TGS

# Investor Presentation

**March 2017**

# Forward-Looking Statements

All statements in this presentation other than statements of historical fact, are forward-looking statements, which are subject to a number of risks, uncertainties, and assumptions that are difficult to predict and are based upon assumptions as to future events that may not prove accurate. These factors include TGS' reliance on a cyclical industry and principal customers, TGS' ability to continue to expand markets for licensing of data, and TGS' ability to acquire and process data products at costs commensurate with profitability. Actual results may differ materially from those expected or projected in the forward-looking statements. TGS undertakes no responsibility or obligation to update or alter forward-looking statements for any reason.

# This is TGS

The worlds largest geoscience data company, known for its asset light – multi-client business model

Global multi-client data library covering frontier & mature basins

Main offices: Oslo and Houston

Regional offices: London, Perth, Calgary, Singapore, Mexico City and Rio de Janeiro

~600 employees

Traded on Oslo Stock Exchange, part of OBX Index (25 most liquid shares at the OSE)

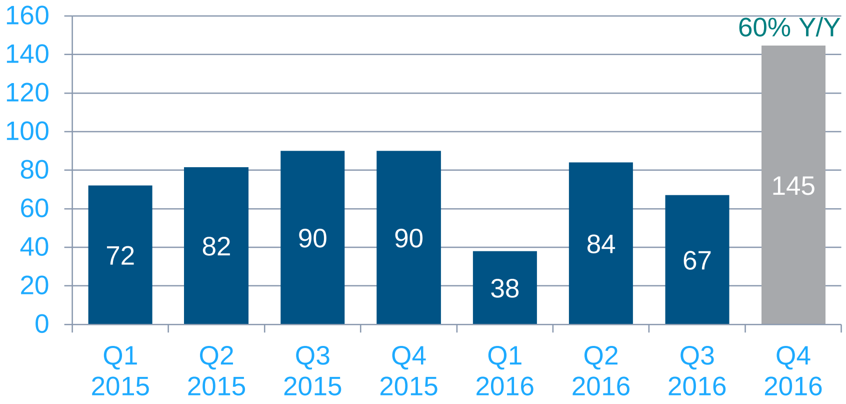
Market Cap: ~$2.5 billion


**Leading global provider of multi-client seismic and geoscience data**

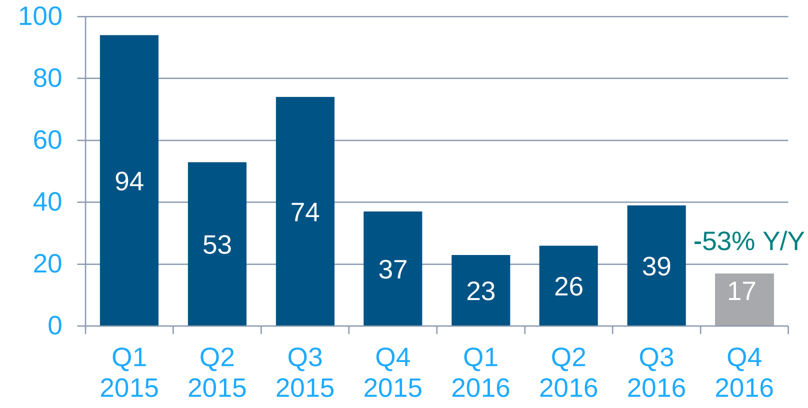
# Recent activities

# Q4 2016 Net Revenues

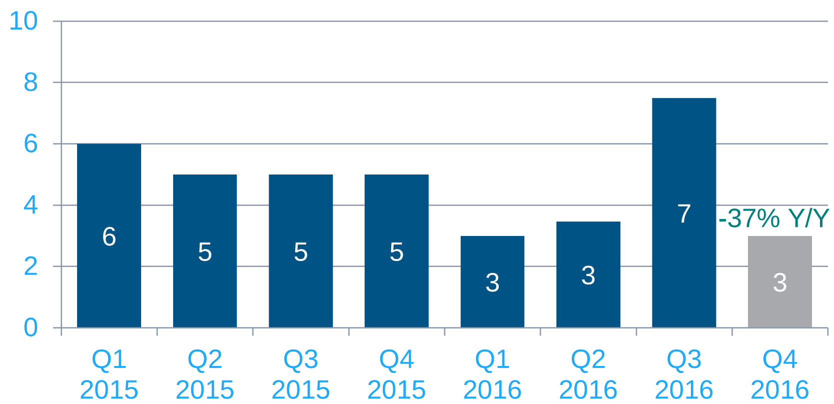
### Late sales revenues



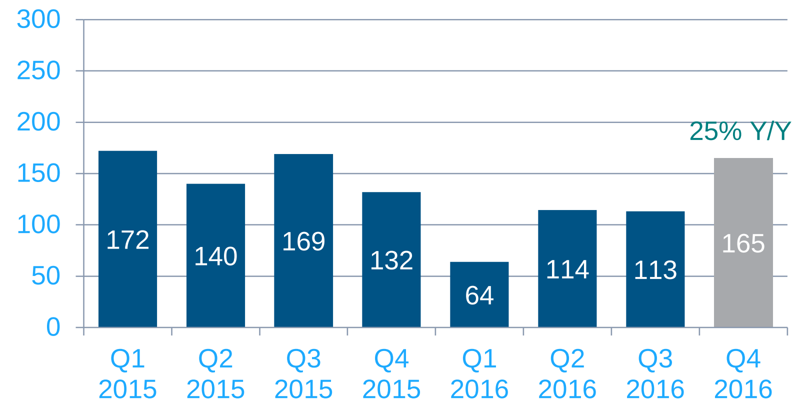

### Prefunding revenues




### Proprietary revenues




### Total revenues



# Project activity – U.S. GOM

## Revolution XII / XIII

- ~7,150 km$^2$ (306 OCS blocks) multi-client full-azimuth survey in collaboration with Schlumberger in Green Canyon, Atwater Valley and Ewing Bank areas
- Survey utilizes WesternGeco's proprietary Q-Marine* point-receiver marine seismic system combined with proprietary multi-vessel, Dual Coil Shooting acquisition technique

## Fusion M-WAZ reimaging program

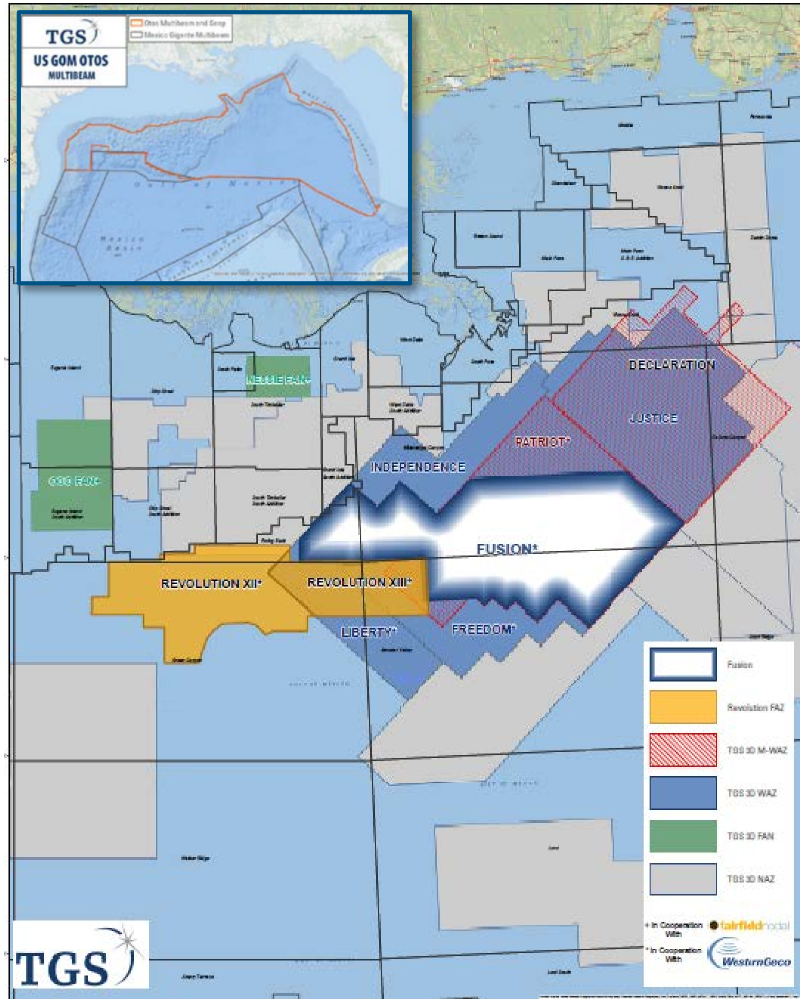
- M-WAZ reimaging program in collaboration with Schlumberger in Mississippi Canyon, Atwater Valley and Ewing bank areas
- ~23,000 km$^2$ (1,000 OCS blocks ) from 3D WAZ programs previously acquired from 2008 to 2012

## Otos multibeam and seep study

- ~289,000 km$^2$ multibeam and 250 cores with advanced geochemistry analysis covering U.S GOM
- Designed to mirror the successful Gigante multibeam and seep study in the Mexican GOM

## Well positioned for future GOM licensing rounds

- Core TGS areas continue to see the highest activity level and benefit from significant lease turnover over the coming years
- Two licensing rounds per year from 2017

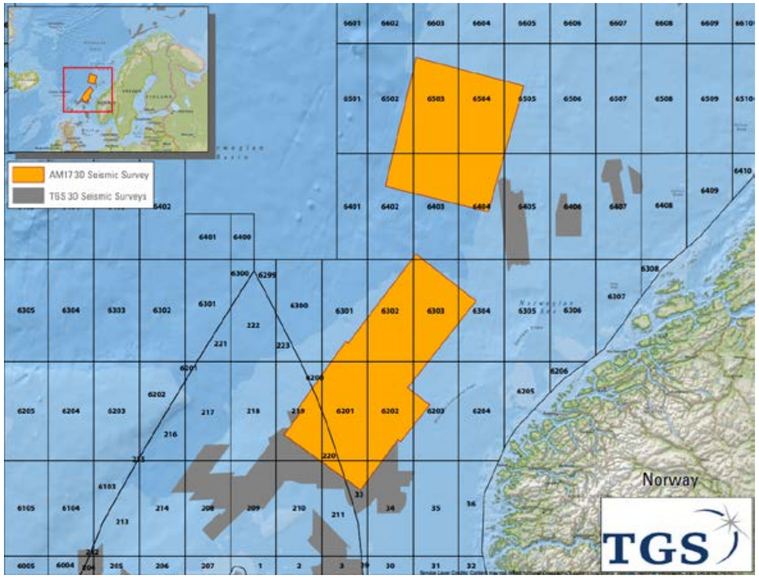



*Mark of Schlumberger

# Project activity – Atlantic Margin

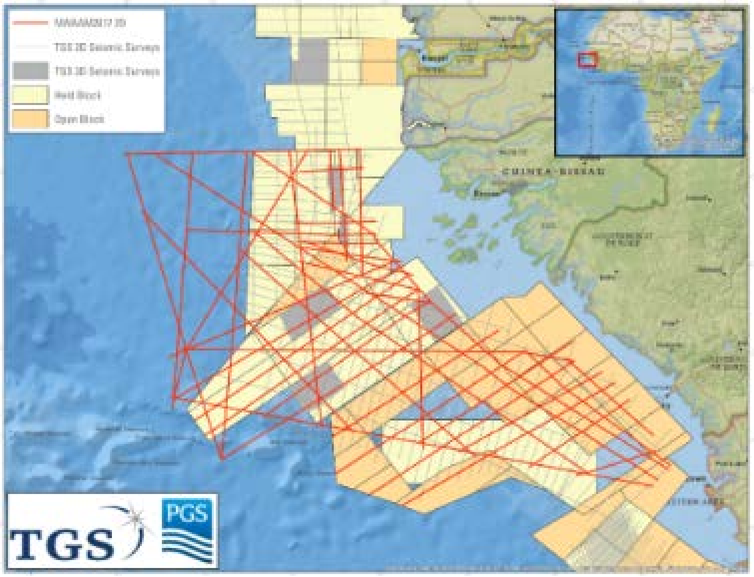
**AM17 Atlantic Margin 3D**

- 40,000 km$^2$ project in the central-southern Norwegian Sea – largest 3D survey carried out by any company in Northern Europe
- Covers largely open blocks in a relatively under-explored area with limited drilling to date
- Several blocks expected to be included in the 24$^{th}$ licensing round in Norway
- Acquisition in 2017 and 2018




**North West African Atlantic Margin NWAAM 2017**

- Over 11,500 km of multi-client 2D seismic in partnership with PGS completed in Q1 2017
- Designed to infill, extend and complement the TGS NWAAM 2012 2D survey which helped with recent commercial discoveries in the MSGBC basin
- Confirms TGS commitment to the leading frontier basin in Africa, where TGS now has approximately 40,000 km of 2D data and 8,000 km$^2$ of 3D data



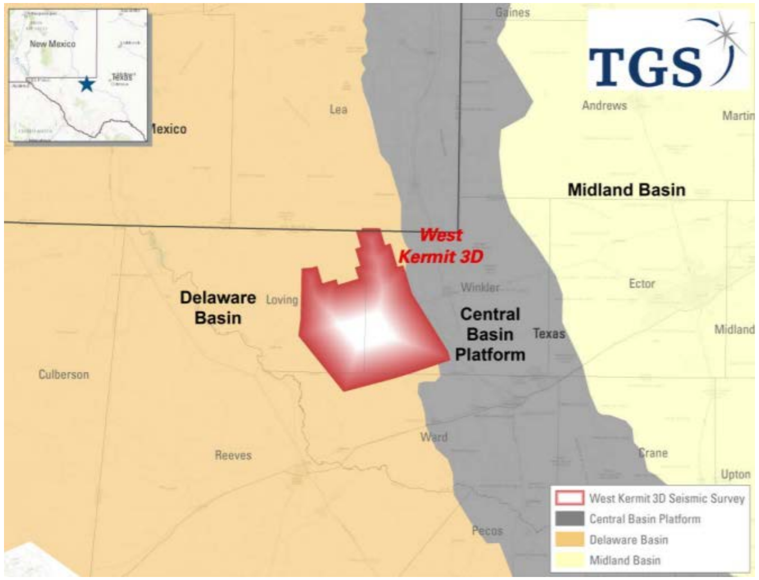
# Project activity – Permian Basin

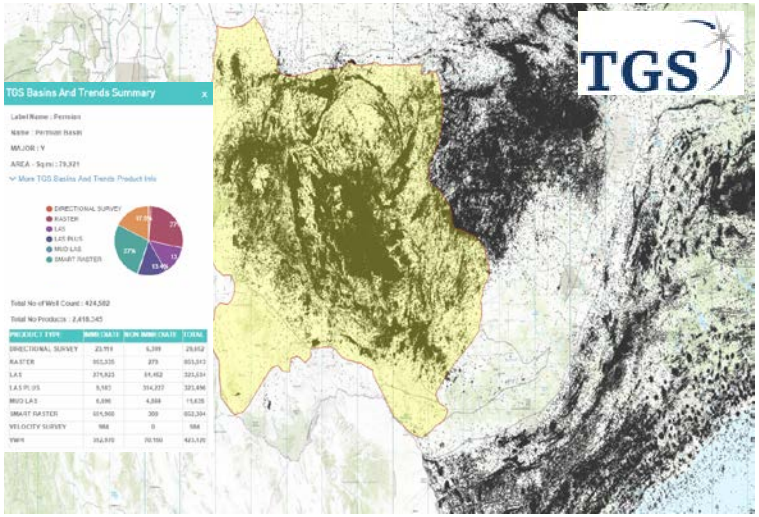
### West Kermit 3D Onshore

- TGS' first survey in the prolific Permian Basin
- 355 km$^2$ of high-resolution data in Loving and Winkler counties, TX, in the Delaware basin
- Designed to assist in the evaluation and development of multiple zone potential including highly productive Wolfcamp and Bone Spring intervals
- Acquisition in Q2 and Q3 2017 – data available in Q4

### Permian Well Database

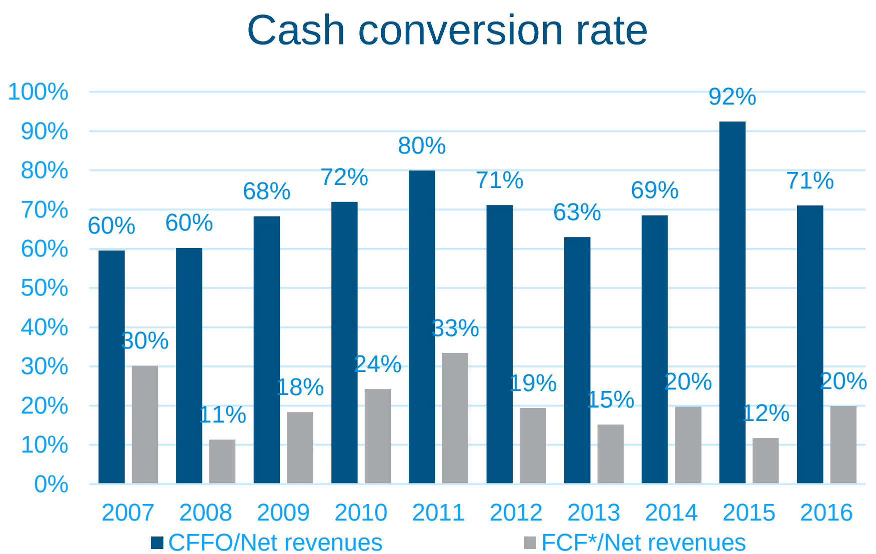
- Substantial completion of comprehensive Permian well database announced to customers in Q1 2017
- Data from over 430,000 wells (including validated well headers and digital LAS) and multiple interpretive products
- TGS data will allow operators to better assess the positions available in the basin, prepare for A&D activity, and ensure the safe, reliable, and optimal production of their acreage positions



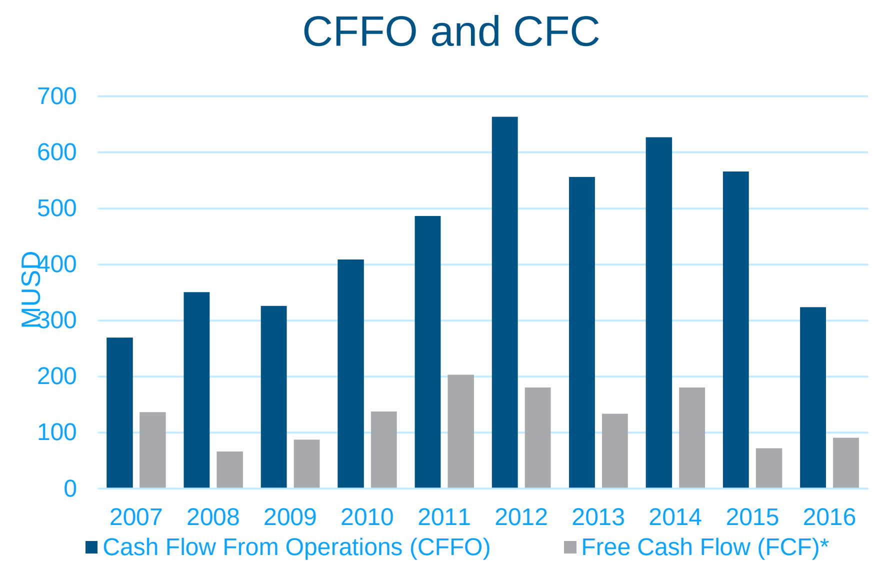
# Financials

# Maintaining Robust Cash Flow Through the Downturn




*Cash Flow from Operations – Multi-client Investments

- Flexible business model gives high cash conversion rates
- Cash conversion has kept up well during downturn




- High cash conversion rates are resulting in solid cash flows despite net revenues halving from peak



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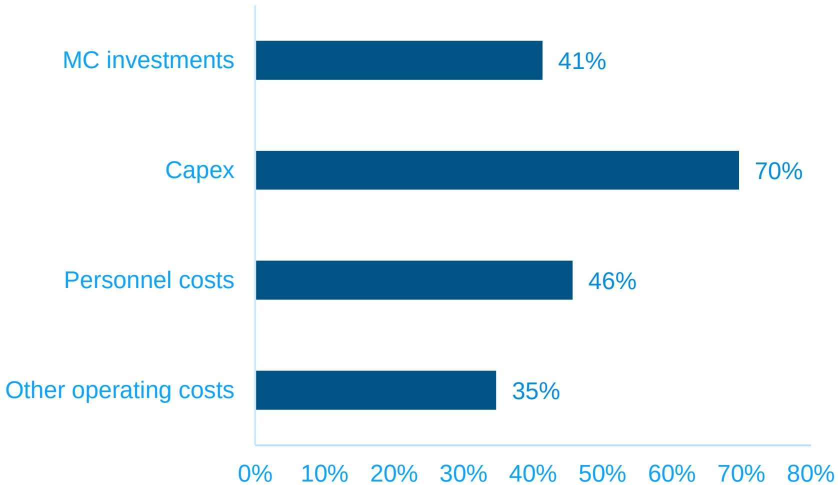
# Flexible Business Model Provides Downside Protection

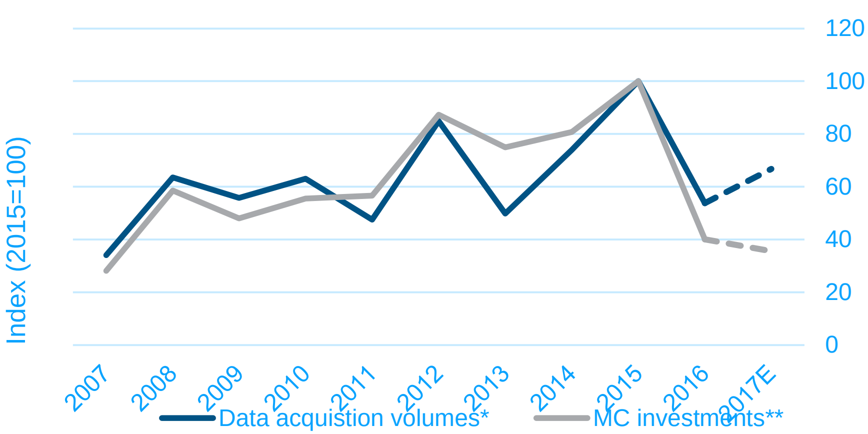
## Reduction of cash outflow from 2014 to 2016




Adjusted for non-recurring items

- Total cash outflow related to operations and investments was reduced by 44% from 2014 to 2016

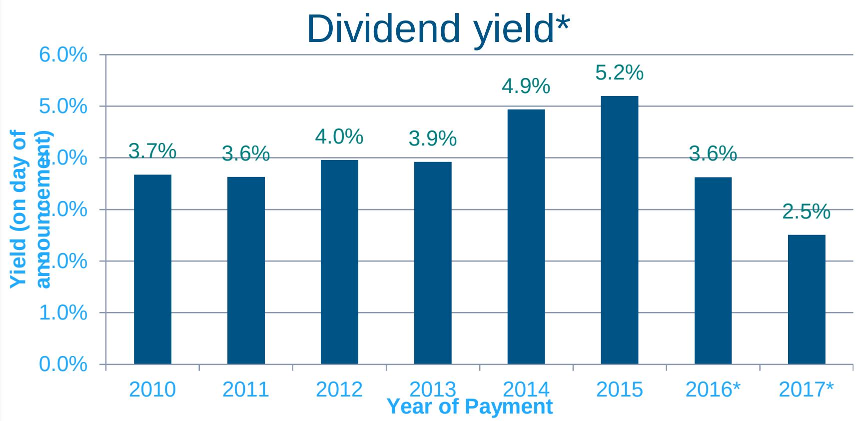
## Still acquiring a lot of data




* Adjusted for mix in different data types from year to year by applying normalization factors
** Marine seismic acquisition investments. Investments related to risk share arrangements moved to the years when data acquisition took place

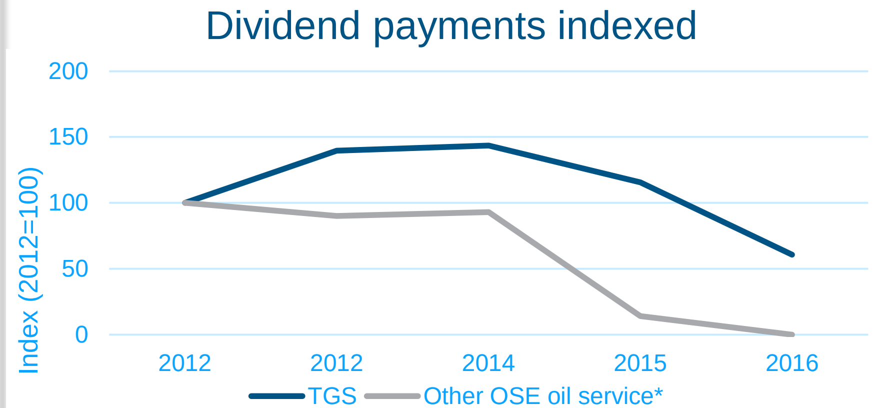
- Due to different mix and full-year benefit from low vessel rates 2017 data volumes is expected to be up ¼ y/y despite flat dollar investments

# Solid Cash Flow Supporting Dividends




*2016 and 2017 Dividend Yield annualized based on the weighted yield at the time of announcement of quarterly dividends

- Ambition to pay a dividend that is in line with its long-term underlying cash flow.
- Quarterly dividend payments
  - Aim to keep a stable quarterly dividend through the year
  - Actual quarterly dividend level paid will be subject to continuous evaluation of market outlook, cash flow expectations and balance sheet development

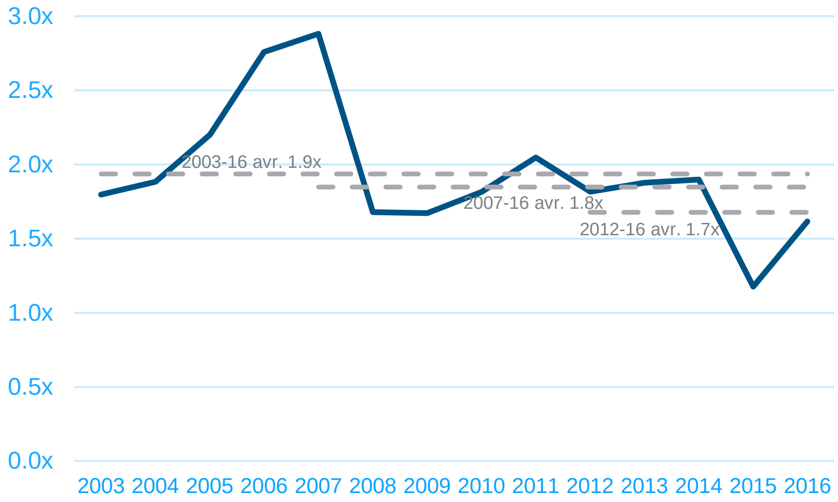



* Subsea 7, Seadrill, Fred. Olsen Energy, Prosafe, Aker Solutions, PGS, Spectrum

- TGS has been able to keep paying dividends through the down cycle
- Many other oil service companies have had to terminate dividend payments
- TGS was the only oil service company at OSE that paid dividends in 2016

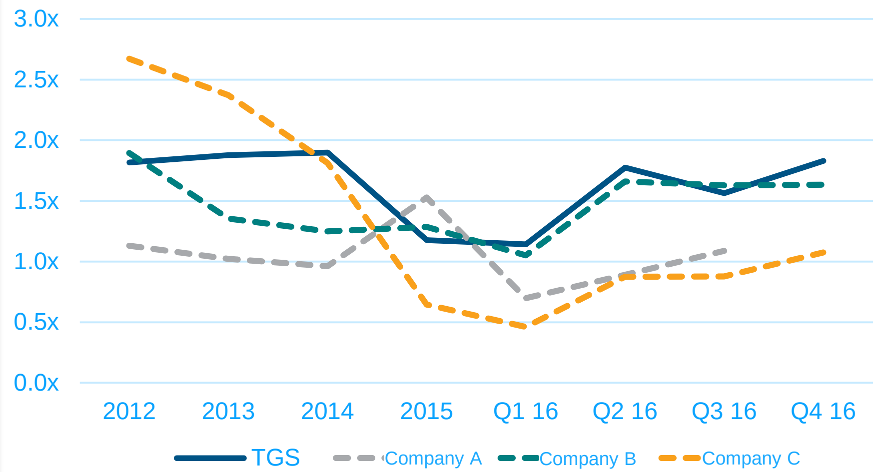
# Strong Multi-client Performance over Time

Long-term Sales/Investment development




- TGS targets Sales/Investment levels of close to 2x over time
- Well below target past couple of years due to weak market conditions

Sales/Investment benchmarking

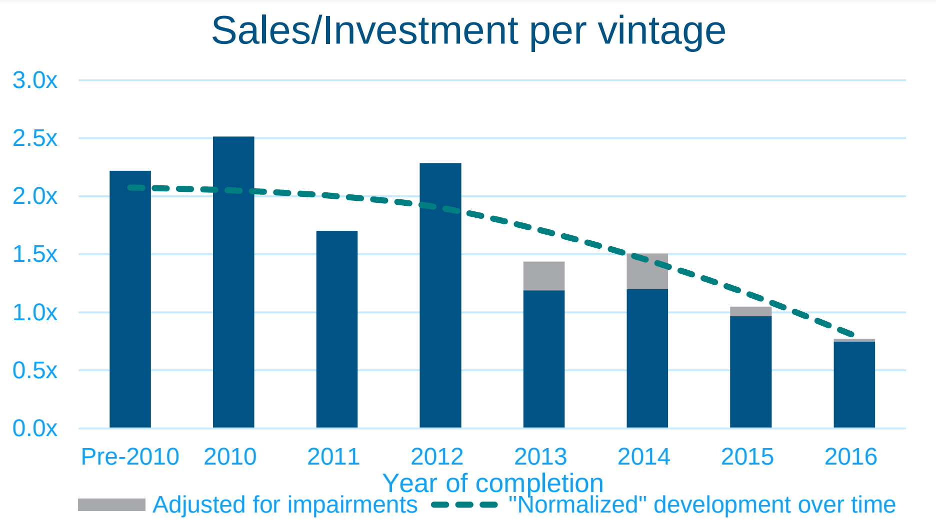



Ex. sales to associated companies; capitalized investments

Source: Company reports

- TGS has consistently been among the top performers of the multi-client industry

# Sales/Investment Development according to Plan



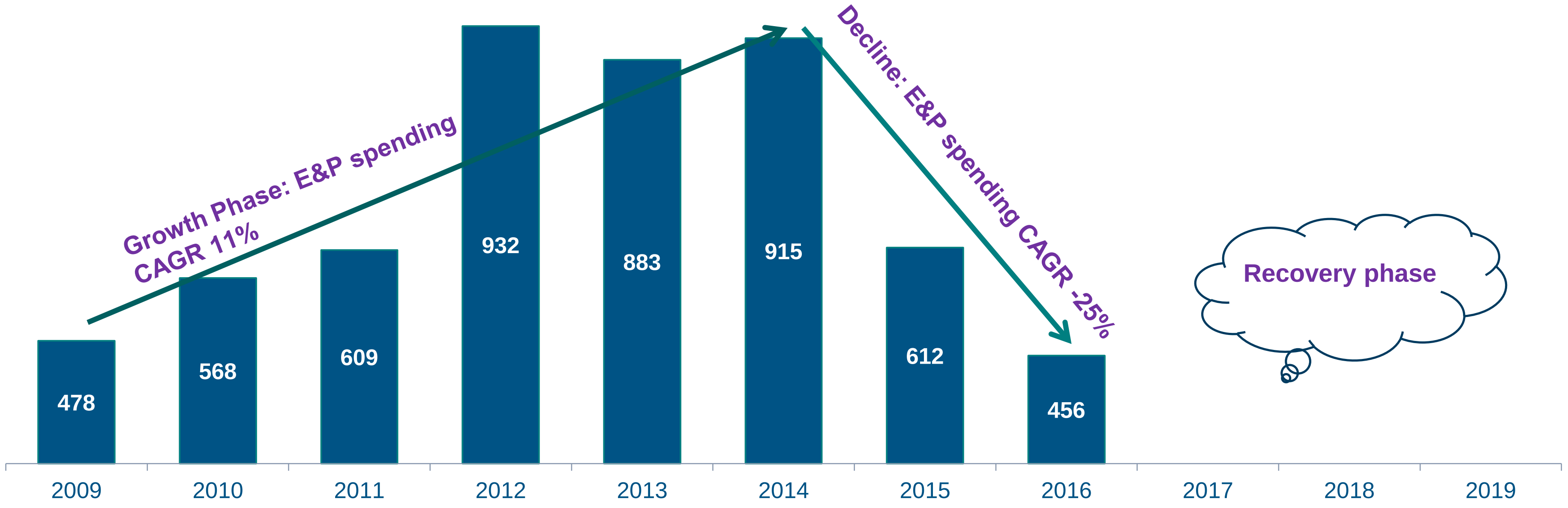

- Due to the downturn it is anticipated that recent vintages need more time to fulfill return potential than originally expected
- As there is lower likelihood of being overshot in the current weak market, it is fair to assume that the commercial life of certain surveys will be longer than in a normal market
- Overall, sales/investment development is not far from normal expectations, despite weak market conditions

# Outlook

# Different Cycles – Different Priorities

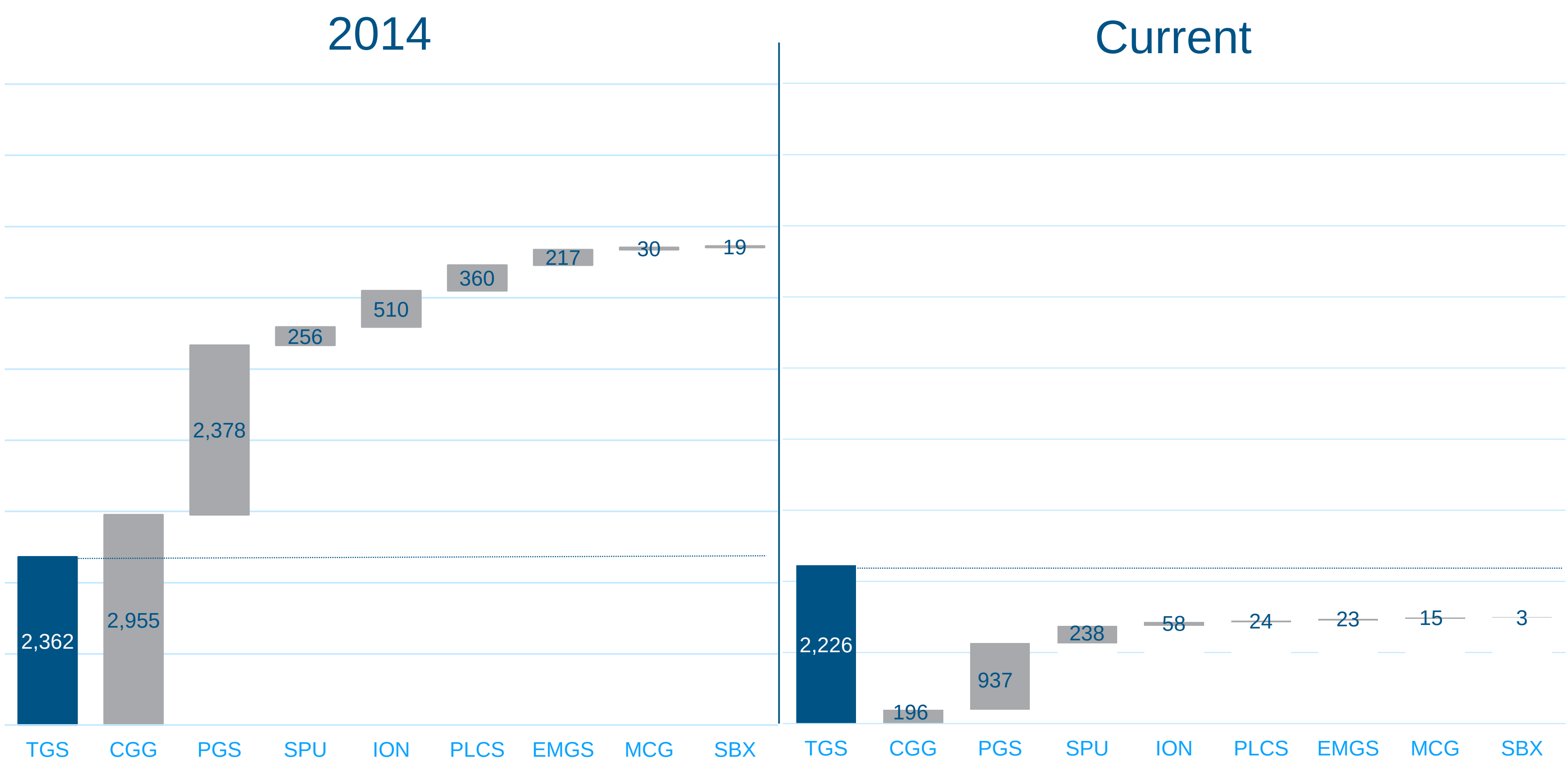
Strategic Priorities

| Growth and market share | Cash flow and risk mitigation | Capital efficiency and profitable growth |
|---|---|---|




Sources: Barclays; TGS

# Strategy Pays Off - Market Cap Peak vs. Current




Sources: S&P Capital IQ, Oslo Børs

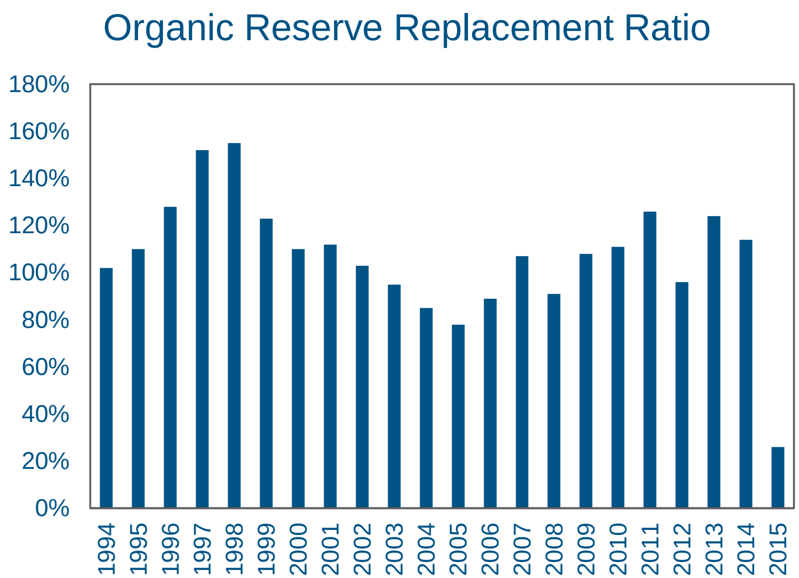
**TGS has once again proven its resilient business model**

# Exploration Spending Likely to Recover Long-term

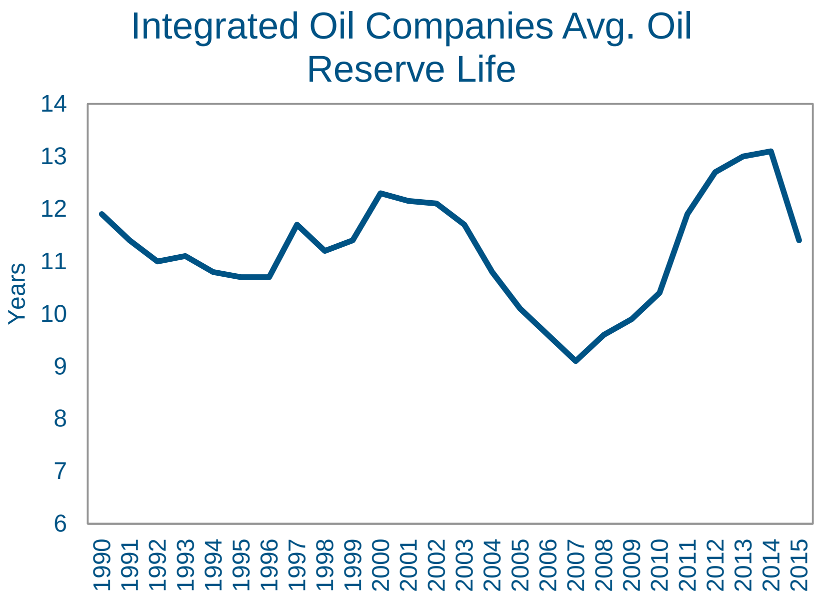
Two factors point to increased activity in the longer-term

1. Current exploration efforts are unsustainable
2. Cost levels should eventually come down to levels that justify higher spending at current oil prices

# 1. Current Exploration Efforts are Unsustainable



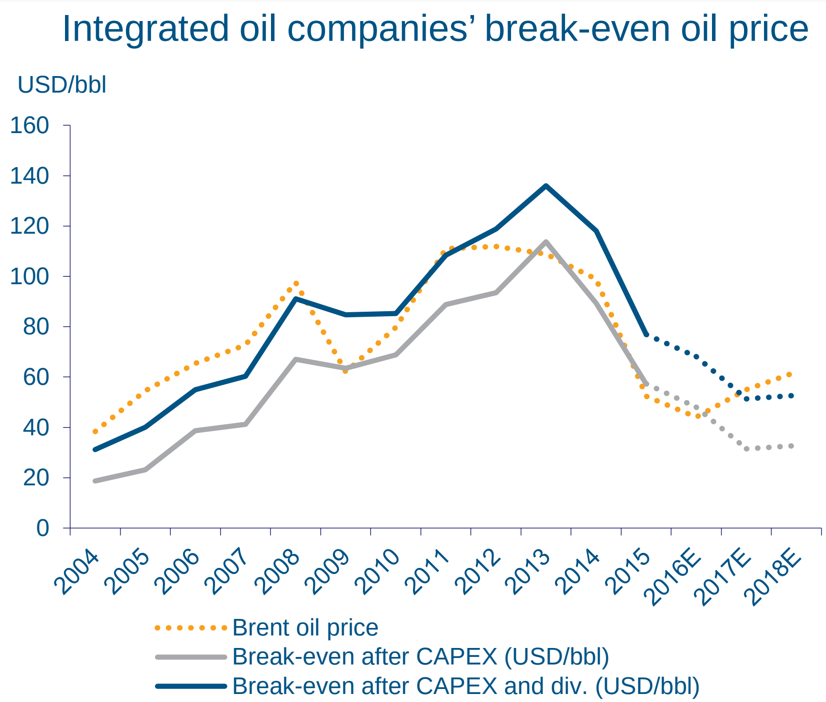

Source: SEB Research

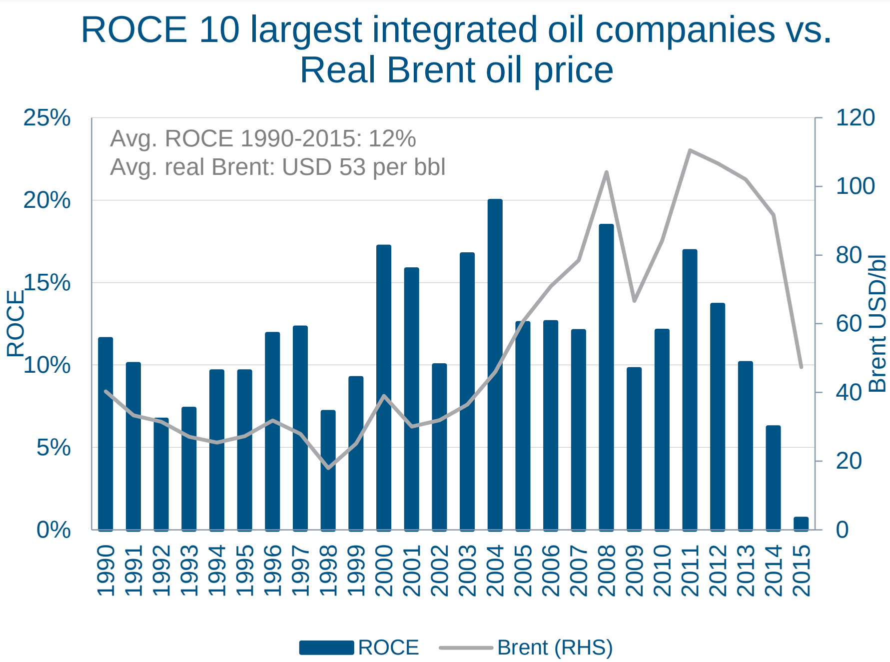



Source: Nordea

- Substantial reduction in oil companies' exploration spending - Seismic spending down more than 60% since peak in 2013
- This has resulted in historically low exploration success
  - Only 2.7bn barrels of new conventional oil supply was discovered in 2015, the lowest since 1947 (Wood Mackenzie)
  - Global reserve replacement ratio well below 1 in 2015-16

# 2. Costs are Coming Down




*Source: Nordea, EIA, TGS*

- Substantial cost reductions in E&P and service industries – break-even prices have fallen almost 50% from peak
- Historically the largest oil companies have been able to produce decent return on capital at real oil prices of around USD 50 per barrel

# TGS MC Library – Managing Risk & Return

## Low beta

- Lower returns but high IRR
- Prefunding in excess of 70% - low or no net investment
- Project characteristics
  - Awarded acreage
  - Onshore areas
  - Farm-ins / relinquishments
  - Low downside risk

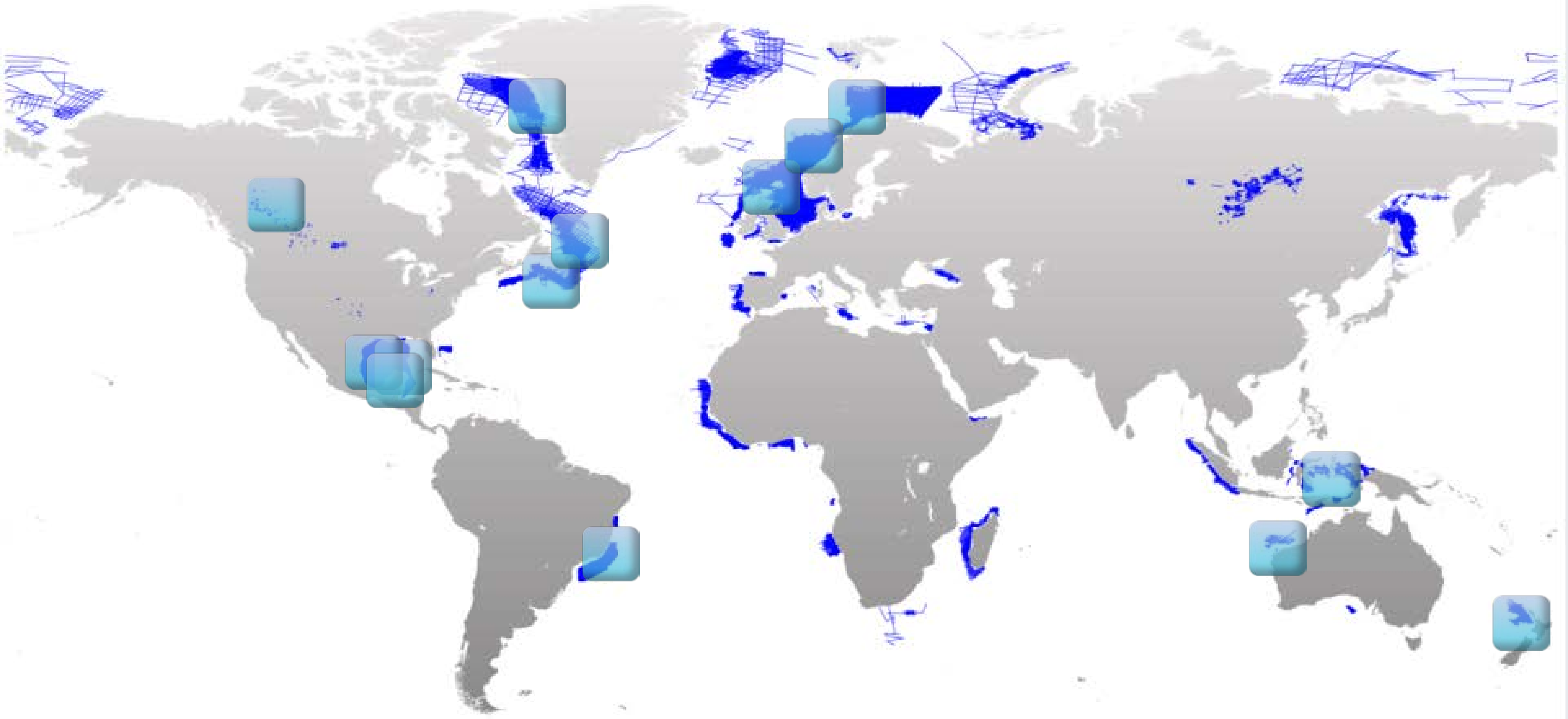
## Medium beta

- Return targets >2x investment
- Prefunding of 30-50%
- Open acreage and regular license rounds
- Established multi-client areas
- Many clients

## High Beta

- Return targets >2.5x investment
- Low or no prefunding
- Risk sharing with suppliers
- G&G knowledge driven projects
- Higher risk and volatility

# License Round Activity and TGS Positioning



**North & South America**
- Central GOM – Mar 2017 (2012-17 Plan)
- Central & Western GOM – Aug 2017 (2017-22 Plan)
- Newfoundland & Labrador – Nov 2017 (Scheduled Land Tenure)
- Nova Scotia – Oct 2017 (3-Year Rolling Plan)
- Canada Onshore – at least monthly
- Brazil – 14th Offshore and Pre-Salt Rounds in 2017
- Mexico – Round 2.1 & 2.2 in H1 2017, further rounds into 2019

**Africa, Middle East, Asia Pacific**
- Ongoing uncertainty on timing of African licensing rounds
- Australia – Feb & Mar 2017 (bids due)
- New Zealand – 2017 (consultation underway)
- Indonesia – H2 2017 (Round announcements)

**Europe / Russia**
- Norway APA – H1 2017 (Round Launch)
- Norway 24th Round – H1 2017 (Round Launch)
- UK Supplementary Round – 7 Mar 2017 (bids due)
- Greenland – Dec 2017 & 2018 (bids due)





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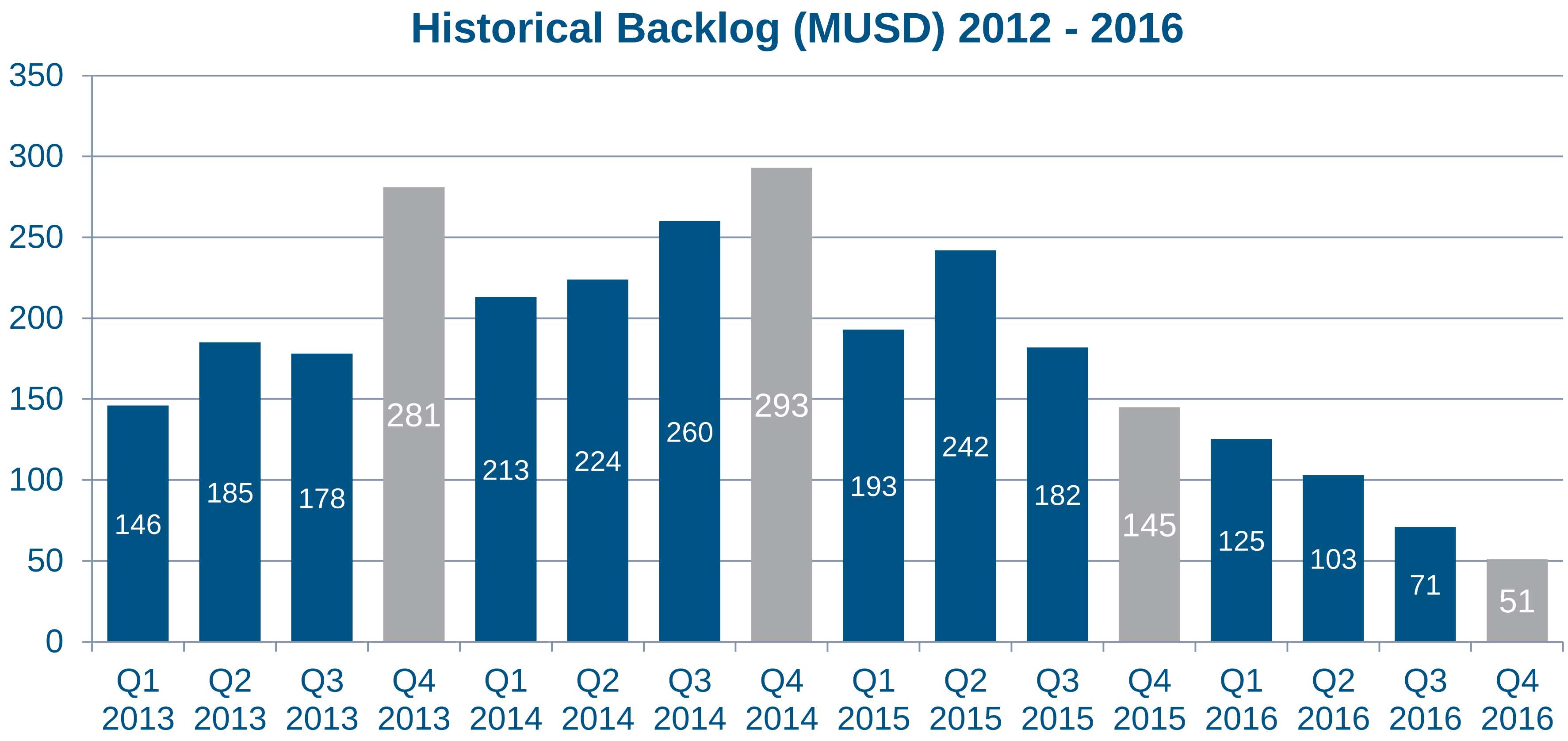
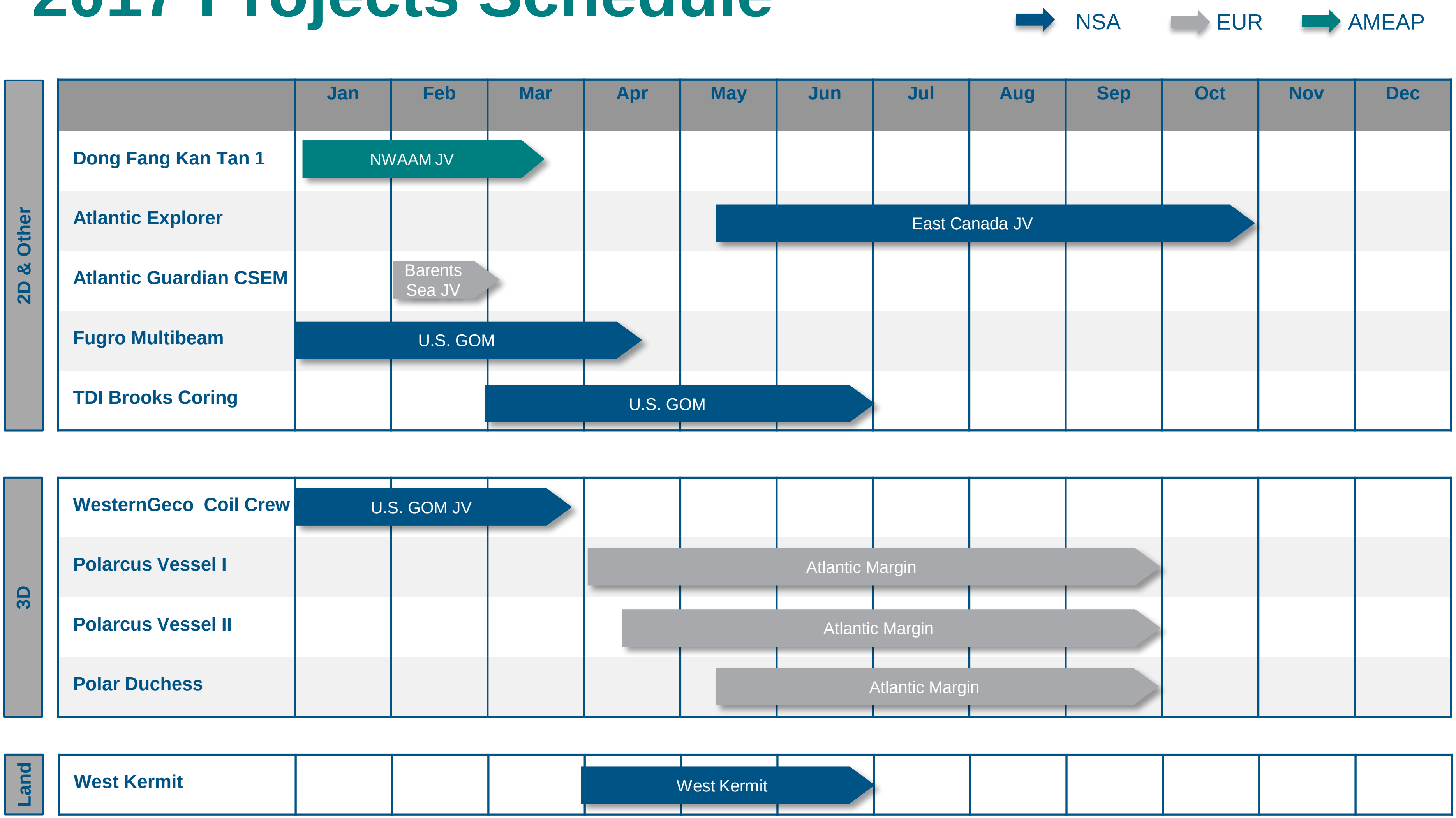
# Backlog


Historical Backlog (MUSD) 2012 - 2016
350
300
250
200
150
100
50
0
146
185
178
281
213
224
260
293
193
242
182
145
125
103
71
51
Q1 2013
Q2 2013
Q3 2013
Q4 2013
Q1 2014
Q2 2014
Q3 2014
Q4 2014
Q1 2015
Q2 2015
Q3 2015
Q4 2015
Q1 2016
Q2 2016
Q3 2016
Q4 2016

# 2017 Projects Schedule*




*Acquisition schedule excludes Fusion M-WAZ Reprocessing, other processing projects and GPS investments



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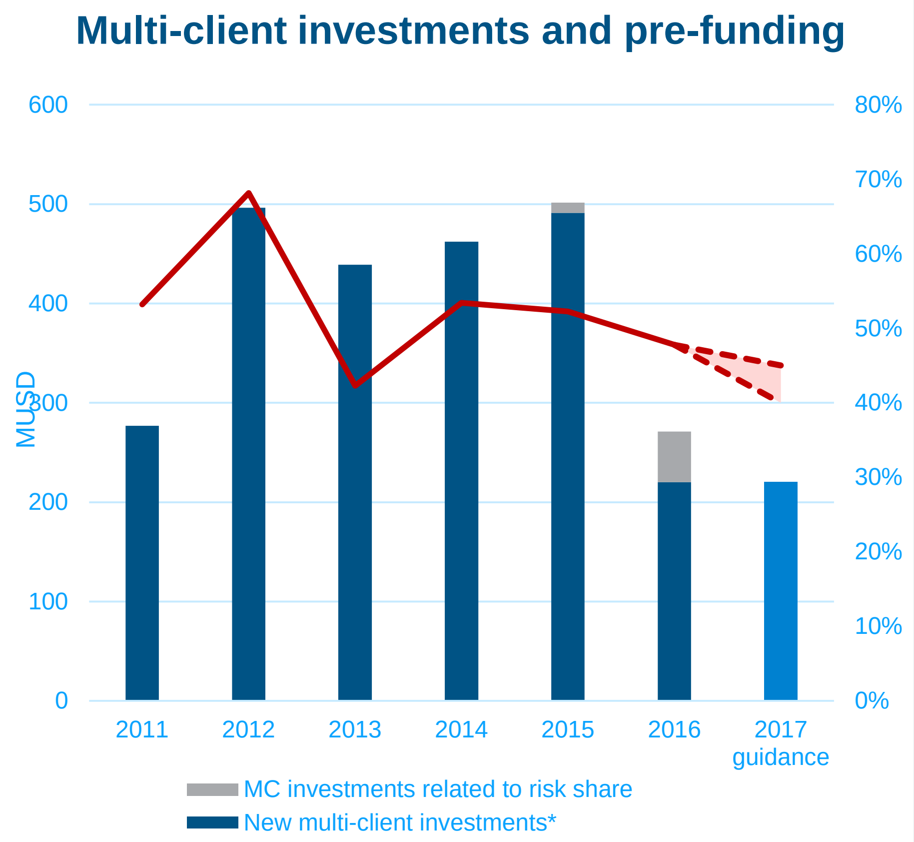
# Guidance

- Based on the current investment plan, TGS provides the following guidance for 2017:
  - New multi-client investments* at approximately the same level as in 2016
  - 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 40-45%

*New multi-client investments excluding investments related to surveys with risk sharing arrangements



# Thank you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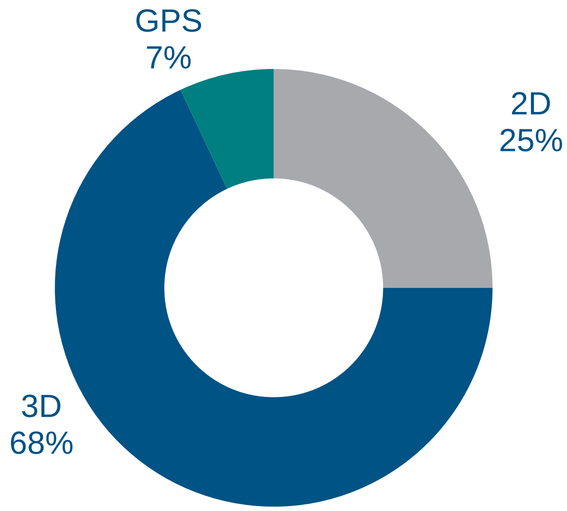
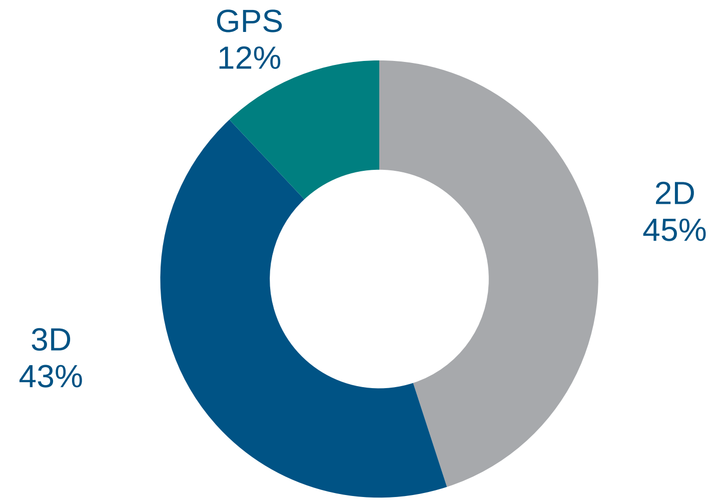
# Net Revenue Breakdown

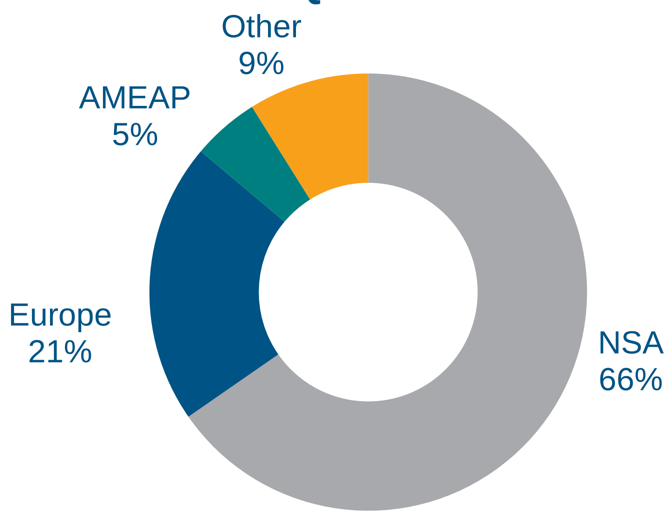
**Q4 2016**



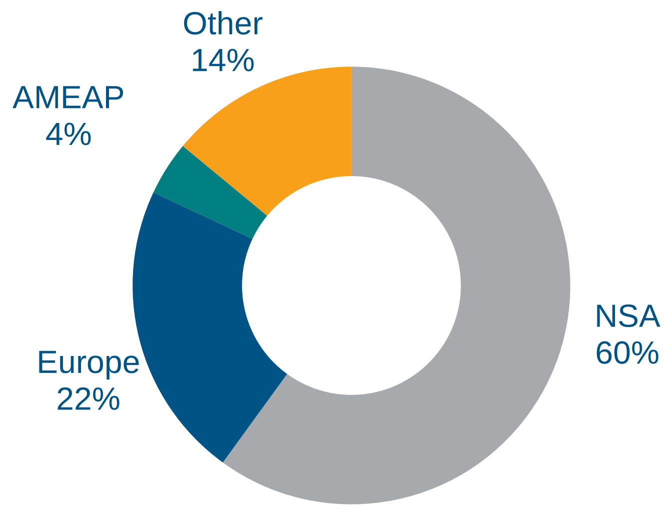

**Q4 2015**




**Q4 2016**

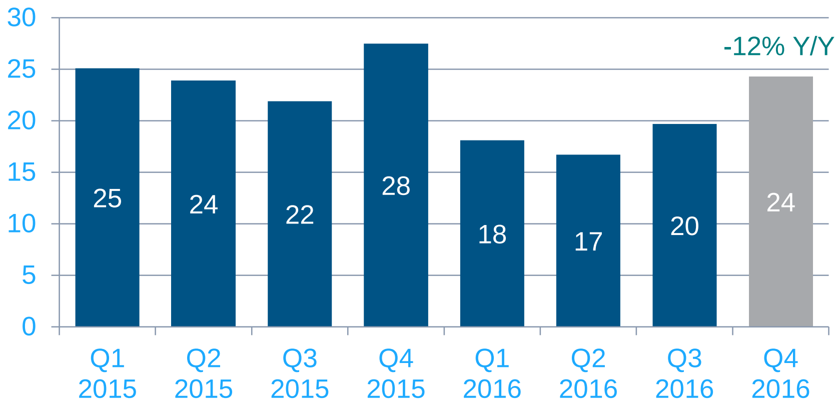



**Q4 2015**



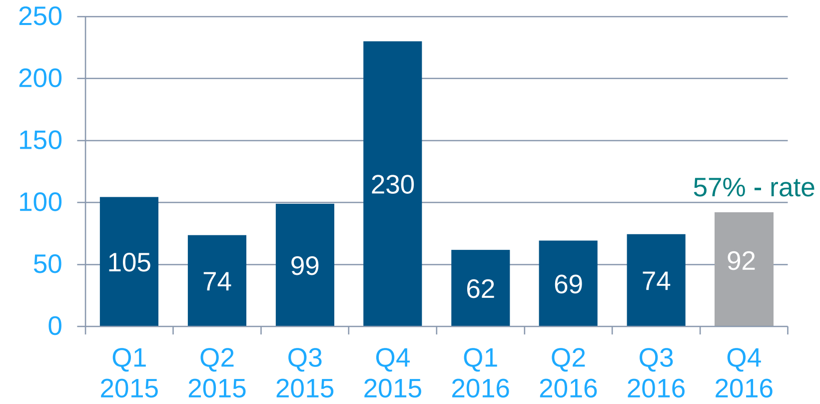
# Operating Expenses, EBIT, Free Cash Flow

## Operating expenses *



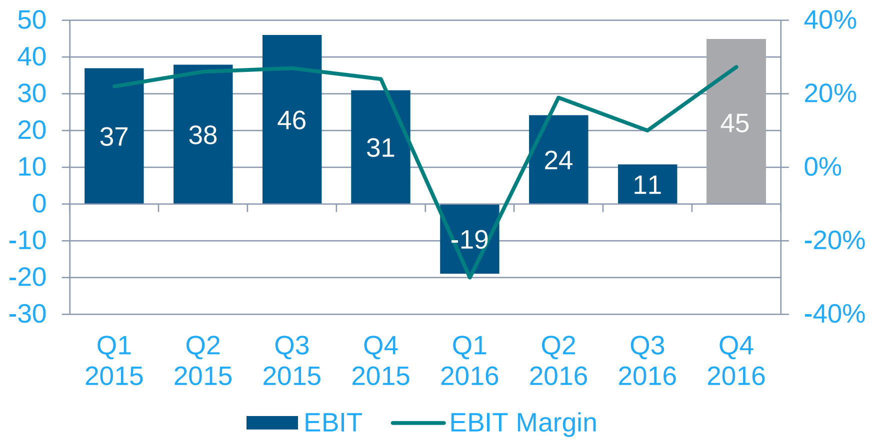

** Include personnel costs and other operating expenses. Adjusted for restructuring costs and larger impairments of operating items*

## Amortization and impairment *



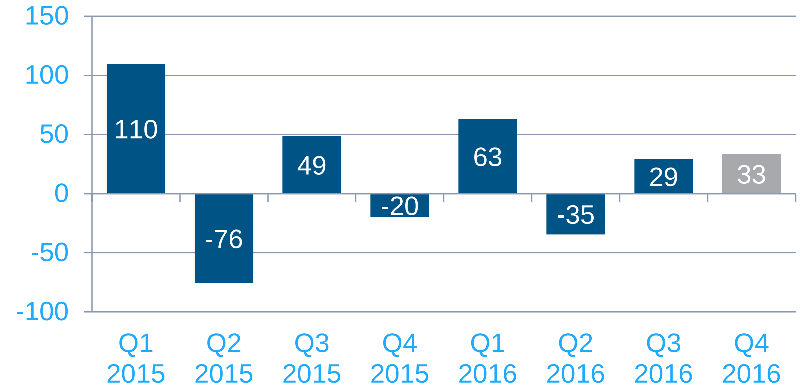

** Q1-Q4 2016 reflects the new amortization policy effective from 1 January 2016*

## EBIT *




** Earnings before interest and taxes and excluding larger impairments and restructuring costs*

## Free cash flow *




** Defined as cash flow from operational activities minus operational cash investments in multi-client projects*



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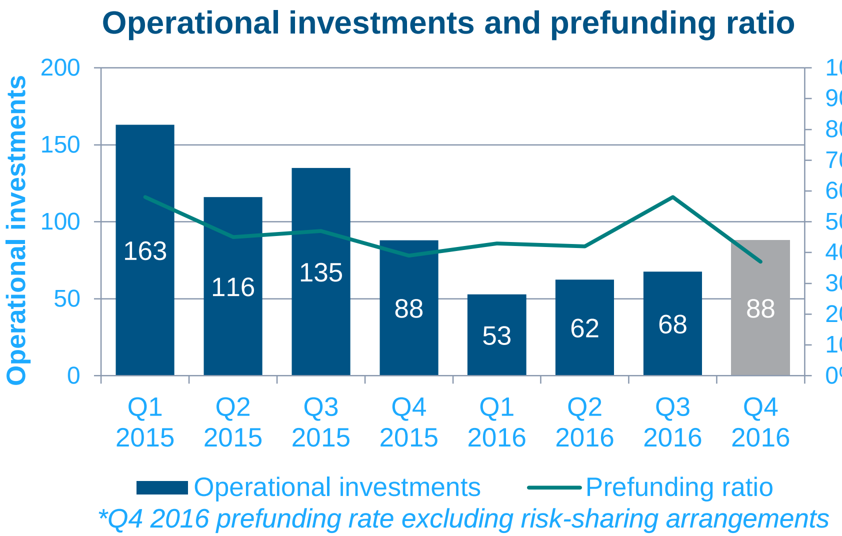
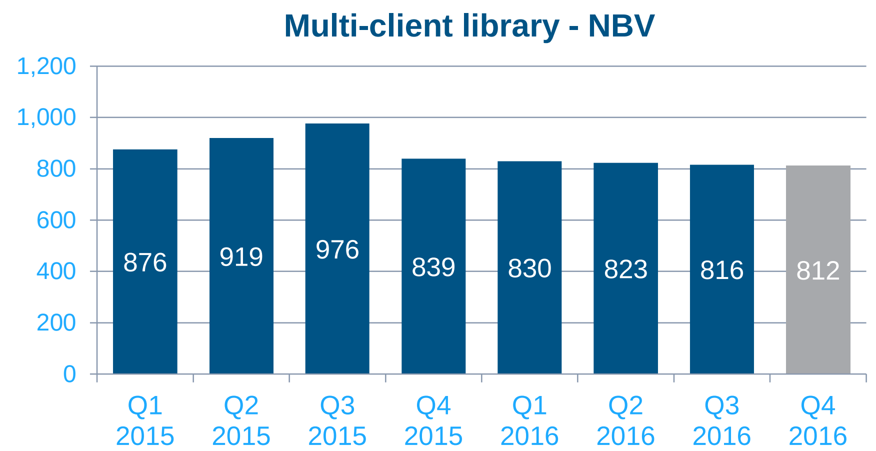
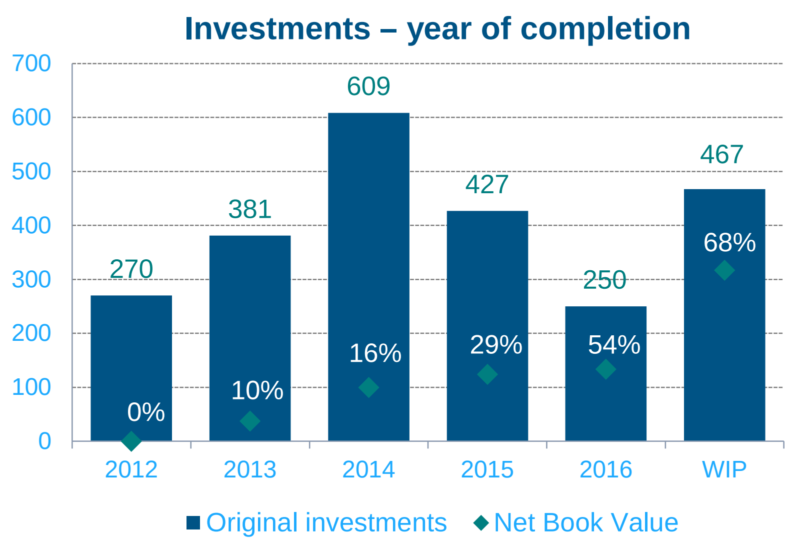
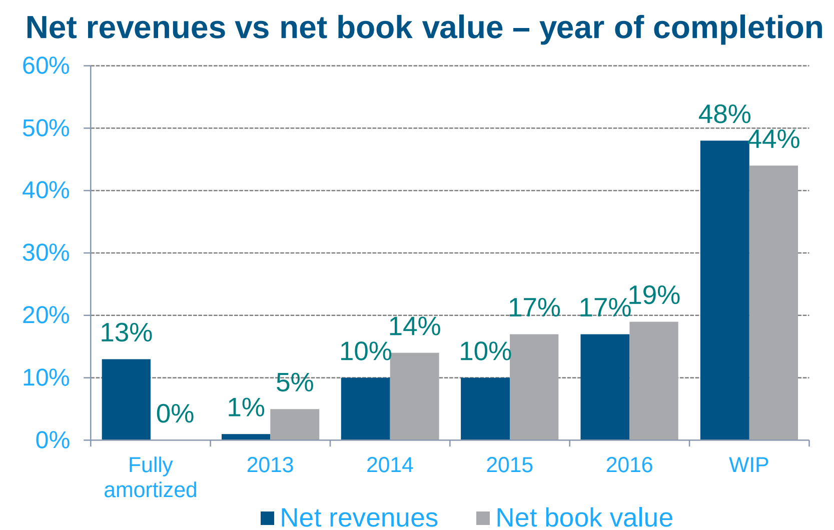
# Multi-Client Library



# Q4 2016 Income Statement

| USD million, except EPS | | Q4 2016 | Q4 2015 | Change in % |
|---|---|---|---|---|
| **Net revenues** | | **165** | **132** | **25%** |
| Cost of goods sold – proprietary and other | | 0.1 | 0.4 | -77% |
| Amortization of multi-client library | 57% | 92 | 230 | -60% |
| **Gross margin** | | **72** | **-99** | **173%** |
| Personnel costs | | 16 | 15 | 5% |
| Other operating expenses | | 11 | 22 | -49% |
| Cost of stock options | | 0.1 | 0.2 | -45% |
| Depreciation | | 3 | 3 | -8% |
| **Operating profit** | **25%** | **42** | **-140** | **130%** |
| Net financial items | | -3 | -2 | **-96%** |
| **Profit before taxes** | **23%** | **39** | **-142** | **127%** |
| Taxes | | 15 | -20 | 174% |
| **Net Income** | **15%** | **24** | **-122** | **120%** |
| EPS, Undiluted | | 0.24 | -1.20 | 120% |
| EPS, Fully Diluted | | 0.23 | -1.19 | 120% |

# Q4 2016 Cash Flow Statement

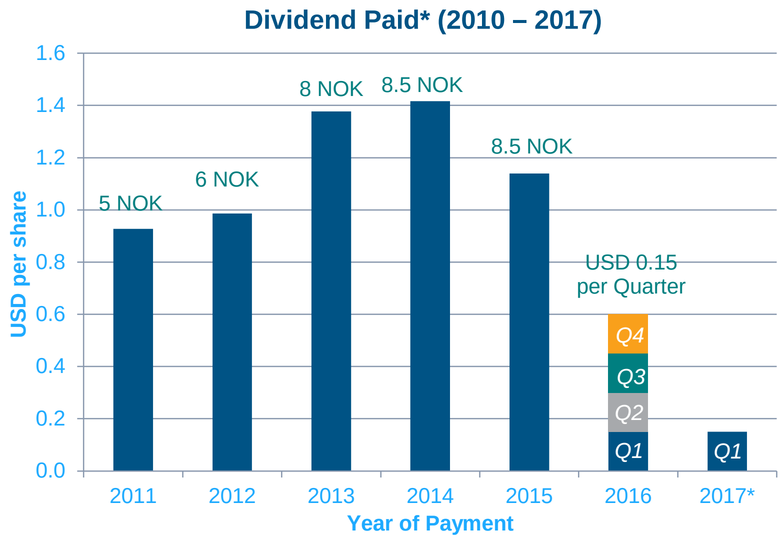
| USD million | Q4 2016 | Q4 2015 | Change in % |
|---|---|---|---|
| Received payments from customers | 111 | 140 | -21% |
| Payments for operational expenses | (27) | (24) | -15% |
| Paid taxes | (5) | (17) | 72% |
| **Operational cash flow** | **79** | **99** | **-21%** |
| Investments in tangible and intangible assets | (2) | (1) | -105% |
| Investments in multi-client library | (45) | (119) | 62% |
| Investments through mergers and acquisitions | - | (8) | 100% |
| Interest received | 0.2 | 0.8 | -75% |
| Interest paid | (0.05) | (0.09) | 46% |
| Dividend payments | (14) | - | N/A |
| Proceeds from share issuances | - | 0.8 | -100% |
| **Change in cash balance** | **18** | **-27** | **165%** |

# Balance Sheet

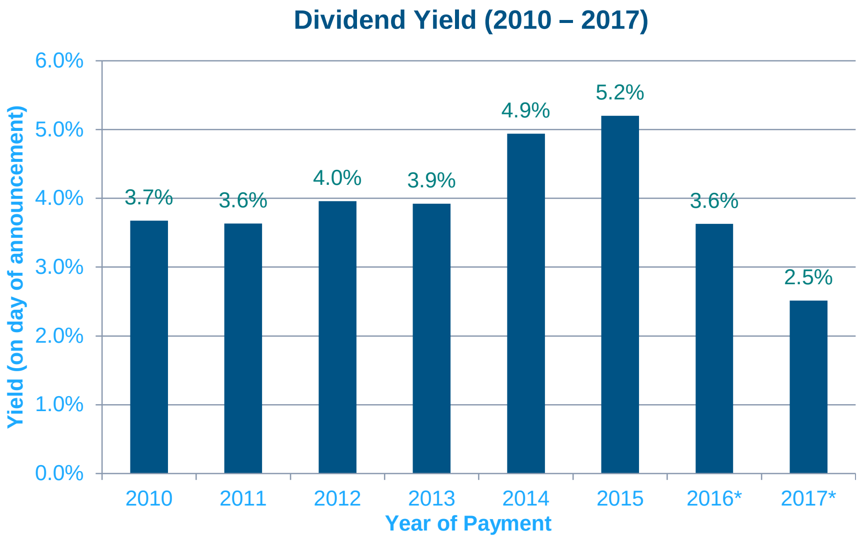
| USD million | Q4 2016 | Q3 2016 | Change in % | Q4 2015 |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and cash equivalents | 191 | 173 | 10% | 163 |
| Other current assets | 353 | 275 | 28% | 308 |
| **Total current assets** | **544** | **449** | **21%** | **471** |
| Intangible assets and deferred tax asset | 83 | 88 | -6% | 90 |
| Other non-current assets | 11 | 21 | -49% | 25 |
| Multi-client library | 812 | 816 | 0% | 839 |
| Fixed assets | 23 | 23 | -2% | 30 |
| **Total Assets** | **1,473** | **1,397** | **5%** | **1,455** |
| **Liabilities** | | | | |
| Current liabilities | 262 | 198 | 32% | 218 |
| Non-current liabilities | 6 | 7 | -13% | 6 |
| Deferred tax liability | 41 | 37 | 12% | 33 |
| **Total Liabilities** | **309** | **242** | **28%** | **257** |
| **Equity** | **1,164** | **1,155** | **1%** | **1,198** |
| **Total Liabilities and Equity** | **1,473** | **1,397** | **5%** | **1,455** |

*The Company holds no interest-bearing debt*

# Dividend stable at USD 0.15 per share




*Quarterly Dividends, defined in USD from 2016
Historical NOK dividends converted to USD using FX rate on ex-dividend date




*2016 and 2017 Dividend Yield annualized based on the weighted yield at the time of announcement of quarterly dividends

- Shareholder authorization to distribute quarterly dividend payments from Q1 2016
    - Aim to keep a stable quarterly dividend through the year
    - Actual quarterly dividend level paid will be subject to continuous evaluation of market outlook, cash flow expectations and balance sheet development

- Q1 2016: USD 0.15 per share dividend paid on 23 February 2016
- Q2 2016: USD 0.15 per share dividend paid on 1 June 2016
- Q3 2016: USD 0.15 per share dividend paid on 25 August 2016
- Q4 2016: USD 0.15 per share dividend paid on 18 November 2016
- Q1 2017: USD 0.15 per share dividend to be paid on 23 February 2017 (shares will trade ex-dividend on 9 February 2017)