



# Q3 2016 Earnings Release

**Kristian Johansen**  
CEO

28 October 2016

**Sven Børre Larsen**  
CFO



[www.TGS.com](http://www.TGS.com)

# 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.*

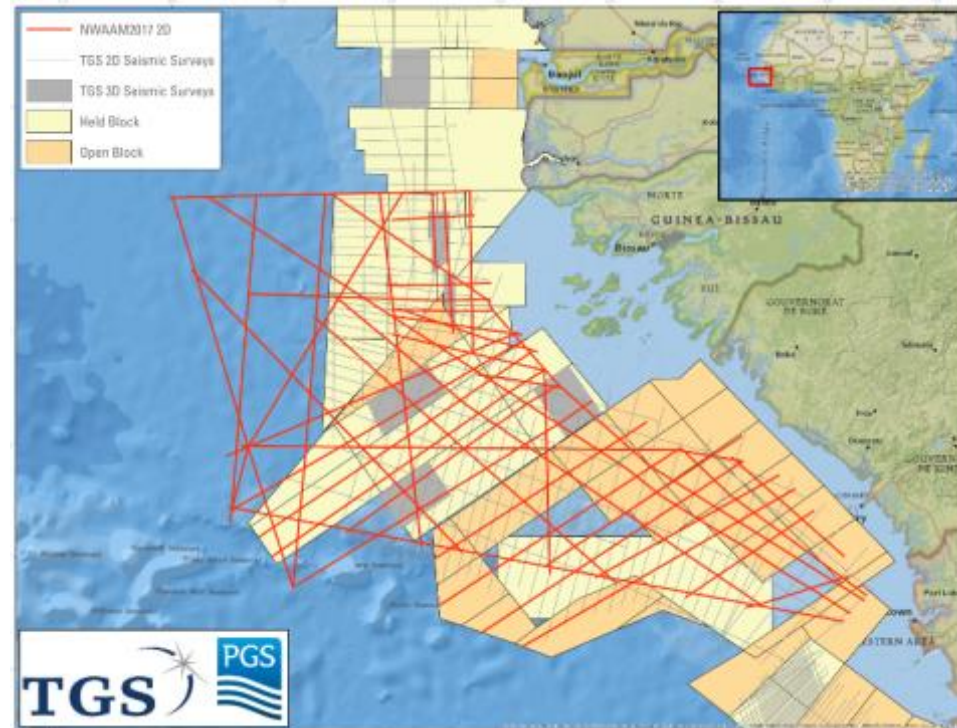
# Q3 2016 Highlights

- Q3 net revenues of 113 MUSD compared to 169 MUSD in Q3 2015
  - Net late sales of 67 MUSD, down 26% from 90 MUSD in Q3 2015
  - Net pre-funding revenues of 39 MUSD were down 47% from Q3 2015, funding 58% of TGS' operational multi-client investments for the quarter (68 MUSD)
  - Following a strong sequential improvement in market conditions from Q1 to Q2, fundamentals remained stable during Q3
- Operating profit for the quarter was 11 MUSD compared to 46 MUSD in Q3 2015
- Cash flow from operations was 91 MUSD compared to 121 MUSD in Q3 2015
  - Cash balance of 173 MUSD at 30 September 2016 in addition to undrawn 75 MUSD Revolving Credit Facility
- Quarterly dividend maintained at USD 0.15 per share

# New Project Announced – North West Africa

## North West African Atlantic Margin NWAAM2017

- Over 11,500 km of multi-client 2D seismic in partnership with PGS
- Designed to infill, extend and complement the TGS NWAAM2012 2D survey which helped with recent commercial discoveries in the basin
- A 12 km deep-tow streamer will enable the recording of high quality broadband 2D seismic data
- Confirms TGS commitment to the leading frontier basin in Africa, where TGS already has over 28,000 km of 2D data and over 18,000 km<sup>2</sup> of 3D data

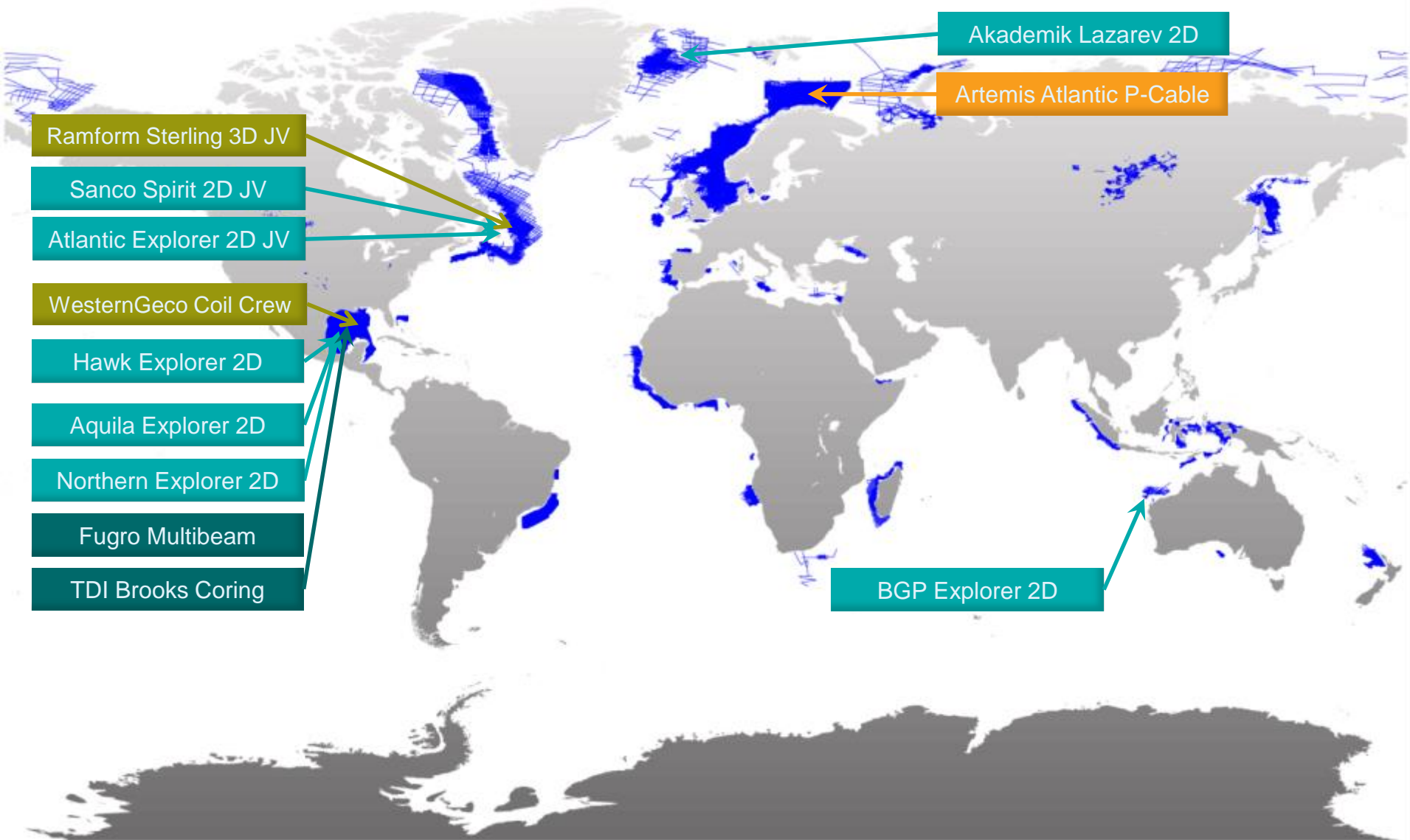




# Operational Highlights



# Q3 2016 Operations



# Q3 Activity – U.S. Gulf of Mexico

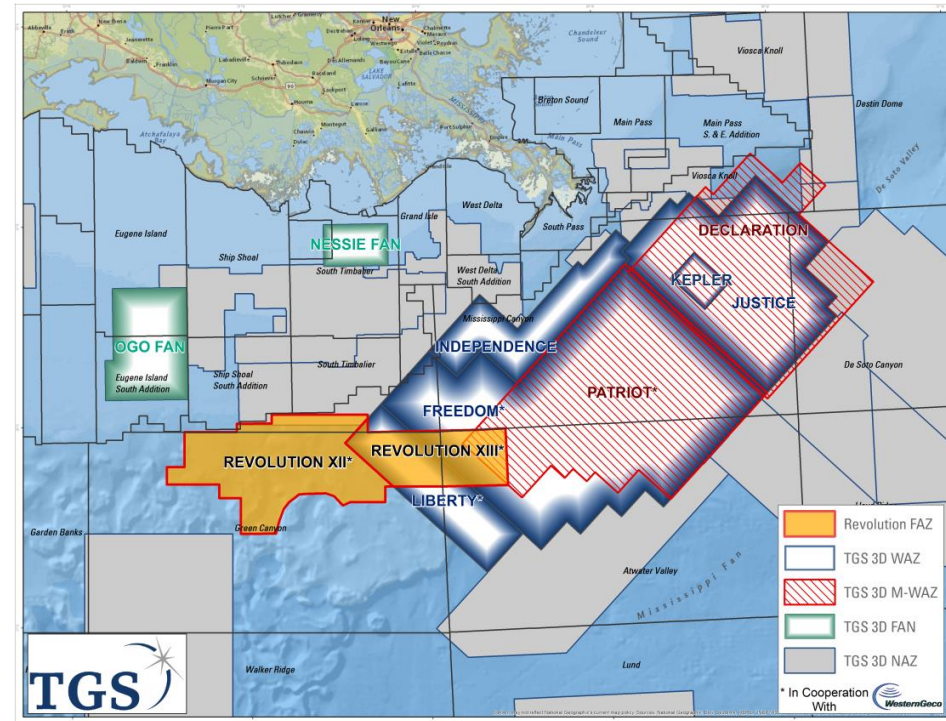
## Revolution XII and XIII

- ~7,150 km<sup>2</sup> (306 blocks) multi-client 3D survey in collaboration with WesternGeco
- Located in Green Canyon, Atwater Valley and Ewing Bank protraction areas of the Central Gulf of Mexico
- Survey utilizes WesternGeco's proprietary Q-Marine\* point-receiver marine seismic system combined with the proprietary multi-vessel, Dual Coil Shooting acquisition technique, which will provide broadband, long-offset, full-azimuth data

\*Mark of Schlumberger

## Track record of success in Central GOM

- Expansion of TGS-WesternGeco WAZ surveys in U.S. Central GOM; first survey Freedom was acquired in 2008
- WAZ data has proven critical to improve illumination and imaging of the sub-salt and other complex geologic features
- This part of the Gulf of Mexico continues to see the highest activity level and benefits from significant near-term lease turnover



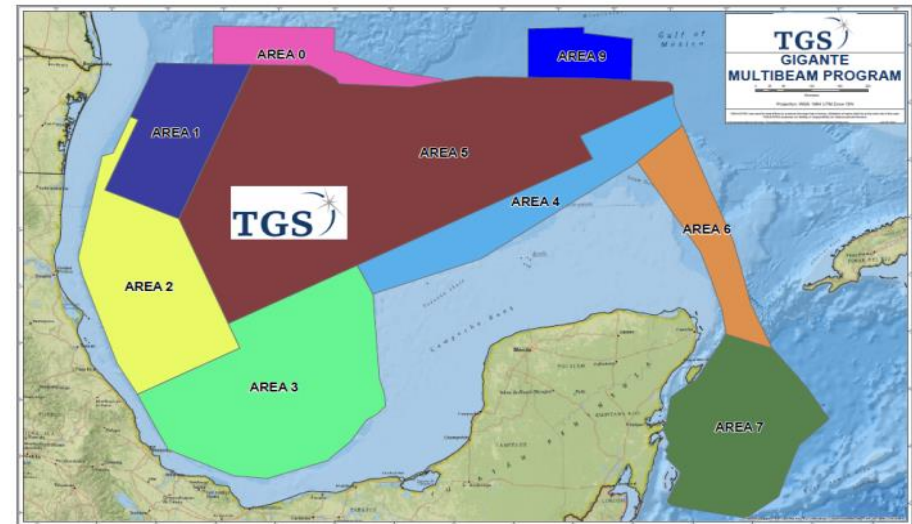
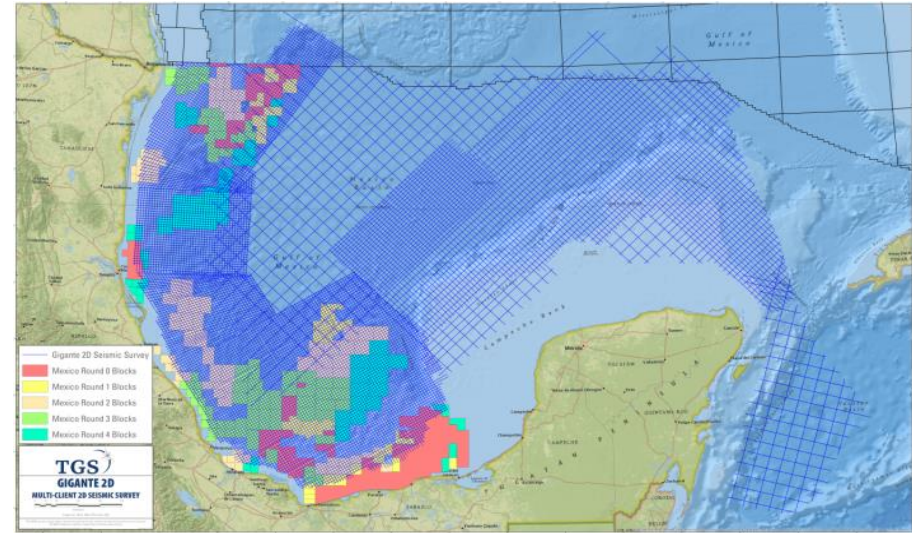
# Q3 Activity – Mexico

## Gigante 2D: ~186,000 km multi-client 2D survey

- Regional 2D survey commenced in Q2 2015 with acquisition completed in early Q4 2016
- Survey covers the proposed license rounds in the Perdido, Campeche and Mexican Ridges regions
- Line ties made to the US Gulf of Mexico regional grids previously acquired by TGS
- Significant amount of fast-track data delivered to clients

## Gigante Multibeam, Coring, and Geochemical Surveys

- ~600,000 km<sup>2</sup> survey commenced in 2015 with coring to be completed in Q1 2017
- More than 90% of data acquired at end Q3 2016
- Interpretation of the data will integrate with the 2D seismic survey and enhance the value proposition to clients





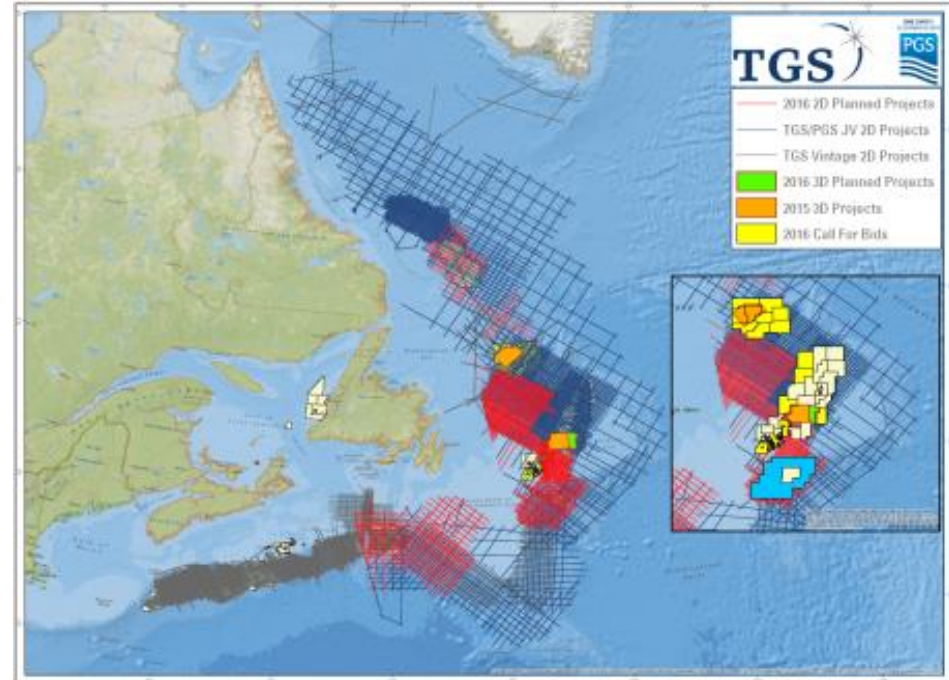
# Q3 Activity – East Canada

## Newfoundland Labrador 2016 Season

- 38,000 km multi-client 2D survey in partnership with PGS – data acquisition to complete in Q4 2016
- ~2,000 km<sup>2</sup> multi-client 3D survey in partnership with PGS – data acquisition completed in Q3 2016
- TGS-PGS JV library in this region will exceed 150,000 km of 2D data and 11,000 km<sup>2</sup> of 3D data in addition to 83,700 km of TGS vintage data, an expansive well log library and advanced multi-client interpretation products

## A bright spot in an otherwise challenging exploration market

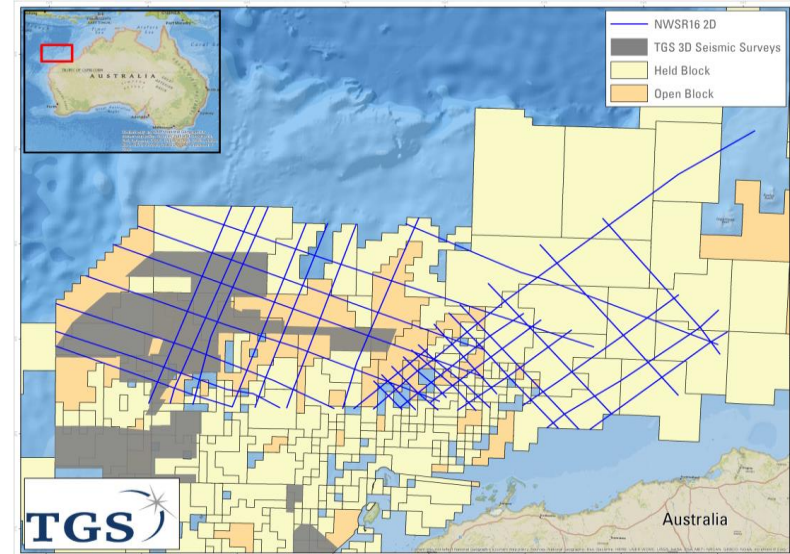
- Recent exploration success
- Highly successful 2015 license round (nine companies participated with CAD 1.2 billion successful commitments)
- Two 2016 Calls for Bids issued over approximately 3.3 million hectares in Jeanne d'Arc and Eastern Newfoundland regions (bids due 9 November 2016)



# Q3 Activity – Australia and Greenland

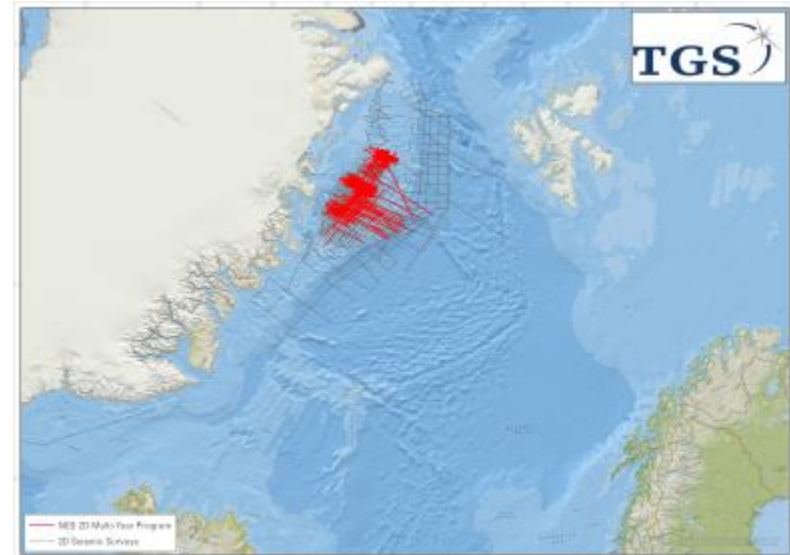
## NW Shelf Renaissance: ~8,000 km multi-client 2D survey

- Long offset, broadband 2D seismic data as well as magnetic and gravity data
- Ties recent and deep wells with TGS' existing 3D coverage in the Carnarvon Basin
- 25% of the survey within blocks available in the 2016 Australian Offshore Petroleum Exploration Acreage Release areas
- Acquisition completed in Q3 2016 with fast-track data expected to be available December 2016 and final data available Q3 2017



## Northeast Greenland: ~15,000 km multi-client 2D survey

- Completed final year of a multi-year, multi-client 2D project
- Final data expected to be available in Q1 2017
- On completion, TGS 2D library in the basin will be more than 40,000 km



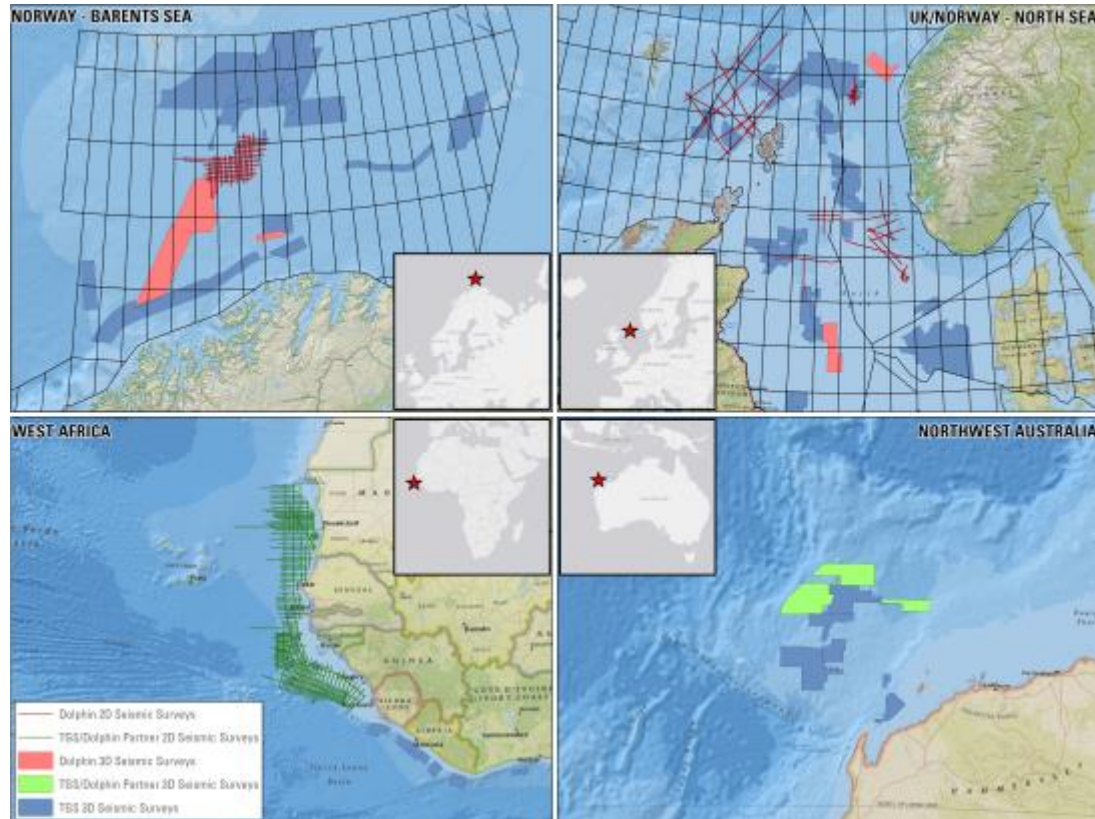
# Strategic Library Acquisitions

## Dolphin library acquisition

- Agreement in principle to buy the majority of the Dolphin MC library together with PGS
- Enhancing TGS' already strong position in areas such as the Barents Sea, the North Sea, NW Africa and Australia
- Limited initial cash outlay
- Definitive agreement expected in the near future

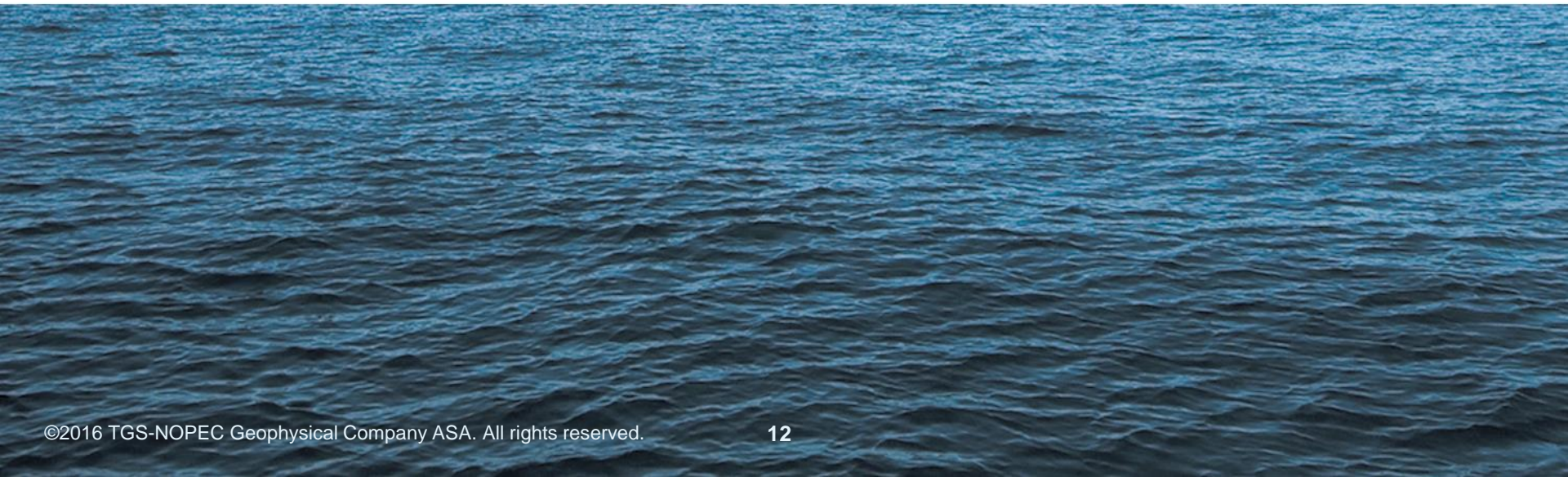
## TGS is actively seeking consolidation opportunities through strategic library acquisitions

- Polarcus library 2015
- Dolphin library 2016
- Other opportunities monitored closely



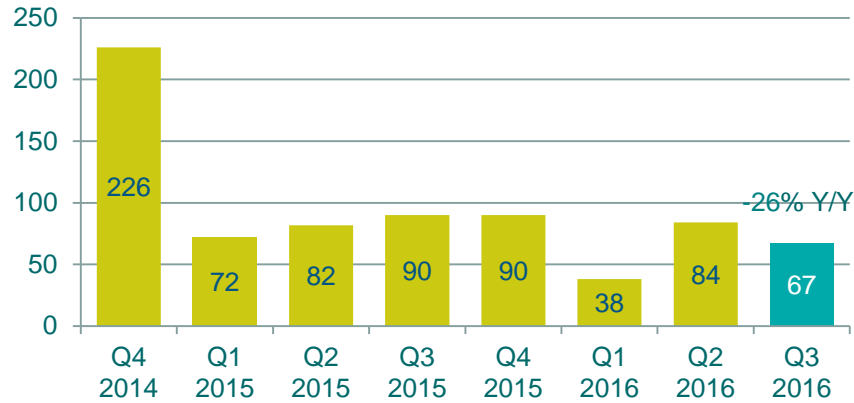


# Financials

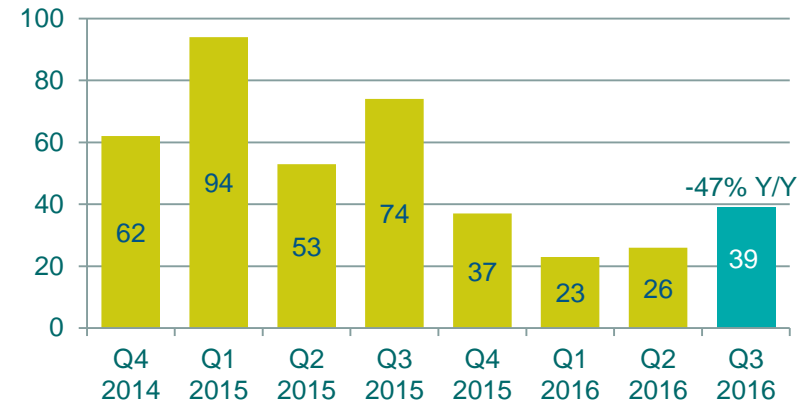


# Net Revenues

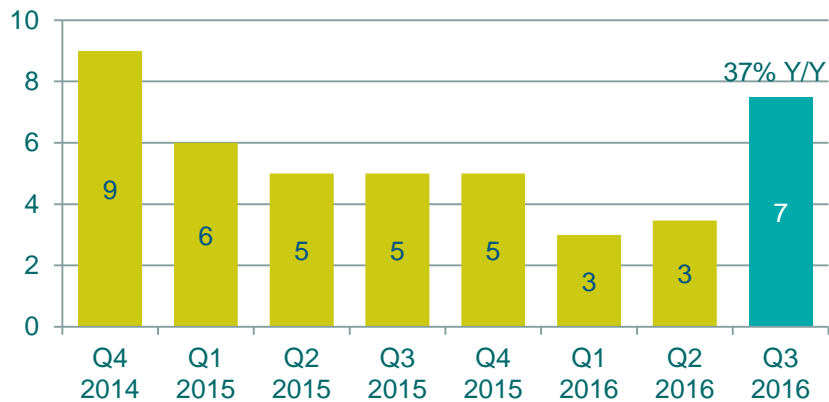
## Late sales revenues



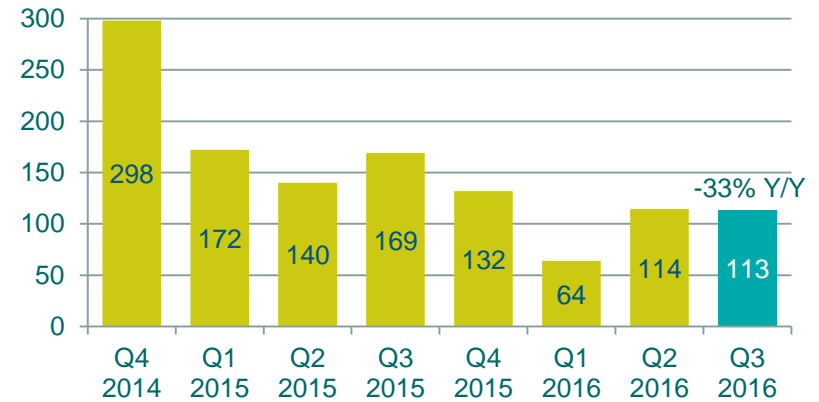
## Prefunding revenues



## Proprietary revenues

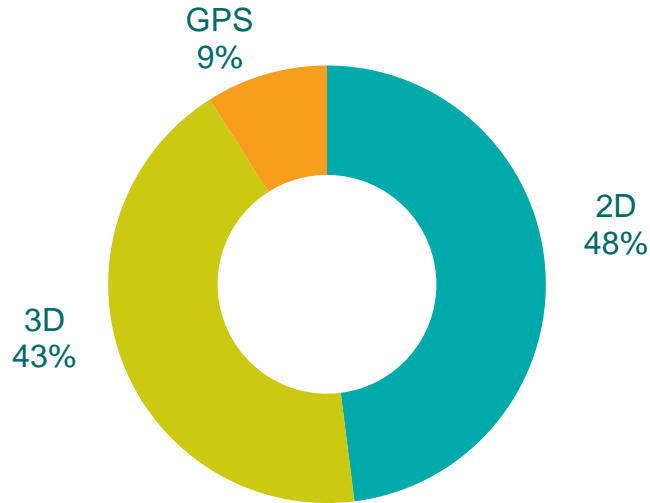


## Total revenues

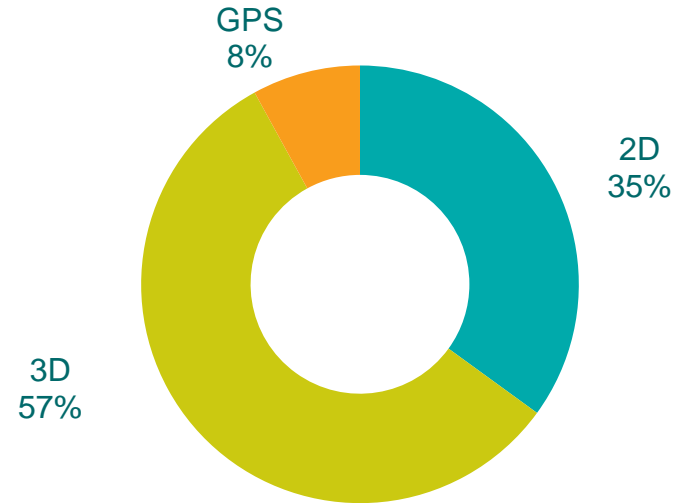


# Net Revenue Breakdown

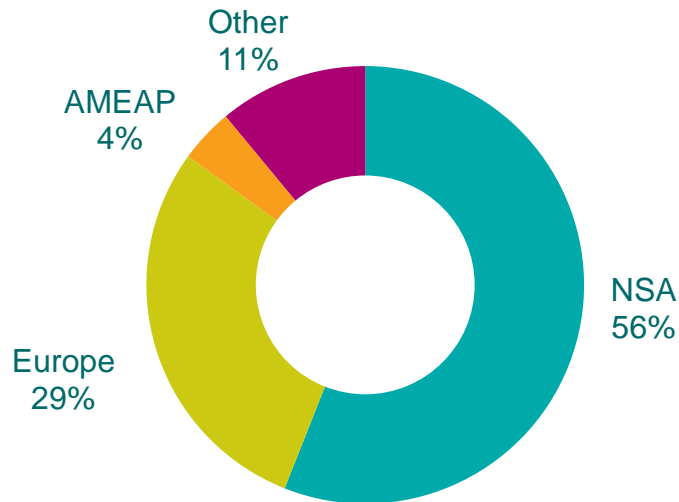
Q3 2016



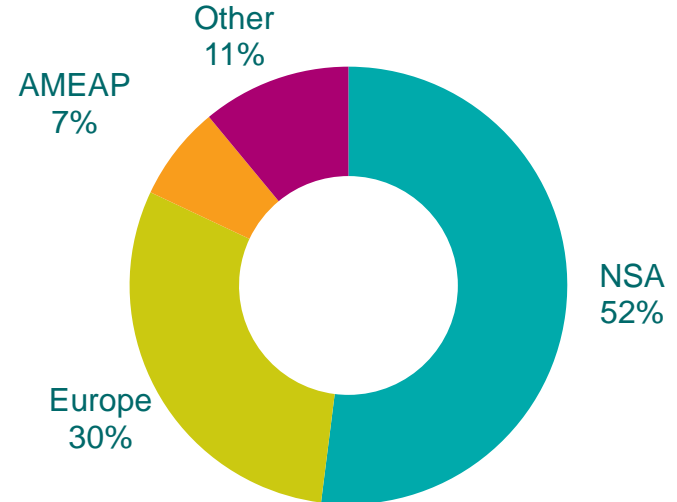
Q3 2015



Q3 2016

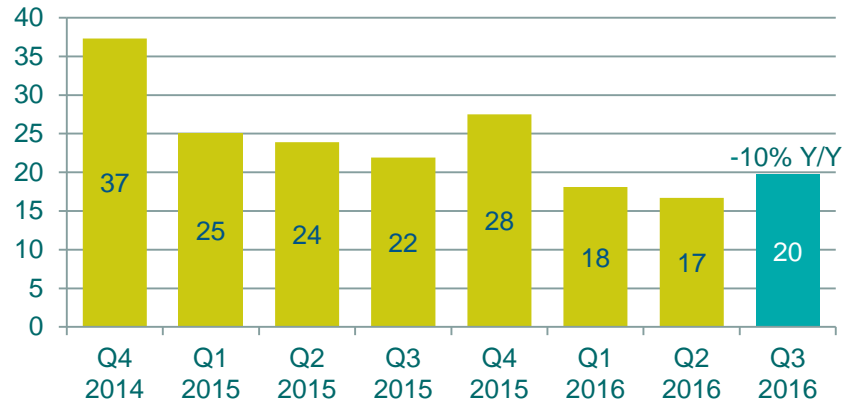


Q3 2015



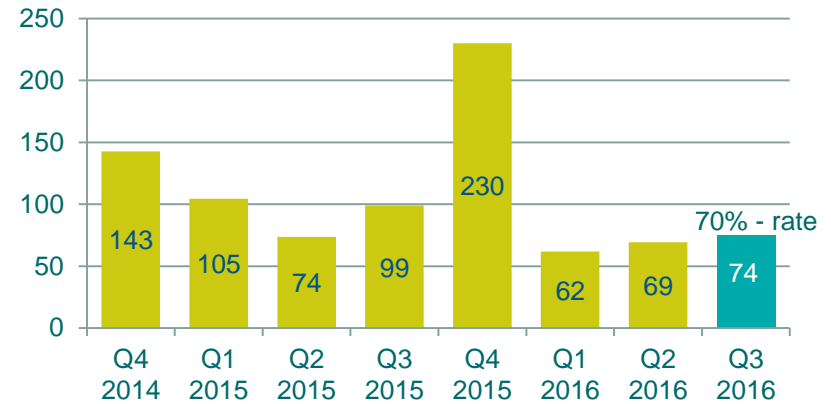
# Operating Expenses, EBIT, Free Cash Flow

## Operating expenses \*



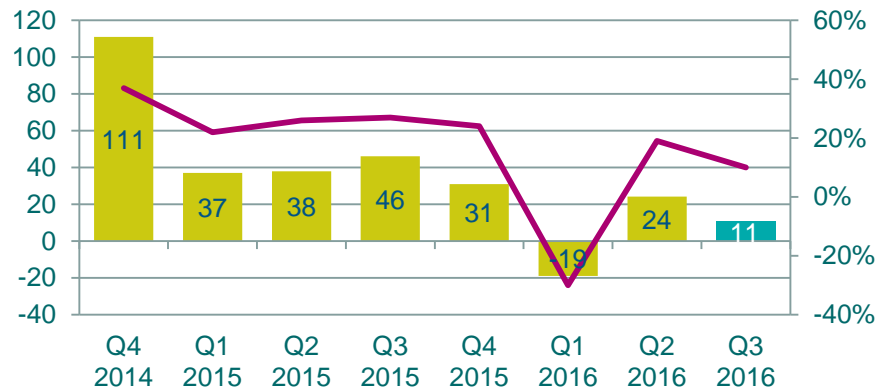
\* Include personnel costs and other operating expenses. Adjusted for restructuring costs and larger impairments of operating items

## Amortization and impairment \*



\* Q1-Q3 2016 reflects the new amortization policy effective from 1 January 2016

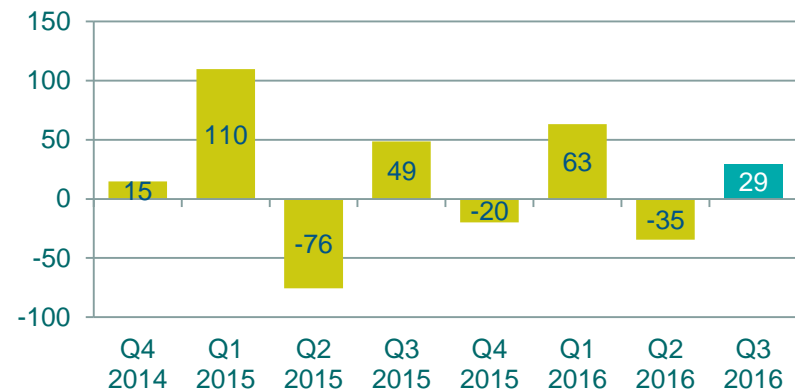
## EBIT \*



■ EBIT    — EBIT Margin

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

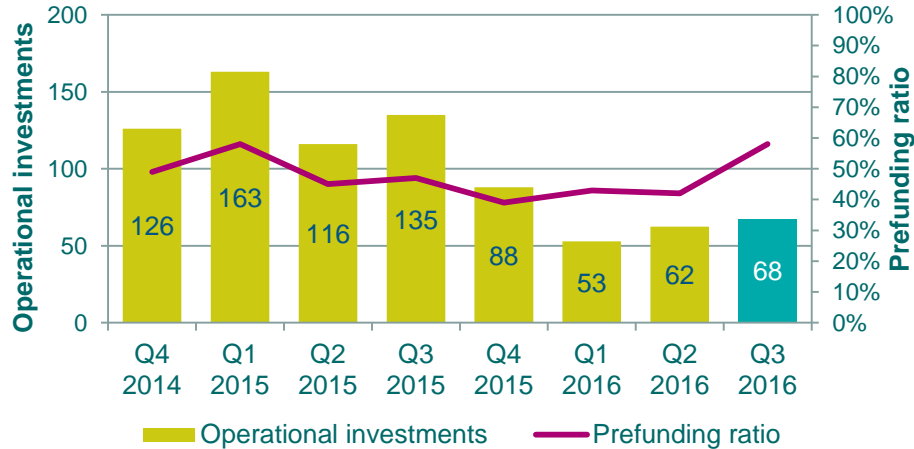
## Free cash flow \*



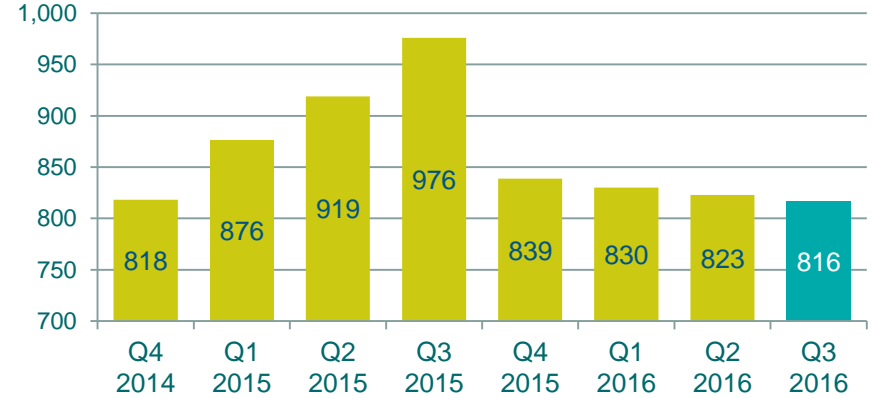
\* Defined as cash flow from operational activities minus operational cash investments in multi-client projects

# Multi-Client Library

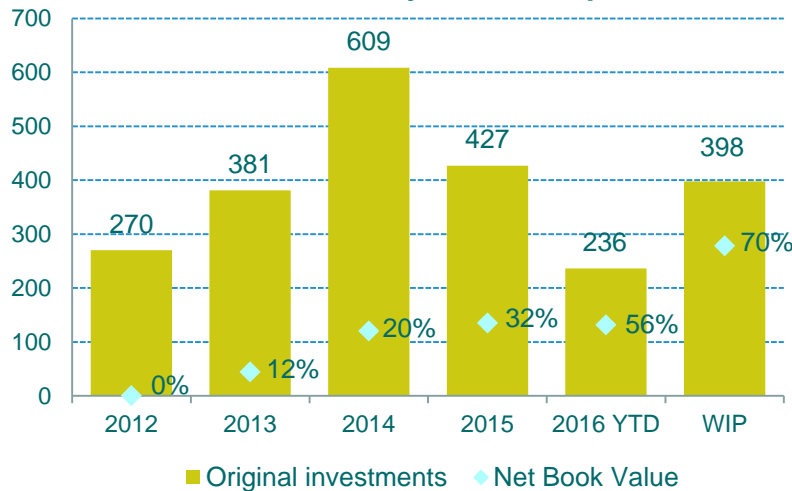
## Operational investments and prefunding ratio



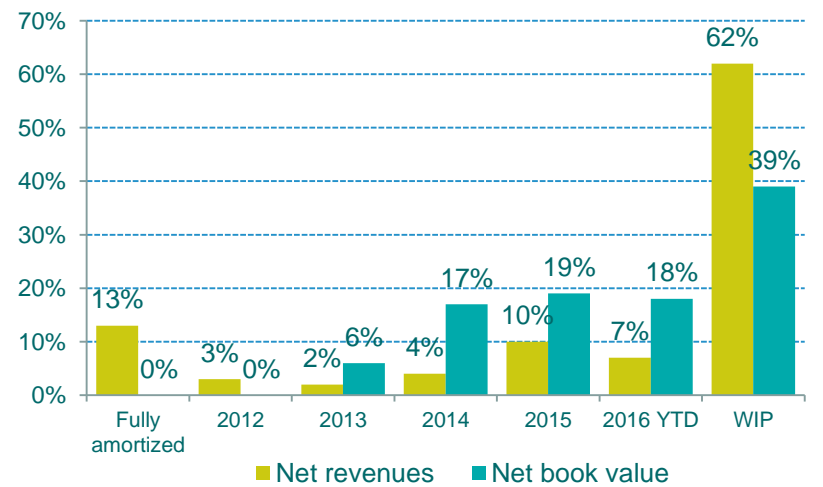
## Multi-client library - NBV



## Investments – year of completion



## Net revenues vs net book value – year of completion





# Q3 2016 Income Statement

USD million, except EPS	Q3 2016	Q3 2015	Change in %
<b>Net revenues</b>	<b>113</b>	<b>169</b>	<b>-33%</b>
Cost of goods sold – proprietary and other	5	0.1	8222%
Amortization of multi-client library	74	99	-25%
<b>Gross margin</b>	<b>34</b>	<b>71</b>	<b>-52%</b>
Personnel costs	12	14	-19%
Other operating expenses	8	8	5%
Cost of stock options	0.2	0.1	94%
Depreciation	3	3	9%
<b>Operating profit</b>	<b>11</b>	<b>46</b>	<b>-76%</b>
	<b>10%</b>		
Net financial items	2	-2	214%
<b>Profit before taxes</b>	<b>13</b>	<b>44</b>	<b>-70%</b>
	<b>11%</b>		
Taxes	11	4	220%
<b>Net Income</b>	<b>2</b>	<b>40</b>	<b>-96%</b>
	<b>2%</b>		
EPS, Undiluted	0.02	0.40	-95%
EPS, Fully Diluted	0.02	0.39	-95%

# Q3 2016 Cash Flow Statement

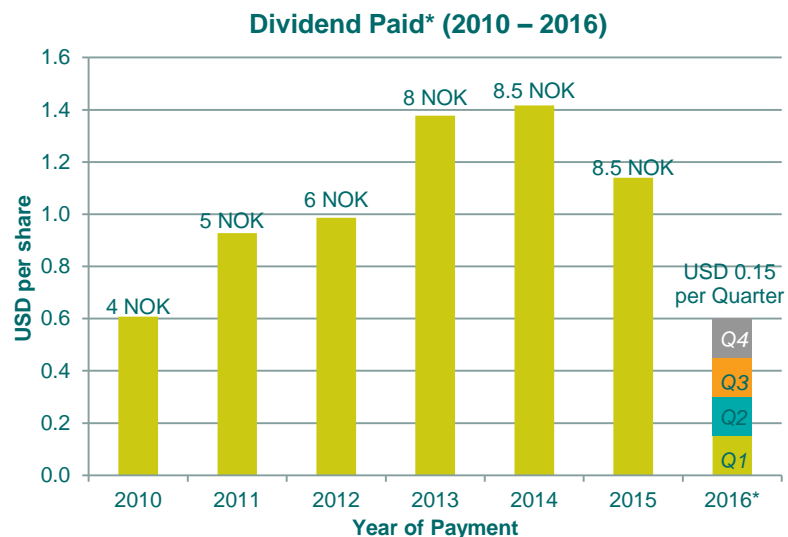
USD million	Q3 2016	Q3 2015	Change in %
Received payments from customers	110	145	-24%
Payments for operational expenses	(25)	(23)	-7%
Paid taxes	6	(1)	552%
<b>Operational cash flow</b>	<b>91</b>	<b>121</b>	<b>-24%</b>
Investments in tangible and intangible assets	(2)	(1)	-63%
Investments in multi-client library	(62)	(72)	14%
Investments through mergers and acquisitions	-	(19)	100%
Interest received	0.7	1	-43%
Interest paid	(0.03)	(0.06)	53%
Dividend payments	(17)	(14)	-19%
Proceeds from share issuances	-	2	-100%
<b>Change in cash balance</b>	<b>11</b>	<b>17</b>	<b>-36%</b>

# Balance Sheet

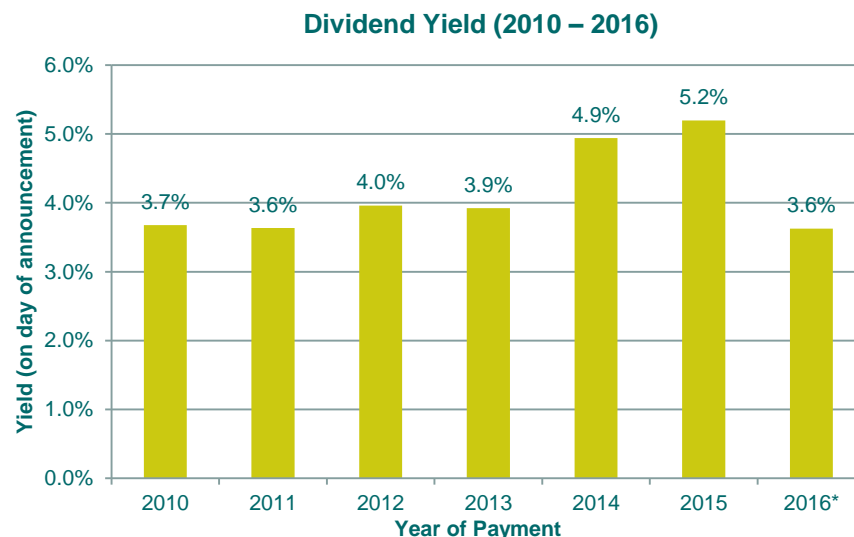
USD million	Q3 2016	Q2 2016	Change in %	Q4 2015
<b>Assets</b>				
Cash and cash equivalents	173	162	7%	163
Other current assets	275	255	8%	308
<b>Total current assets</b>	<b>449</b>	<b>417</b>	<b>8%</b>	<b>471</b>
Intangible assets and deferred tax asset	88	92	-4%	90
Other non-current assets	21	16	27%	25
Multi-client library	816	823	-1%	839
Fixed assets	23	26	-11%	30
<b>Total Assets</b>	<b>1,397</b>	<b>1,375</b>	<b>2%</b>	<b>1,455</b>
<b>Liabilities</b>				
Current liabilities	198	171	16%	218
Non-current liabilities	7	4	59%	6
Deferred tax liability	37	33	12%	33
<b>Total Liabilities</b>	<b>242</b>	<b>208</b>	<b>16%</b>	<b>257</b>
<b>Equity</b>	<b>1,155</b>	<b>1,167</b>	<b>-1%</b>	<b>1,198</b>
<b>Total Liabilities and Equity</b>	<b>1,397</b>	<b>1,375</b>	<b>2%</b>	<b>1,455</b>

*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

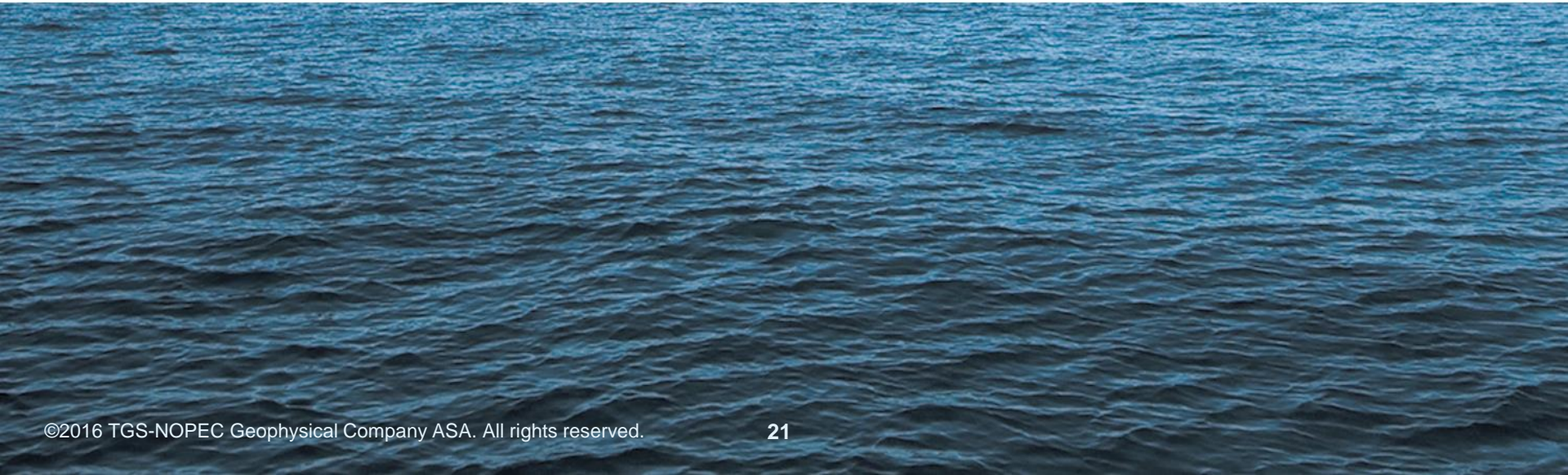


\*2016 Dividend Yield annualized based on the weighted yield at the time of announcement of quarterly dividends

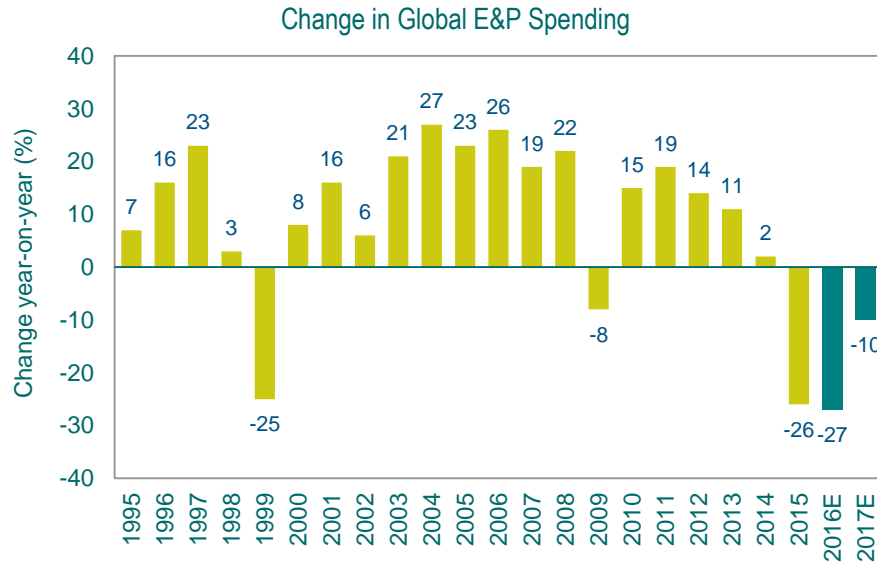
- Shareholder authorization to distribute quarterly dividend payments from Q1 2016
  - Aim to keep a stable quarterly dividend through the year
  - Actual quarterly dividend level paid will be subject to continuous evaluation of market outlook, cash flow expectations and balance sheet development
  
- 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 to be paid on 18 November 2016 (shares will trade ex-dividend on 4 November 2016)



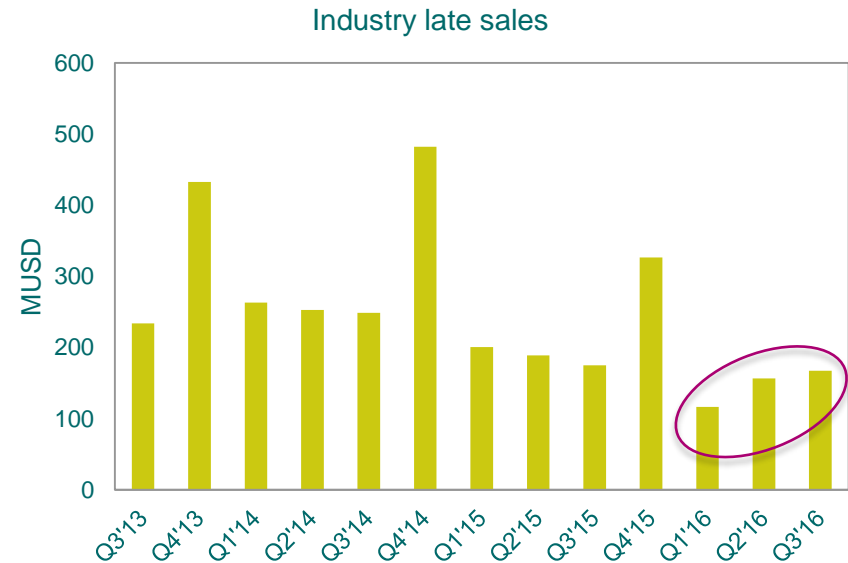
# Outlook



# Challenging Market for Exploration



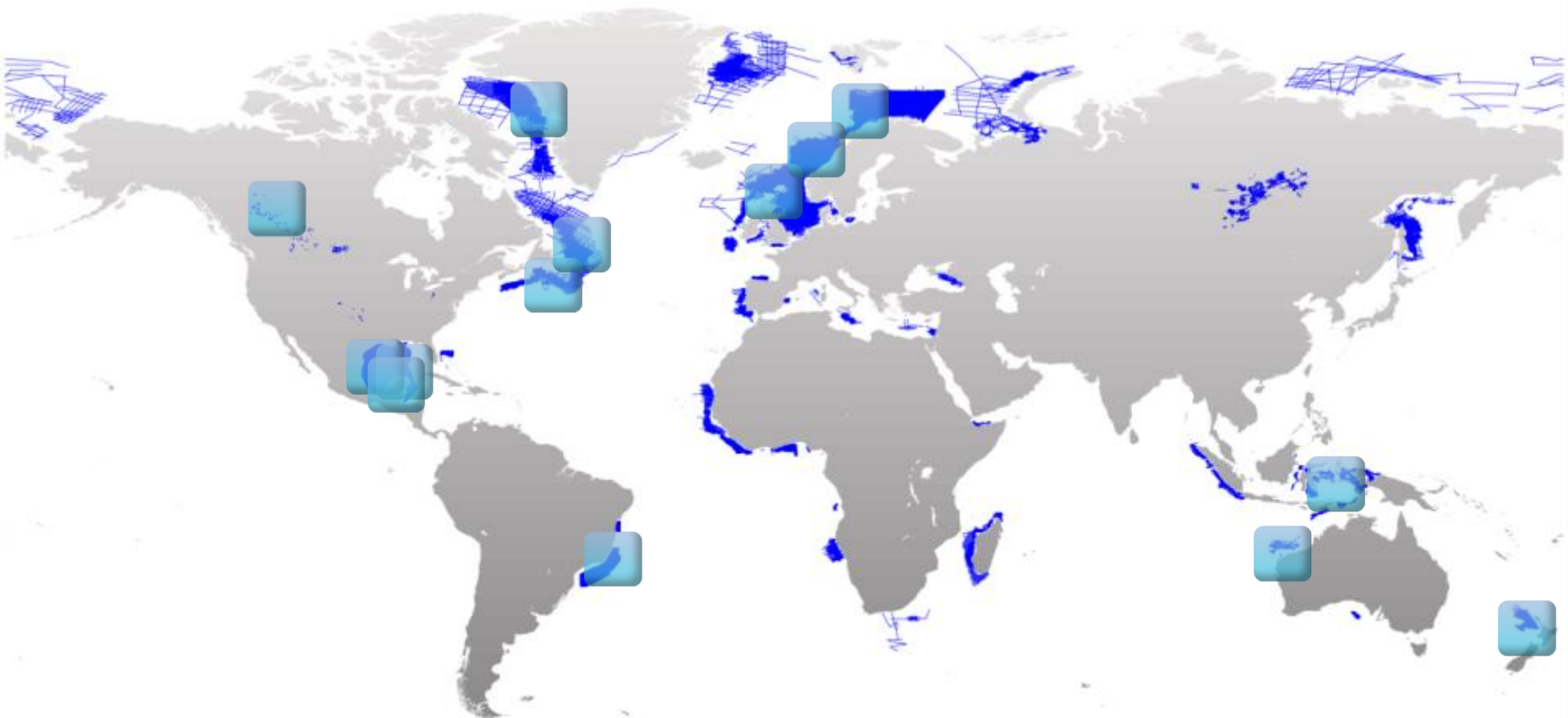
Source: SEB Research



Source: ABG Sundal Collier

- Second consecutive 20%+ decline in E&P spending expected this year
- Most initial E&P Spending surveys indicate a further decline in offshore spending in 2017
- Early sign of improvement – industry seismic late sales have recovered somewhat from the low in Q1 16
- Seismic demand likely to remain weak into 2017 with high volatility from quarter to quarter

# License Round Activity and TGS Positioning



## North & South America

- Central GOM – Mar 2017 (5-Year Plan)
- Central & Western GOM – Aug 2017 (2017-22 Plan)
- Newfoundland & Labrador – Nov 2016 (Scheduled Land Tenure)
- Nova Scotia – 27 Oct 2016 (3-Year Rolling Plan)
- Canada Onshore – at least monthly
- Brazil - 2H 2017
- Mexico – Round 1(L04) in Dec 2016, Round 2 announced for 2017, 2 more rounds proposed by 2019

## Africa, Middle East, Asia Pacific

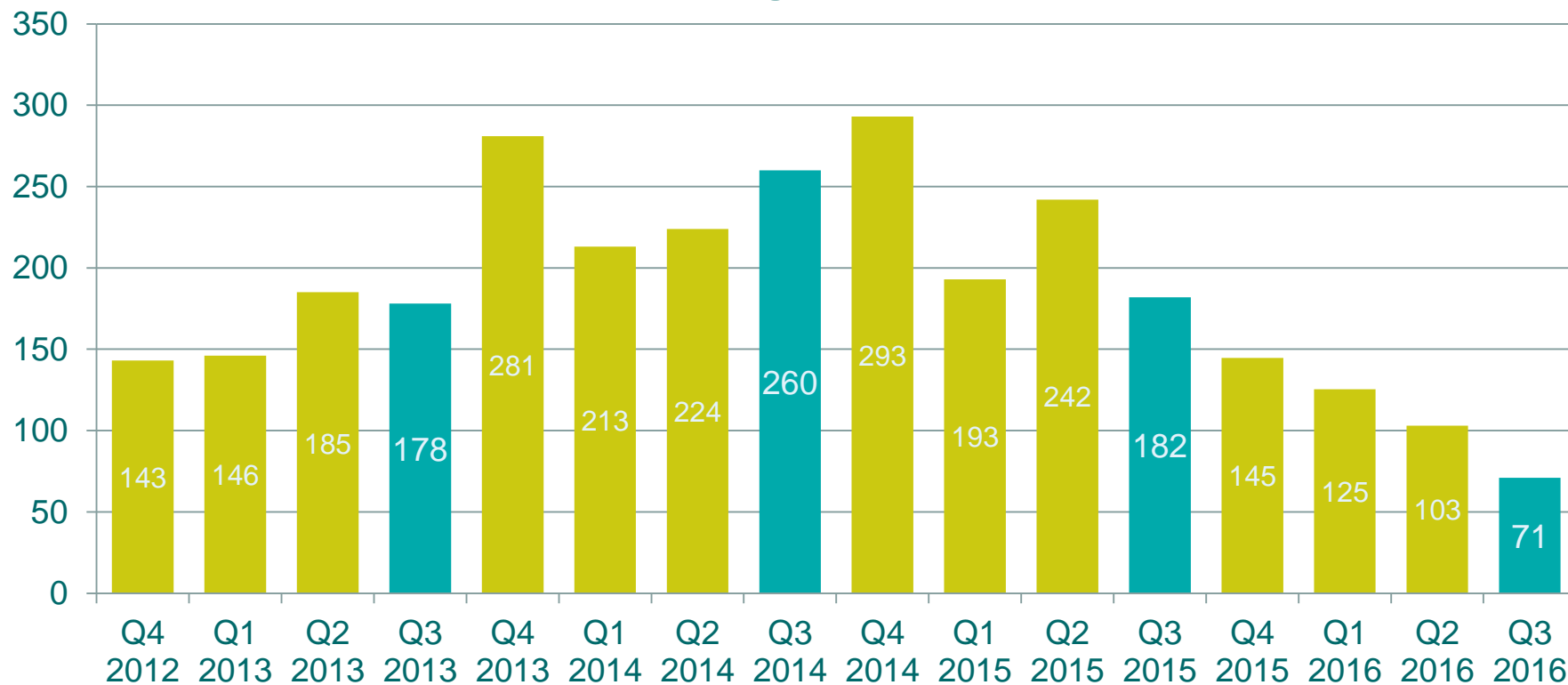
- Ongoing uncertainty on timing of African licensing rounds
- Australia – Dec 2016, Feb & Mar 2017 (bids due)
- New Zealand – Dec 2016 (awards expected)
- Indonesia – Direct proposal (bids closed Aug 2016); Regular tender (bids due Nov 2016)

## Europe / Russia

- Norway APA – Q1 2017 (block awards)
- Norway 24<sup>th</sup> Round – Nov 2016 (nominations due)
- UK 29<sup>th</sup> Round – 26 Oct 2016 (bids due)
- Greenland – Dec 2016, 2017, 2018 (bids due)

# Backlog

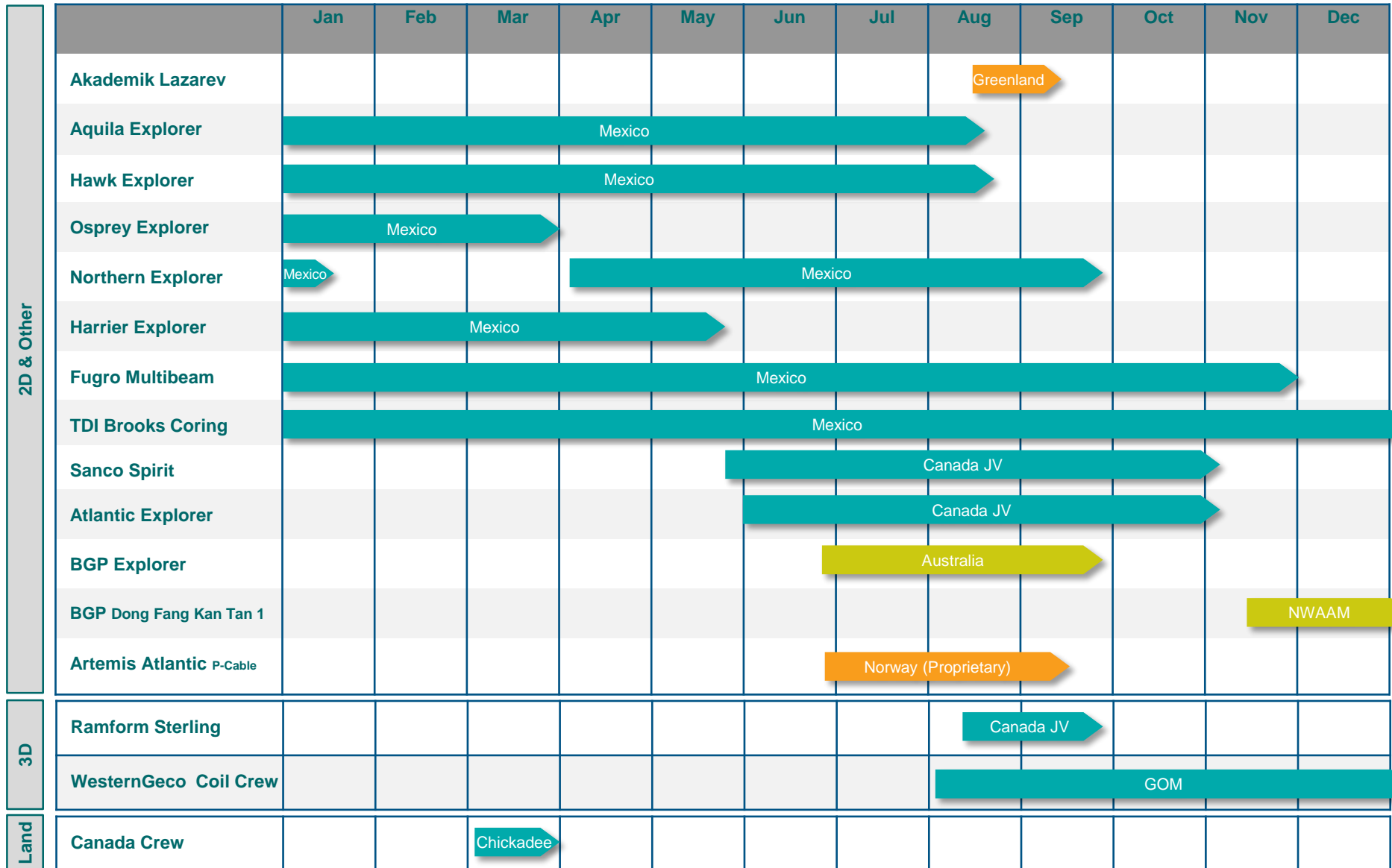
## Historical Backlog (MUSD) 2012 - 2016





# 2016 Projects Schedule

➔ NSA
 ➔ EUR
 ➔ AMEAP



# Summary

- Q3 net revenues of 113 MUSD
- Positive cash flow further strengthens balance sheet
- Cash balance of 173 MUSD in addition to undrawn 75 MUSD Revolving Credit Facility
- Quarterly dividend maintained at USD 0.15 per share
  
- Continued challenging market conditions, but early signs of improvements
- Long-term future of asset-light, focused multi-client business remains strong
  - Cost control, disciplined counter-cyclical investment and balance sheet strength positions TGS to enhance its leading position
  
- Updated 2016 guidance:
  - New operational multi-client investments of approximately 220 MUSD (down from 230 MUSD)
  - Additional multi-client investments expected from sales of existing surveys with risk sharing arrangements
  - Multi-client investments are expected to be prefunded 40% to 45%



**Thank you**

[www.tgs.com](http://www.tgs.com)

