TGS have been prepared in accordance with International Financial Reporting Standards (IFRS) IAS 34 Interim Financial Reporting as approved by EU and additional requirements in the Norwegian Securities Trading Act. The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with TGS' annual report for 2017 which is available at www.tgs.com.

The same accounting policies and methods of computation are followed in the interim financial statements as compared with the annual financial statements for 2017 except for the implementation of IFRS 15 Revenue with effect from 1 January 2018. Following the implementation of IFRS 15, consolidated shareholders' equity has been reduced by USD 54.9 million as of 1 January 2018. Revenue recognition principles related to some contracts are still being assessed, however the impact of any possible changes is not expected to be material to the quarter. None of the other new accounting standards or amendments that came into effect from 1 January 2018 have had a significant impact on the presentation of the financial statements during the quarter. See note 7 for further information.

### Note 3 Share capital and equity

| Ordinary shares | Number of shares |
|---|---|
| **1 January 2018** | **102,345,890** |
| Issued 27 February 2018 for cash on exercise of stock options | 73,600 |
| Issued 1 June 2018 for cash on exercise of stock options | 129,500 |
| Issued 23 August for cash on vesting of Restriced share units | 98,800 |
| **30 September 2018** | **102,647,790** |

| Treasury shares | Number of shares |
|---|---|
| **1 January 2018** | **116,180** |
| Net change in period | -11,550 |
| **30 September 2018** | **104,630** |

The Annual General Meeting held 8 May 2018 renewed the Board of Directors' authorization to distribute quarterly dividends on the basis of the 2017 financial statements. The authorization shall be valid until the Company's Annual General Meeting in 2019, but no later than 30 June 2019.

On 8 May 2018, the Board of Directors resolved to pay a quarterly dividend of the NOK equivalent of USD 0.20 per share (NOK 1.62) to the shareholders. The dividends were paid to the shareholders on 30 May 2018.

On 1 August, the Board of Directors resolved to pay a quarterly dividend of the NOK equivalent of USD 0.20 per share (NOK 1.62) to the shareholders. The dividends were paid to the shareholders on 23 August 2018.

On 31 October 2018, the Board of Directors resolved to pay a quarterly dividend of the NOK equivalent of USD 0.20 per share (NOK 1.68) to the shareholders. The dividends will be paid to the shareholders on 22 November 2018.

| Largest Shareholders as of 3 October 2018 | Country | Account type | No. of shares | Share |
|---|---|---|---|---|
| 1. FOLKETRYGDFONDET | Norway | | 10,664,898 | 10.4% |
| 2. THE BANK OF NEW YORK MELLON SA/NV | Belgium | NOM | 8,853,925 | 8.6% |
| 3. STATE STREET BANK AND TRUST COMP | USA | NOM | 4,127,195 | 4.0% |
| 4. STATE STREET BANK AND TRUST COMP | USA | NOM | 2,920,262 | 2.8% |
| 5. STATE STREET BANK AND TRUST COMP | USA | NOM | 2,320,920 | 2.3% |
| 6. RBC INVESTOR SERVICES TRUST | UK | NOM | 1,917,768 | 1.9% |
| 7. INVESCO FUNDS | Belgium | | 1,836,975 | 1.8% |
| 8. STATE STREET BANK AND TRUST COMP | USA | NOM | 1,750,944 | 1.7% |
| 9. VERDIPAPIRFONDET DNB NORGE (IV) | Norway | | 1,636,526 | 1.6% |
| 10. CLEARSTREAM BANKING SA | LUXEMBURG | NOM | 1,520,727 | 1.5% |
| **10 largest** | | | **37,550,140** | **36%** |
| **Total Shares Outstanding *** | | | **102,543,160** | **100%** |

* Total shares outstanding are net of shares held in treasury per 1 October 2018

| Average number of shares outstanding for Current Quarter * | |
|---|---|
| Average number of shares outstanding during the quarter | 102,473,619 |
| Average number of shares fully diluted during the quarter | 103,273,399 |

* Shares outstanding net of shares held in treasury per 30 september 2018 (104,630 TGS shares), composed of average outstanding TGS shares during the quarter

| Share price information | |
|---|---|
| Share price 30 September 2018 (NOK) | 331.70 |
| USD/NOK exchange rate end of period | 8.18 |
| Market capitalization 30 September 2018 (NOK million) | 34,048 |

## Note 4 Segment information

TGS reports Segment information based on the information reported to the management. Segment revenues related to multi-client pre-funded contracts are measured by applying the percentage of completion method to estimated total contract revenues. As such the timing and assessment of amortization will follow the timing of revenue recognition. Management believes the segment reporting provides useful information as to the value generated by the company relative to the related activities and resources employed.

| Q3 2018 | North & South America | Europe & Russia | Africa, Middle East & Asia / Pacific | Other segments / Corporate costs | Segment reporting consolidated | Adjustment | As reported IFRS |
|---|---|---|---|---|---|---|---|
| Net external revenues | 91,412 | 22,071 | 4,613 | 22,635 | 140,731 | -18,277 | 122,454 |
| Operating profit | 20,894 | 5,769 | -112 | -1,600 | 24,425 | 461 | 24,886 |

| Q3 2017 | North & South America | Europe & Russia | Africa, Middle East & Asia / Pacific | Other segments / Corporate costs | Segment reporting consolidated | Adjustment | As reported IFRS |
|---|---|---|---|---|---|---|---|
| Net external revenues | 55,392 | 56,511 | 18,490 | 11,291 | 141,686 | 0 | 141,686 |
| Operating profit | 603 | 26,971 | 9,703 | -11,490 | 25,787 | 0 | 25,787 |

| 2018 YTD | North & South America | Europe & Russia | Africa, Middle East & Asia / Pacific | Other segments / Corporate costs | Segment reporting consolidated | Adjustment | As reported IFRS |
|---|---|---|---|---|---|---|---|
| Net external revenues | 257,478 | 99,025 | 24,346 | 52,487 | 433,332 | -82,617 | 350,715 |
| Operating profit | 89,844 | 45,872 | -1,141 | -31,036 | 103,539 | -32,247 | 71,292 |

| 2017 YTD | North & South America | Europe & Russia | Africa, Middle East & Asia / Pacific | Other segments / Corporate costs | Segment reporting consolidated | Adjustment | As reported IFRS |
|---|---|---|---|---|---|---|---|
| Net external revenues | 136,987 | 135,428 | 25,352 | 37,744 | 335,510 | 0 | 335,510 |
| Operating profit | 7,104 | 68,212 | 2,315 | -31,833 | 45,800 | 0 | 45,800 |

There are no intersegment revenues between the reportable operating segments.

The Company does not allocate all cost items to its reportable operating segments during the year. Unallocated cost items are reported as “Other segments/Corporate costs”.

## Note 5 Multi-client library

| (Numbers in USD millions) | Segment Q3 2018 | IFRS Q3 2018 | Q3 2017 | Segment YTD 2018 | IFRS YTD 2018 | YTD 2017 |
|---|---|---|---|---|---|---|
| **Opening balance net book value** | **735.8** | **846.3** | **812.2** | **799.0** | **799.0** | **812.4** |
| Adjustment opening balance | - | | - | | 78.9 | - |
| Non-operational investments | 6.5 | 6.5 | 4.6 | 6.5 | 6.5 | 10.6 |
| Operational investments | 100.1 | 100.1 | 115.9 | 194.3 | 194.3 | 240.5 |
| Amortization and impairment | (92.9) | (74.1) | (94.7) | (250.2) | (199.9) | (225.5) |
| **Closing net book value** | **749.6** | **878.8** | **837.9** | **749.6** | **878.8** | **837.9** |

| (Numbers in USD millions) | Segment Q3 2018 | IFRS Q3 2018 | Q3 2017 | Segment YTD 2018 | IFRS YTD 2018 | YTD 2017 |
|---|---|---|---|---|---|---|
| Net MC revenues | 138.7 | 120.4 | 140.3 | 427.6 | 334.9 | 330.4 |
| Change in MC revenue | -1% | | 33% | 29% | | 19% |
| Change in MC investment | 12% | 12% | 78% | -20% | -20% | 37% |
| Amort. in % of net MC revs. | 67% | 62% | 67% | 59% | 60% | 68% |
| Change in net book value | 2% | 1% | 3% | -6% | 1% | 3% |

## Note 6 Related parties

On 23 August 2018, the 2015 LTI program vested and a total of 98 800 new shares were issued. No other material transactions with related parties took place during the quarter.

## Note 7 Changes in accounting standards

*IFRS 15 Revenue from Contracts with Customers*

The IASB has issued a new revenue recognition standard, IFRS 15, which has been implemented with effect from 1 January 2018. The standard replaces existing IFRS revenue requirements. The core principle of IFRS 15 is that revenue is recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard applies to all revenue contracts and provides a model for the recognition and measurement of sales of some non-financial assets (e.g., disposals of property, plant and equipment). The Standard is effective for annual periods beginning on or after 1 January 2018.

For late sales and proprietary sales, there are no material effects following the implementation of IFRS 15. Multi-client pre-funded contracts are considered to be “right to use licenses” under IFRS 15, meaning that all revenues related to these contracts will be recognized at the point in time when the license is transferred to the customer, which would typically be upon completion of processing of the survey and granting of access to the finished survey or delivery of the finished data, independent of services delivered to clients during the project phase. As such the implementation of IFRS 15 impacts the timing of revenue recognition and amortization on multi-client pre-funded contracts compared to previous accounting principles whereby revenue for these contracts was recognized over time as the acquisition and processing services were delivered. Revenue recognition on pre-funded contracts will typically be recognized later under IFRS 15 compared to the previous accounting principles.

The Company has elected to apply the modified retrospective approach for the transition under IFRS 15. Under this approach, the comparative periods will not be restated, and the cumulative effect of initially applying IFRS 15 is recognized at the date of initial application on 1 January 2018. As a consequence, some multi-client pre-funding revenues and associated amortization which was recognized in prior periods has been reversed as at 1 January 2018 and will be recognized in the income statement for 2018 and future periods, without prior periods being restated. In the financial statements for 2018 and subsequent periods, the effect of applying IFRS 15 in each period as compared to previous accounting principles will be disclosed.

Under this approach, the implementation effect reported in the opening consolidated shareholders' equity is a reduction of USD 56 million as of 1 January 2018.

TGS continues to evaluate whether elements in multi-client pre-funding and late sales contracts could be viewed as services delivered over time however this assessment has not been concluded as at the date of this report.

**Impact of changes in accounting policies on Consolidated Balance Sheet**

| (All amounts in USD 1,000s) | 30-Sep-18 without adoption | Adjustments IFRS 15 | 30-Sep-18 as reported |
|---|---|---|---|
| **Non-current assets** | | | |
| *Intangible non-current assets* | | | |
| Multi-client library | 749,594 | 129,202 | 878,796 |
| **Total non-current assets** | **749,594** | **129,202** | **878,796** |
| **Equity** | **1,221,778** | **-87,142** | **1,134,636** |
| **Non-current liabilities** | | | |
| Deferred taxes | 18,786 | -11,552 | 7,234 |
| **Total non-current liabilities** | **18,786** | **-11,552** | **7,234** |
| **Current liabilities** | | | |
| Accounts payable and debt to partners | 85,569 | -45,796 | 39,774 |
| Taxes payable, withheld payroll tax, social security | 50,871 | -3,732 | 47,139 |
| Other current liabilities | 62,467 | 277,423 | 339,889 |
| **Total current liabilities** | **198,906** | **227,896** | **426,801** |

**Impact of changes in accounting policies on Consolidated Income Statement**

| (All amounts in USD 1,000s) | Q3 2018 without adoption | Adjustments IFRS 15 | Q3 2018 as reported |
|---|---|---|---|
| **Net revenues** | **140,731** | **-18,277** | **122,454** |
| Amortization and impairment of multi-client library | 92,857 | -18,739 | 74,118 |
| **Total operating expenses** | **116,306** | **-18,739** | **97,567** |
| **Net income** | **16,842** | **462** | **17,304** |

## Note 8 Financial instruments

IFRS 9 has replaced IAS 39 Financial Instruments: Recognition and Measurement and previous versions of IFRS 9. The implementation of IFRS 9 has not had a significant impact on the Company's consolidated financial statements.

## Note 9 Økokrim charges and related civil matters; draft tax ruling in Australia

Reference is made to Note 21 to the 2017 Annual Report, which includes a detailed description of charges issued by Økokrim in 2014 and certain subsequent civil claims, including a claim by the Norwegian Government for losses arising from alleged unwarranted tax refunds arising from the transactions with Skeie and the claims of joint responsibility by Skeie and certain affiliated persons, as well as DNB. This note provides an update as to any matters that have occurred since 31 December 2017.

In March 2017, TGS rejected the corporate fine of NOK 85 million issued by Økokrim on 2 March 2017, which is based on alleged violations of the Norwegian Tax Assessment Act. As a result, the matter was brought to trial, which commenced on 22 January 2018 and concluded 20 April 2018. On 5 October 2018, he Oslo District Court released its decision, holding TGS guilty and assessing a corporate fine of NOK 90 million (which was as expected, due to the rejection of the fine in March 2017). The decision was split, with the majority holding TGS guilty, and the minority finding no guilt. TGS has appealed the decision, and the appellate trial is expected to occur in late 2019. As a result of the appeal, the payment of any fine has been deferred.

Despite the court's decision, TGS maintains that it acted diligently in connection with the transactions with Skeie and did not commit the alleged violations of law. TGS believes that the court's reasoning in the case is both legally and factually inaccurate and is not reflective of the evidence presented at trial. Accordingly, the Company does not consider it probable that an outflow of resources embodying economic benefits will be required to settle the obligation and no provisions have been made.

The civil matters that have arisen in relation to the transactions that form the basis for the Økokrim charges, and the outcome of these matters, will depend in large part on the outcome of the Økokrim matter. Given the early stage of these proceedings, it is impracticable to render an accurate assessment of the outcome. However, based upon the Company's belief that the court's decision in the Økokrim case was erroneous and the appeal will confirm that TGS did nothing wrong, the Company also believes these claims of liability are not well-founded, and it intends to challenge the claims vigorously. As a result, the Company does not consider it probable that an outflow of resources embodying economic benefits will be required to settle the obligation and no provisions have been made.

Reference is made to the information disclosed regarding the draft tax ruling in Australia in Note 24 to the 2017 Annual Report. As discussed in Note 24, on December 20, 2017, the Australian Tax Office (ATO) issued a draft taxation ruling regarding the deductibility of costs incurred to collect multi-client seismic data. A final ruling has not yet been issued by the ATO, and TGS remains of the opinion the factual differences between the operations of TGS and the specific fact pattern in the draft ruling may result in a different technical position. Therefore, it is not probable that there will be an outflow of resources embodying economic benefits necessary to settle an obligation, and no provisions have been made.

## DEFINITIONS – ALTERNATIVE PERFORMANCE MEASURES

TGS' financial information is prepared in accordance with IFRS. In addition, TGS provides alternative performance measures to enhance the understanding of TGS' performance. The alternative performance measures presented by TGS may be determined or calculated differently by other companies.

### EBIT (Operating Profit)

Earnings before interest and tax is an important measure for TGS as it provides an indication of the profitability of the operating activities.

The EBIT margin presented is defined as EBIT (Operating Profit) divided by net revenues.

### Prefunding percentage

The prefunding percentage is calculated by dividing the multi-client prefunding revenues by the operational investments in the multi-client library, excluding investments related to projects where payments to the vendors are contingent on sales (risk-sharing investments). The prefunding percentage is considered as an important measure as it indicates how the Company's financial risk is reduced on multi-client investments.

### EBITDA

EBITDA means Earnings before interest, taxes, amortization, depreciation and impairments. TGS uses EBITDA because it is useful when evaluating operating profitability as it excludes amortization, depreciation and impairments related to investments that occurred in the past. Also, the measure is useful when comparing the Company's performance to other companies.

| (All amounts in USD 1,000s) | Q3 2018 Segment reporting | Q3 2018 IFRS reporting | Q3 2017 |
|---|---|---|---|
| Net income | 16,842 | 17,304 | 9,442 |
| Taxes | 11,585 | 11,585 | 17,508 |
| Net financial items | -4,003 | -4,003 | -1,163 |
| Depreciation, amortization and impairment | 2,234 | 2,234 | 2,013 |
| Amortization and impairment of multi-client library | 92,857 | 74,118 | 94,715 |
| **EBITDA** | **119,516** | **101,239** | **122,515** |

| (All amounts in USD 1,000s) | YTD 2018 Segment reporting | YTD 2018 IFRS reporting | YTD 2017 |
|---|---|---|---|
| Net income | 76,299 | 44,052 | 20,609 |
| Taxes | 32,683 | 32,683 | 26,044 |
| Net financial items | -5,443 | -5,443 | -855 |
| Depreciation, amortization and impairment | 6,700 | 6,700 | 7,390 |
| Amortization and impairment of multi-client library | 250,222 | 199,852 | 225,550 |
| **EBITDA** | **360,461** | **277,844** | **278,738** |

### Return on average capital employed

Return on average capital employed (ROACE) shows the profitability compared to the capital that is employed by TGS, and it is calculated as operating profit divided by the average of the opening and closing capital employed for a period of time.

Capital employed is calculated as equity plus net interest-bearing debt. Net interest-bearing debt is defined as interest bearing debt minus cash and cash equivalents. TGS uses the ROACE measure as it provides useful information about the performance under evaluation.

| (All amounts in USD 1,000s) | 30-Sep-18 Segment reporting | 30-Sep-18 IFRS reporting | 30 September 2017 |
|---|---|---|---|
| Equity | 1,221,778 | 1,134,636 | 1,157,141 |
| Interest bearing debt | 2,500 | 2,500 | 2,500 |
| Cash | 322,150 | 322,150 | 204,988 |
| Net interest bearing debt | -319,650 | -319,650 | -202,488 |
| **Capital employed** | **902,128** | **814,986** | **954,653** |
| Average capital employed | 928,390 | 884,819 | 968,205 |
| Operating profit (12 months trailing) | 155,169 | 122,672 | 87,769 |
| **ROACE** | **17%** | **14%** | **9%** |

### Free cash flow (after MC investments)

Free cash flow (after MC investments) when used by TGS means cash flow from operational activities minus cash investments in multi-client projects. TGS uses this measure as it represents the cash that the Company is able to generate after investing the cash required to maintain or expand the multi-client library.

| (All amounts in USD 1,000s) | Q3 2018 | Q3 2017 | 2018 YTD | 2017 YTD |
|---|---|---|---|---|
| Cash flow from operational activities | 94,128 | 86,365 | 324,621 | 323,987 |
| Investments in multi-client library | -84,829 | -105,081 | -189,982 | -256,803 |
| **Free cash flow (after MC investments)** | **9,299** | **-18,716** | **134,639** | **67,184** |

### Backlog

Backlog is defined as the total value of future revenue based on segment reporting from signed customer contracts.