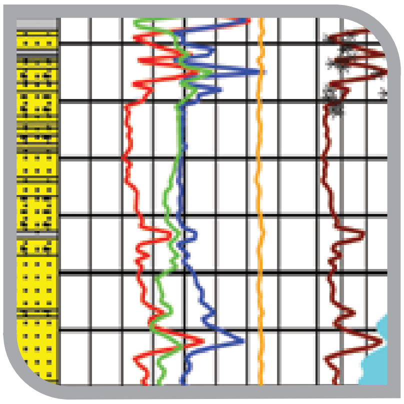

# 2011 Annual Report

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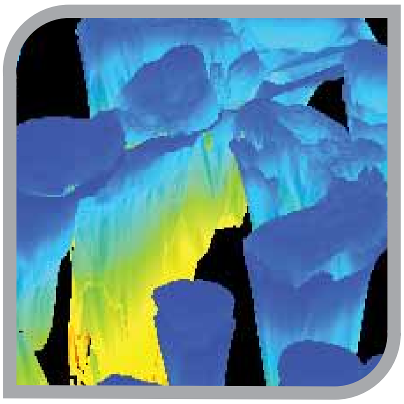
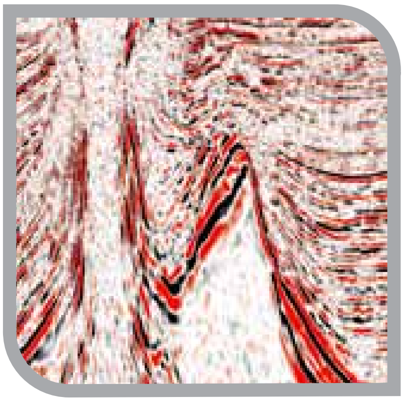
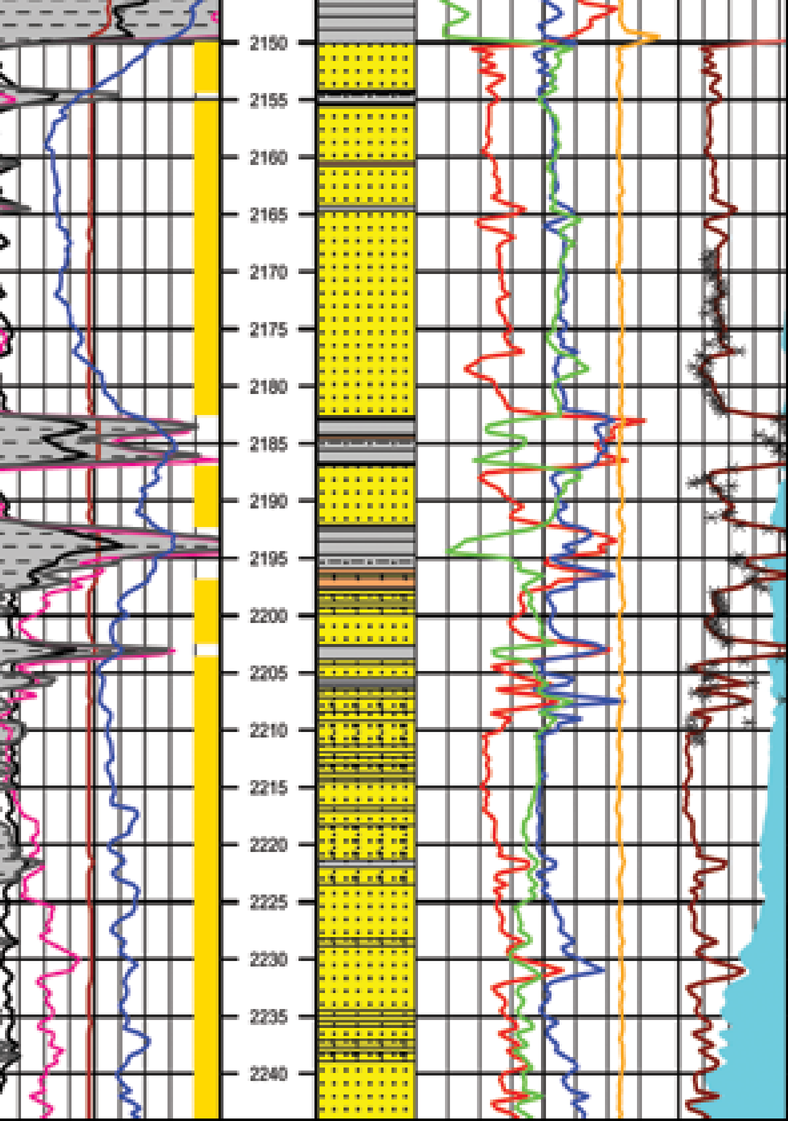




TGS

See the energy.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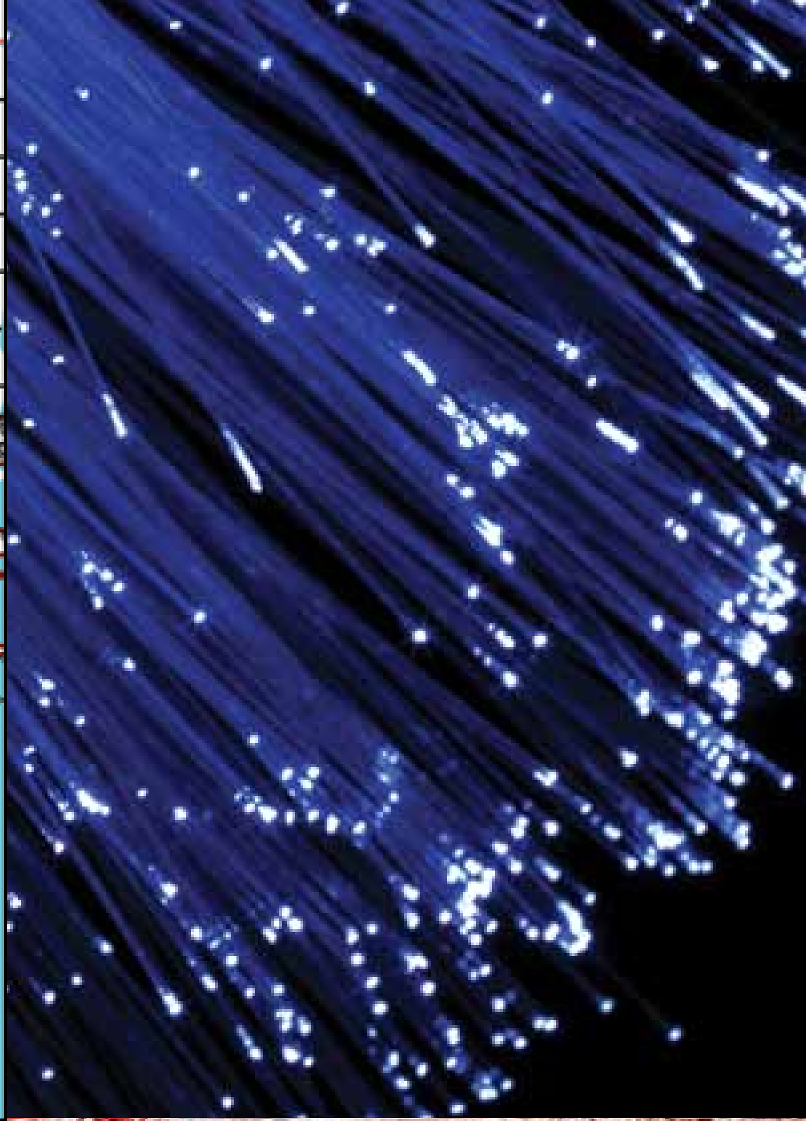
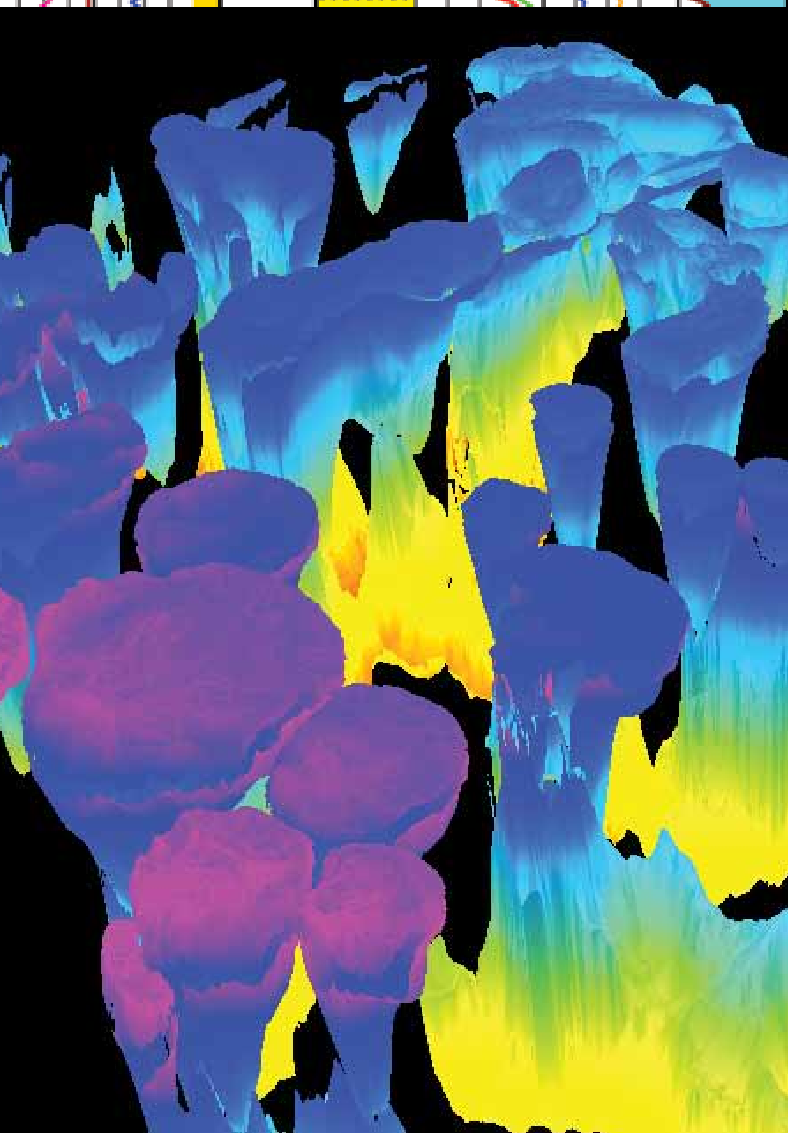
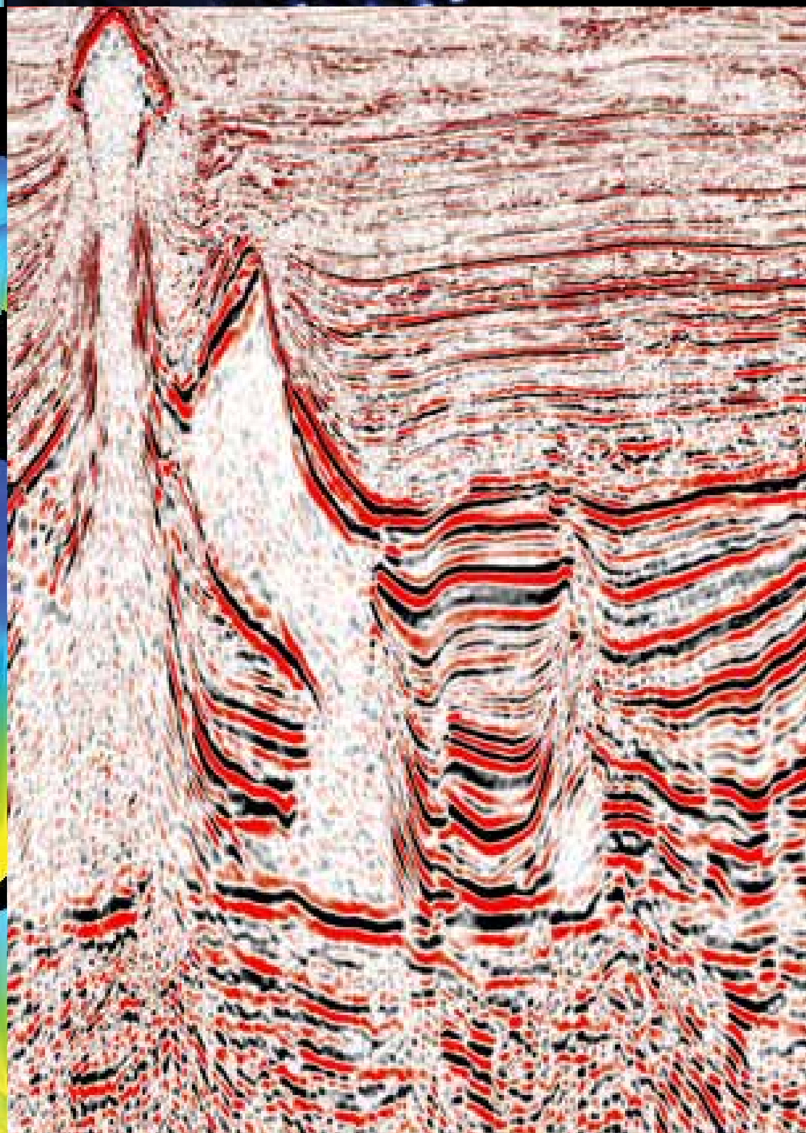

"TGS' employees focus their energy on two things that differentiate us: quality products and world class customer service."

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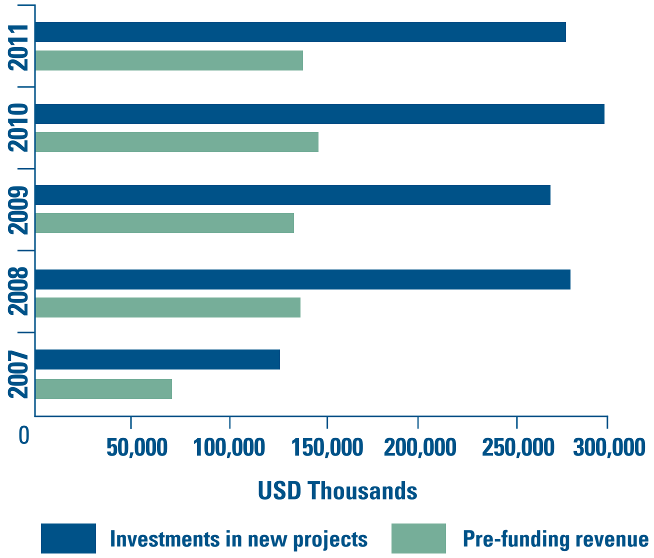
# FINANCIAL HIGHLIGHTS

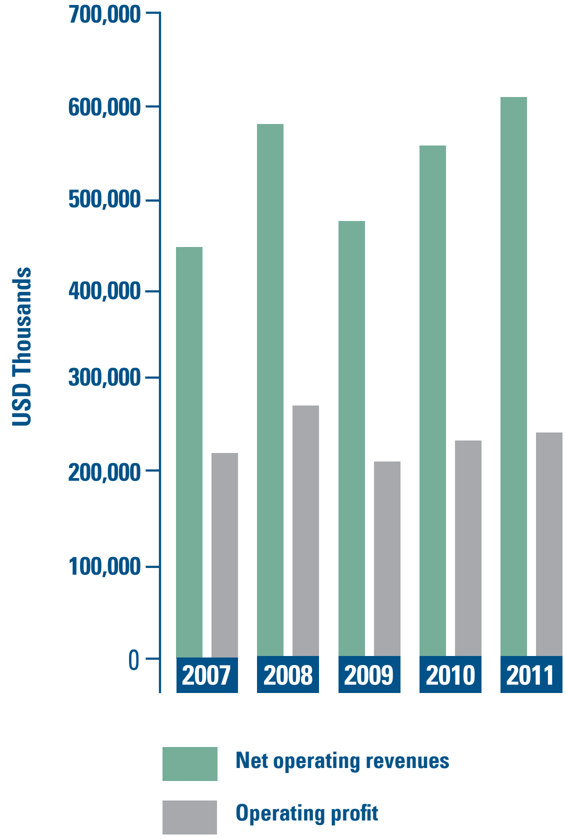
(All amounts in USD 1,000s apart from EPS, ratios and dividend per share)

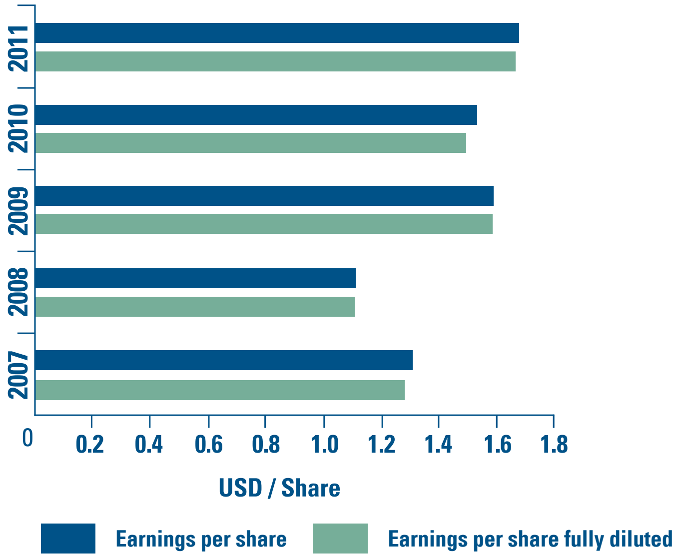
| | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|
| Net operating revenues | **608,568** | 568,263 | 477,695 | 582,431 | 452,754 |
| Operating profit | **240,402** | 227,108 | 210,229 | 268,981 | 221,951 |
| Pre-tax profit | **241,146** | 227,745 | 219,202 | 203,200 | 197,374 |
| Net income | **170,688** | 155,783 | 162,471 | 113,792 | 135,015 |
| EBIT | **240,402** | 227,108 | 210,229 | 268,981 | 221,951 |
| EBIT margin | **40%** | 40% | 44% | 46% | 49% |
| Net income margin | **28%** | 27% | 34% | 20% | 30% |
| Return on capital employed | **25%** | 26% | 27% | 41% | 39% |
| Earnings per share | **1.67** | 1.52 | 1.58 | 1.10 | 1.29 |
| Earnings per share fully diluted | **1.65** | 1.49 | 1.56 | 1.10 | 1.26 |
| Total assets | **1,333,182** | 1,216,916 | 1,144,278 | 954,317 | 852,640 |
| Shareholders equity | **973,021** | 908,771 | 839,856 | 661,063 | 567,833 |
| Equity ratio | **73%** | 75% | 73% | 69% | 67% |
| Share buy back | **30.0** | 31.9 | – | 15.0 | 65.9 |
| Dividend payout | **103.6*** | 93.4 | 64.7 | – | – |
| Dividend per share (NOK) | **6.00*** | 5.00 | 4.00 | – | – |

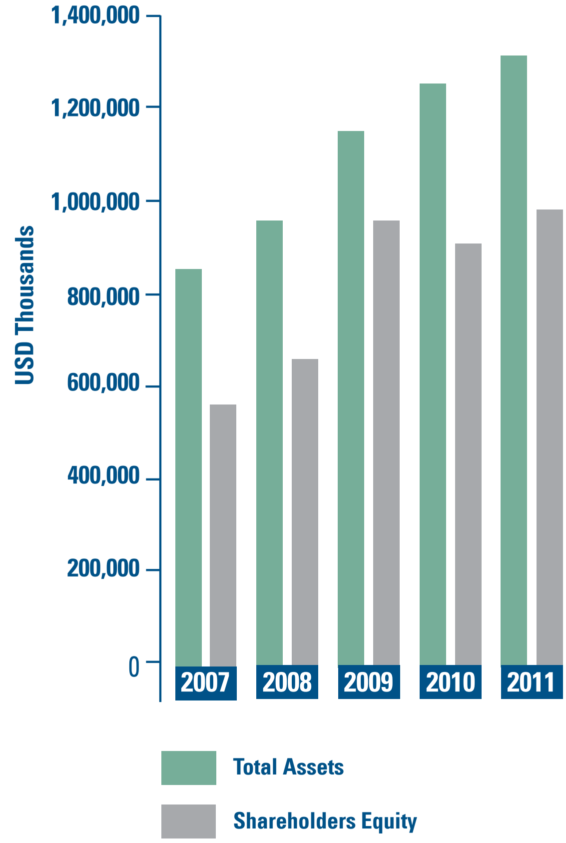
** 2011 reflects proposed dividend to the June 2012 Annual General Meeting*

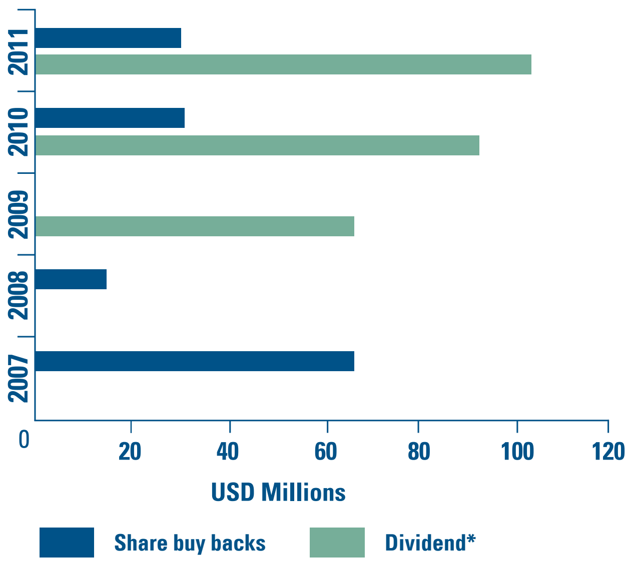
| **Multi-client Library** | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|
| Opening net book value | **475,698** | 424,282 | 334,998 | 217,363 | 195,572 |
| Multi-client data purchased from third parties | **–** | 4,000 | – | 1,100 | 1,640 |
| Investments in new projects | **276,942** | 295,300 | 265,980 | 285,861 | 136,344 |
| Amortization | **(241,509)** | (247,900) | (176,695) | (169,326) | (116,193) |
| Ending net book value | **511,131** | 475,698 | 424,282 | 334,998 | 217,363 |
| Pre-funding % on operational investments | **53%** | 55% | 47% | 50% | 63% |




** 2011 reflects proposed dividend to the June 2012 Annual General Meeting*

"Well planned projects and the application of new technology to multi-client products are critical to our success. Our ability to aid customers in their search for energy is the measure of that success."

# 2011 HIGHLIGHTS

## January

- TGS Signs Cooperation Agreement with DMNG in Arctic Region

## March

- TGS Expands Multi-client 3D Seismic Library Offshore Indonesia
- TGS Announces Major Offshore Faroe 2D Reprocessing
- TGS Commences Extensive 2D Reprocessing Project in Northern Makassar Strait, Indonesia

## April

- TGS Acquires Stingray Geophysical Ltd. to Establish Strong Position in the Permanent Reservoir Monitoring Market

## May

- TGS Expands 2D Multi-client Seismic Data Library in Northwest Europe with Three Surveys
- TGS Expands 3D Multi-client Seismic Data Coverage in the Moray Firth

## June

- TGS Announces 7th Airborne Survey of Gravity, Magnetics and Oil Seep Data in Greenland
- TGS Announces a New 3D Multi-client Seismic Survey in the North Viking Graben
- TGS Signs Agreement with Dolphin for Joint 2D Multi-client Survey in Northwest Africa

## July

- TGS Announces a New 3D Multi-client Survey in Northern North Sea
- TGS Announces New 2D Survey in Laptev and East Siberian Seas

## August

- TGS Announces New Multi-client 3D Survey in the Faroe-Shetland Basin

## September

- TGS Awards Seismic Contract for 3D Survey in Utica Shale
- TGS Announces New Multi-client 2D Survey in Northeast Greenland
- TGS Announces New Multi-client 2D Survey in Labrador Sea
- TGS Announces New Multi-client 2D Seismic Survey in Namibia
- TGS Announces Expansion of 2D Multi-client Seismic Data in Eastern Indonesia
- TGS Announces Second Expansion of 3D Multi-client Seismic Data Library in Sierra Leone

## October

- TGS Commences a Third Multi-client 3D Survey in Barents Sea in 2011

## December

- TGS Commences Multi-client 3D Wide Azimuth Survey in Gulf of Mexico
- TGS Commences a Second 3D Multi-client Seismic Survey Offshore Northwest Australia

# LETTER TO SHAREHOLDERS

2011 marked another year of strong and consistent growth for TGS. Our employees continued their focus on developing new multi-client products and technologies that are critical to our customer's goals of finding new sources of energy. The year represented a continued period of increased interest in our products and services since the financial crisis of 2008-2009.

TGS reached a key milestone in the development of new multi-client markets. In September, the Company announced a new 3D survey located onshore United States in the eastern portion of the state of Ohio. This survey, the first onshore 3D survey for TGS, is being acquired in the Utica oil shale play. Our customers are indicating growing interest in utilizing seismic technology to better understand the resource plays of the US. TGS is committed to supplying industry with state-of-the-art multi-client data in this new play by leveraging the same asset-light business model that has made the Company so successful in marine plays.

TGS continued to identify attractive opportunities in which to invest, spending USD 277 million. Our revenues of USD 609 million represented an increase of 7% over the previous year and were capped by the strongest quarter ever in the history of the Company from October to December. The Company continued to deliver profitable growth for our shareholders with an operating profit of USD 240 million, up 6% from the previous year. Shareholder equity grew 7% to USD 973 million, representing 73% of total assets. TGS delivered outstanding operating cash flow of USD 487 million in 2011, an increase of 19% from 2010.

Our Board proposed and the shareholders approved a dividend of NOK 5 per share, NOK 3 as a regular dividend and NOK 2 as a non-recurring dividend. The Company also repurchased USD 30 million of its shares for the treasury. At year end, cash and cash equivalents had increased to USD 336 million.

Our Board has announced that at the 2012 Annual General Meeting, it will propose an increased dividend of NOK 6 per share. The Board has also instructed our management to continue a share buyback program in 2011. These moves indicate the Company's confidence in the ability of its business to generate sustained strong cash flow through all cycles.

In 2011, TGS also diversified into the 4D geophysical market with the acquisition of Stingray Geophysical Ltd. We are thrilled with the addition of the Stingray team to the TGS family and the exciting and unique Permanent Reservoir Monitoring technology that this team has developed. This product, the utilization of a network of fiber-optic receivers permanently implanted on the seabed, holds the promise of playing an important role in the significant enhancement of hydrocarbon recovery in oil and gas reservoirs.

TGS returned to the deep water Gulf of Mexico with a new survey in December 2011. This was a milestone since it was TGS' first new Gulf of Mexico project, as well as one of industry's first, since the Macondo incident in April of 2010. The Patriot survey, TGS' latest wide azimuth (WAZ) project in the prolific Central Planning area of the Gulf of Mexico, is unique in that it combines previously acquired WAZ data with new data acquisition. The resulting project has a more complete azimuthal range of information, providing increased value for customers looking to better image the complex subsalt plays of the Gulf of Mexico. It was gratifying to see significant customer interest in this new product and indicates that exploration activity continues to recover in the Gulf of Mexico. A testament to the quality of TGS' investments in the Central Gulf of Mexico was the continued late sales activity throughout 2011 despite the lack of a license round in this core area for TGS.

In Europe, the Company continued to invest in 3D multi-client projects located in the Norwegian Barents Sea and the Norwegian and UK sectors of the North Sea. We are enthusiastic about the Company's work offshore Norway and expect that our data investments of 2011 will play an important role in the Norwegian 22nd Exploration round in 2012. TGS was also very successful in acquiring extensive 2D data sets in the operationally difficult environments off the Northeast coast of Greenland and in the Laptev and East Siberian Seas of Russia. Industry continues to believe in the long-term prospect of significant energy reserves in the Arctic and we are perfectly positioned to be a leading geoscience data provider to companies interested in these plays. During 2011 we conducted our most active European campaign ever for new seismic acquisition and we anticipate continued growth in Europe.

TGS significantly grew its 3D seismic data library in the Asia Pacific region with the completion of a 3D project in the Tarakan Basin of Indonesia that started in late 2010. This survey, combined with another Tarakan survey announced in early 2011 give the Company a solid position with over 3,500 $km^2$ of modern 3D seismic data in this prolific region. We were also particularly pleased to announce a new 3D project on the Northwest shelf of Australia. This data set is designed to enable customers to expand exploration in the growing gas plays of the Northwest Shelf which has been the location of a number of giant gas discoveries.

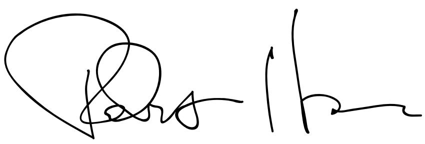
TGS' investment in the African Transform Margin continued in 2011 with the acquisition of over 4,000 $km^2$ of 3D seismic offshore Benin and over 1,000 $km^2$ offshore Sierra Leone. TGS is the largest multi-client data owner in this attractive play and customers reported important exploration successes in the basin, reinforcing our belief in the potential of the area.

TGS continued to expand its library of LAS well logs with the addition of 175,000 wells during 2011. This data is highly valued by our customers that are active in the resource plays of the onshore US. Exploration and production in these basins require highly sophisticated petrophysics and TGS has firmly established itself as a provider of quality well log data to enable this work.

Our future is bright and our energy is focused towards assisting our customers in reducing their operational and geological risk in the search for new hydrocarbon reserves. Our expectations reflect these market conditions and this goal. In 2012 we expect to increase our revenues to between USD 700 million and USD 760 million. We anticipate that our investments will be between USD 315 million and USD 365 million. Our 2012 investment plan will carry average pre-funding levels between 50% and 60% and an average amortization rate between 41% and 47%. Contract revenues are likely to continue to be approximately 5% of total revenues. The Company has high visibility on our 2012 investment plan backed by a record backlog of USD 211 million reported at the end of 2011.

TGS' success is largely due to the unmatched energy of our employees and continued dedication to developing and marketing new geoscience data products. Our employees are truly unique to the industry and their expertise is demonstrated in the unmatched data quality, service and profitability that TGS is known for.

Sincerely,



Robert Hobbs
Chief Executive Officer

# THIS IS TGS

TGS is a registered company in Norway and is publicly traded on the Oslo Stock Exchange under the symbol TGS with financial headquarters in Asker, Norway. The Company is led by CEO Robert Hobbs and has employees based in cities around the globe. Main offices are located in Asker, Stavanger, Houston, London and Perth.

TGS provides multi-client geoscience data and services to oil and gas Exploration and Production companies around the globe. TGS' geophysical and geological data products include multi-client seismic libraries, permanent reservoir monitoring, magnetic and gravity data, the industry's largest global database of digital well logs and regional interpretive products. TGS also provides high-end depth imaging services to help resolve complex seismic imaging problems.

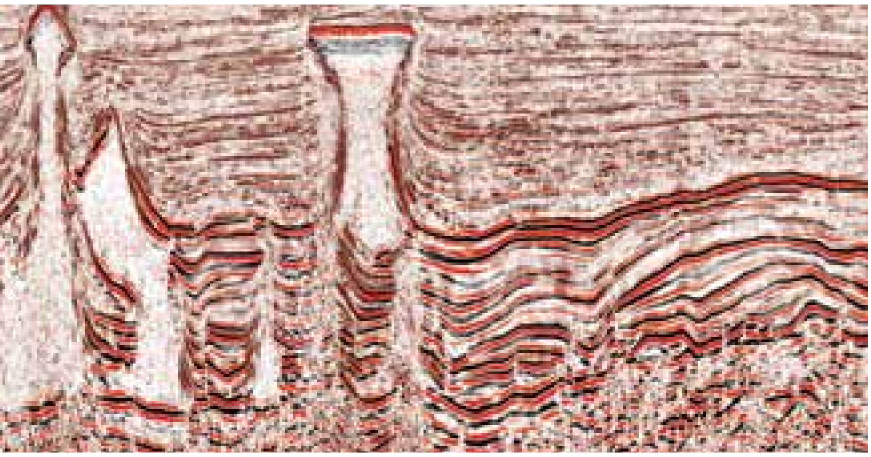
## TGS and NOPEC Yesterday

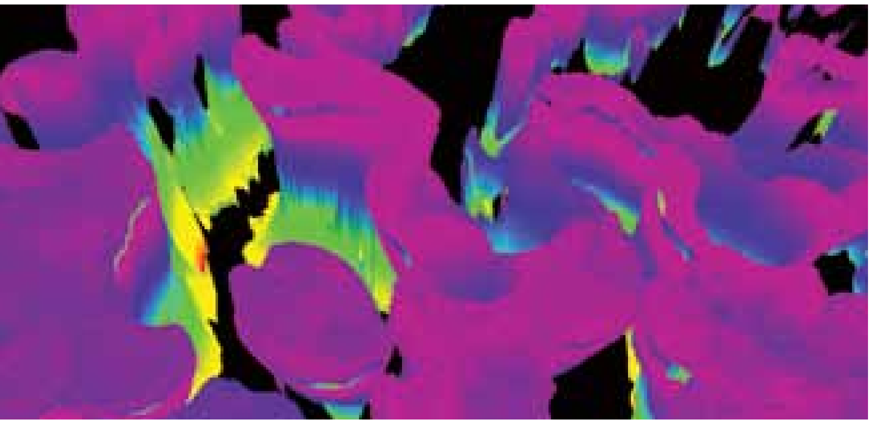
Former US oil company executives organized TGS Geophysical Company in 1981 in Houston, Texas and built what became the dominant 2D multi-client data library in the Gulf of Mexico. The Company later expanded into additional North American and West African markets while also establishing a significant 3D portfolio in the Gulf of Mexico.

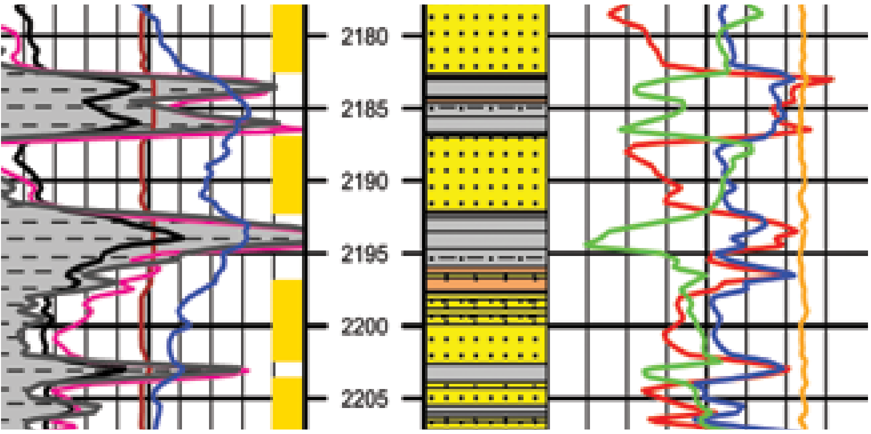
Former Norwegian oil company executives organized NOPEC International (NOPEC) in 1981 in Oslo, Norway and started the first of many highly successful multi-client surveys with a Central Graben regional project in the North Sea. While growing its industry-leading North Sea multi-client 2D database, NOPEC established operations in Australia and the Far East. In 1997 NOPEC became publicly traded on the Oslo Stock Exchange.

## TGS in Transition

Recognizing a need for high quality, regional, multi-client seismic surveys and a win-win opportunity for investors, customers and employees, the Houston and Oslo-based companies merged in June 1998, forming TGS-NOPEC Geophysical Company (TGS). Since that time, TGS has set the standard for multi-client geoscientific data acquired around the world. TGS has a firm commitment to high quality products and exemplary customer service. A staff of experienced professionals ensures TGS delivers on its commitments.








TGS products and services have thrived in both high and low economic cycles of the oil industry. While most of the Company's growth can be attributed to its organic seismic business, TGS has also grown by mergers and acquisitions within recent years.

## Products and Global Experience

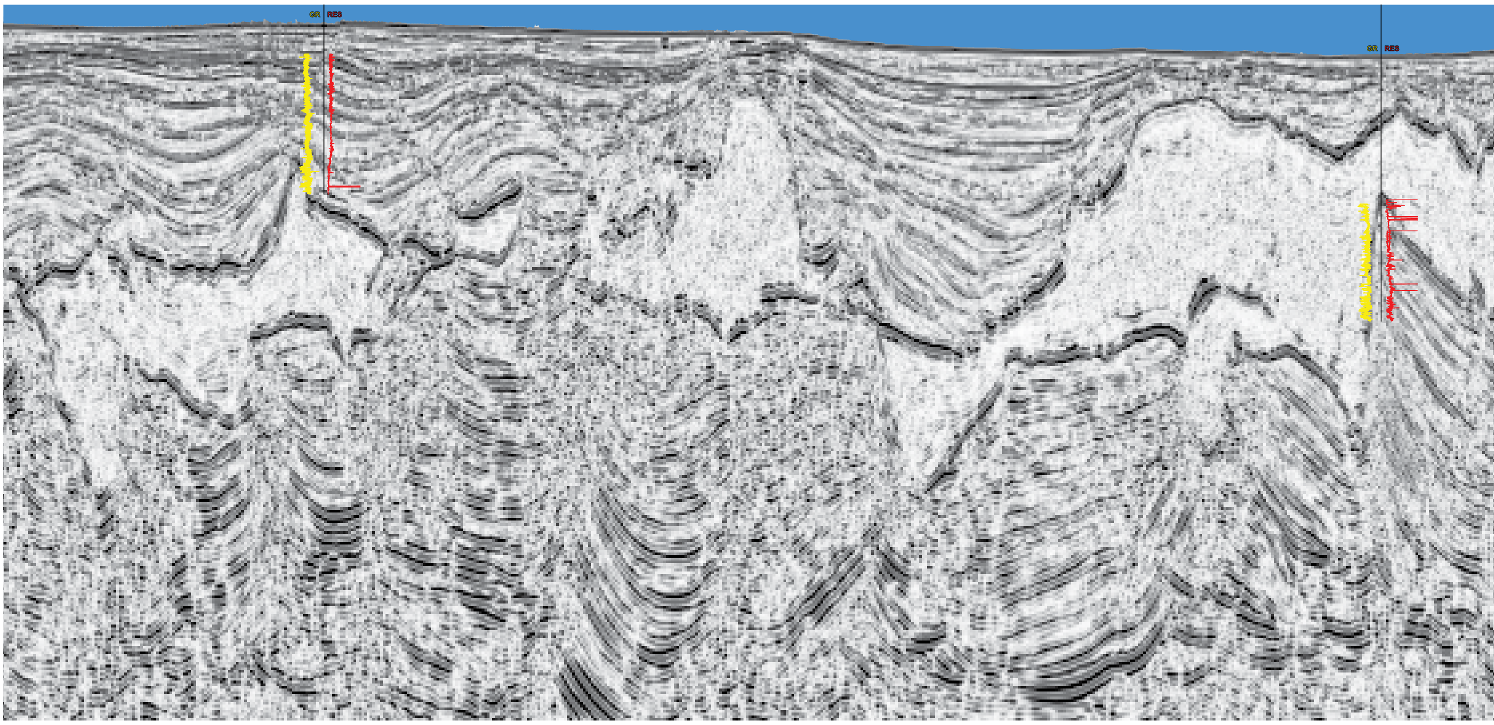
TGS has acquired 2D and 3D multi-client seismic data in North and South America, Europe, Africa, Asia, Australia and the Arctic. There is also a database of marine gravity, magnetic and aeromagnetic data. All multi-client data can be viewed through the data zone map on the Company's website. Data from marine, land, ocean bottom cable, transition zone and wide azimuth acquisition methods are processed by the Imaging Services group, who specialize in 2D and 3D data with products and services including time, depth and anisotropic imaging. TGS has the industry's largest collection of online well data in areas within North America, South America, Europe, Russia and Africa.

TGS offers interpretation studies and services that integrate seismic, well logs, biostratigraphic data, core data and other geoscientific data to create basin-wide regional frameworks. TGS' geoscientists are also available for contract consulting work in geology, geophysics and petrophysics.

TGS provides reliable Permanent Reservoir Monitoring (PRM) solutions to the global oil and gas industry, enabling increased production and recovery at lower cost and risk over the life of a field through improved reservoir management strategies. Together with its global network of trusted partners, TGS is able to provide complete, integrated seismic PRM from planning through to processing and reservoir solutions.

## Values

The Company is responsible to its customers through the quality products and exemplary service that differentiates TGS from its competitors. Honesty, integrity and fairness form the cornerstones of the Company's relationships. TGS is responsible to the communities and environment in which its employees live and work. Finally, TGS is responsible to its shareholders and believes that the business must make a profit. Growth is fundamental to TGS' success.



# TGS 2011 CORE PRODUCT LINES

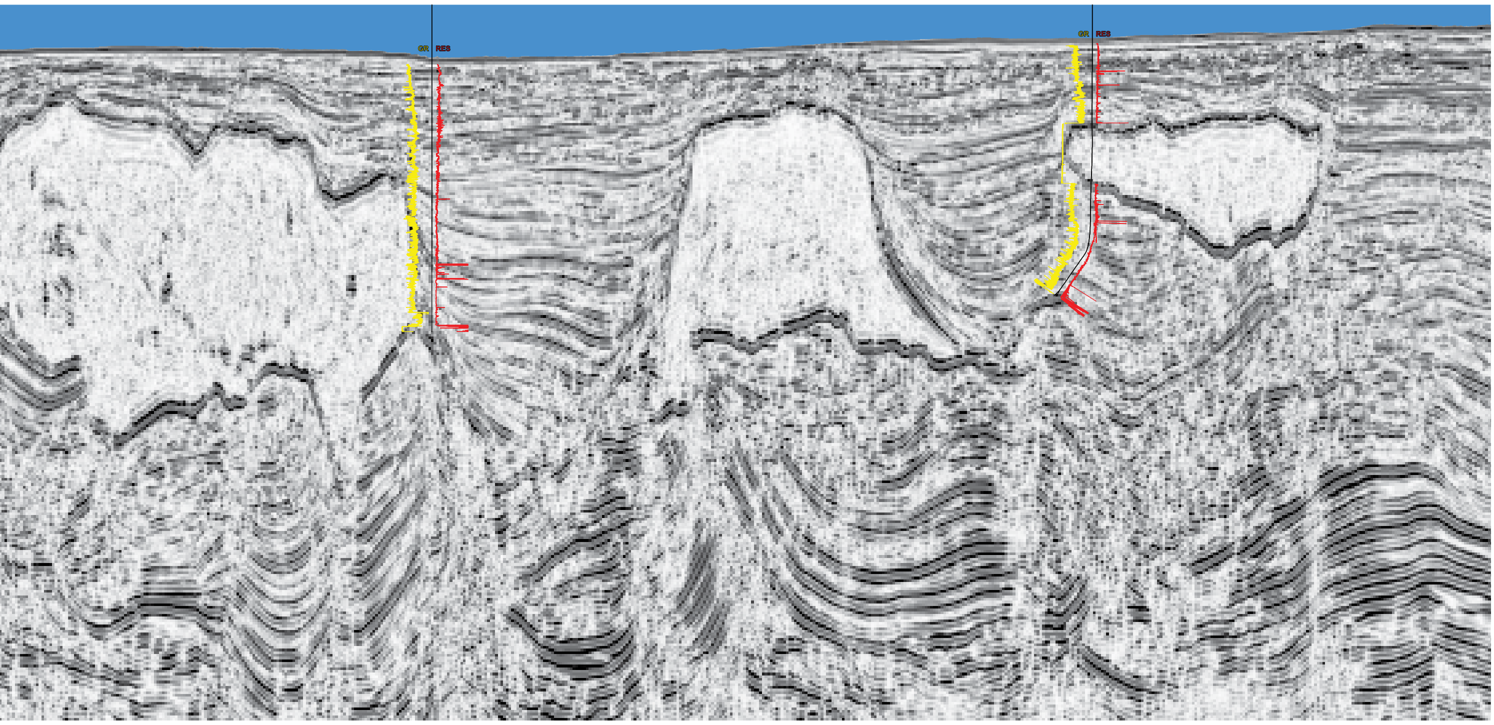
TGS is comprised of four core product lines which provide valuable data and resources to the exploration and production efforts of its customers. The four product lines are multi-client geophysical data, multi-client geological data, imaging services and reservoir solutions.

## Geophysical Multi-client Data

There are many products in TGS' multi-client geophysical library. In addition to seismic data, TGS also licenses gravity, magnetics, seep, geothermal core data, controlled source electro-magnetic and multi-beam data around the world. The geophysical data library generates approximately 85% of the revenues of TGS and is organized into regions of the world. These regions include North and South America, Europe and Russia, Africa, Middle East and Asia Pacific. In 2011 each of these regions had significant activity in both new project development and late sale activity.

The Europe and Russia region experienced the strongest season for new project development in the Company's history. In the UK North Sea TGS began three 3D seismic surveys covering portions of the Faroe Shetland Basin, North Viking Graben and the Moray Firth. The combination of these three projects totaled over 7,500 km$^2$. TGS also continued its commitment to 3D data in the Norwegian Barents Sea with the addition of three new 3D programs of which two of them expanded on previous TGS data coverage in the Hoop Fault complex, now covering more than 7,500 km$^2$. The third 3D program in the Barents Sea was acquired as a 1,055 km$^2$ nonlinear 3D program along the Nordkapp Platform Margin.

In addition to the strong 3D performance, TGS continued to build on its successful regional long offset program in NW Europe. The 2011 season added approximately 30,000 km of new 2D data over portions of the North Sea, Mid Norway and the Norwegian Barents Sea. The regional long offset program now totals over 285,000 km. Lastly, TGS maintained its focus on expanding in the frontier Arctic regions with additional 2D data acquired in



the Russian Laptev and East Siberian seas as well as expanding existing coverage of seismic data in Northeast Greenland and gravity and magnetic data in Southeast Greenland.

The Africa, Middle East and Asia Pacific business unit experienced a year of significant growth into new markets and expansion of their core areas. TGS began a 25,000 km 2D project covering multiple countries offshore areas along the Northwest coast of Africa. TGS also commenced a 15,000 km program offshore Namibia which expands TGS' 2D data offering in the area. These programs are part of the ongoing effort to expand TGS' regional 2D coverage in Africa. In 2011, TGS continued its 10 year commitment to multi-client data in the offshore area of Sierra Leone with two new 3D programs. With the addition of these 2011 programs, the TGS 3D coverage exceeds 6,300 $km^2$.

In Asia Pacific, TGS continued to expand on its dominant position in Indonesia with additional 2D coverage in the Makassar Straights and Eastern Indonesia. In addition, TGS completed its second 3D project in Indonesia. The Company also re-entered the Australian multi-client market in 2011 with two large programs over the outer Exmouth Plateau in the Carnarvon Basin of Northwest Australia. These two programs add more than 13,000 $km^2$ of 3D data to the TGS library.

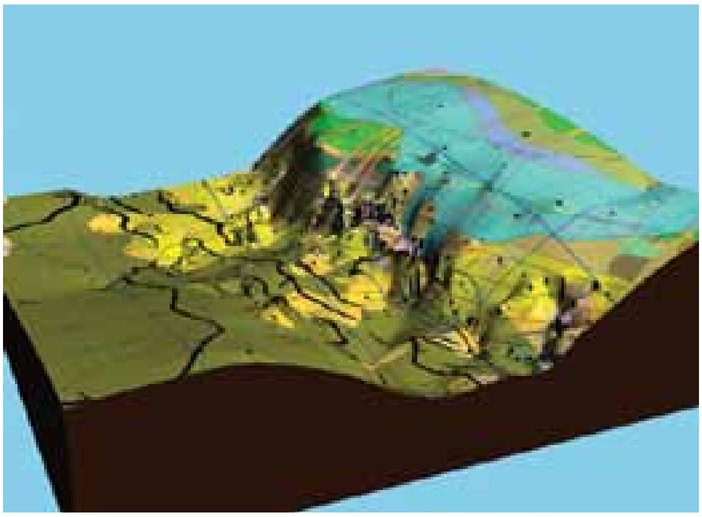
The North and South America region continued to deal with the uncertainty surrounding seismic permitting and lease sales in the Gulf of Mexico. Although library sales were surprisingly resilient, the delay in permitting caused an interruption in the TGS investment plan for the Gulf of Mexico. Eventually TGS received a long awaited permit in September 2011 and was able to resume its investment in multi-client wide azimuth (WAZ) data in December 2011. This newest project, Patriot WAZ 3D, provides an added value to the existing TGS WAZ library in the Gulf of Mexico and will be processed with the underlying WAZ coverage in the area to provide a further level of clarity to the subsurface. During 2011 the North and South America business unit announced its first onshore United States multi-client 3D program in the Utica Shale play of Northeast Ohio. The demand for onshore 3D data to improve the understanding of the unconventional plays has been growing and TGS is pleased to be part of meeting this demand. In addition to entering the US onshore market, TGS also re-entered Canada with a 2D program offshore Newfoundland in the Labrador Sea. This new project ties the existing TGS coverage in Labrador as well as across the border into Western Greenland and helps to complete the understanding of this important frontier Arctic region. TGS will return in 2012 to complete the project.

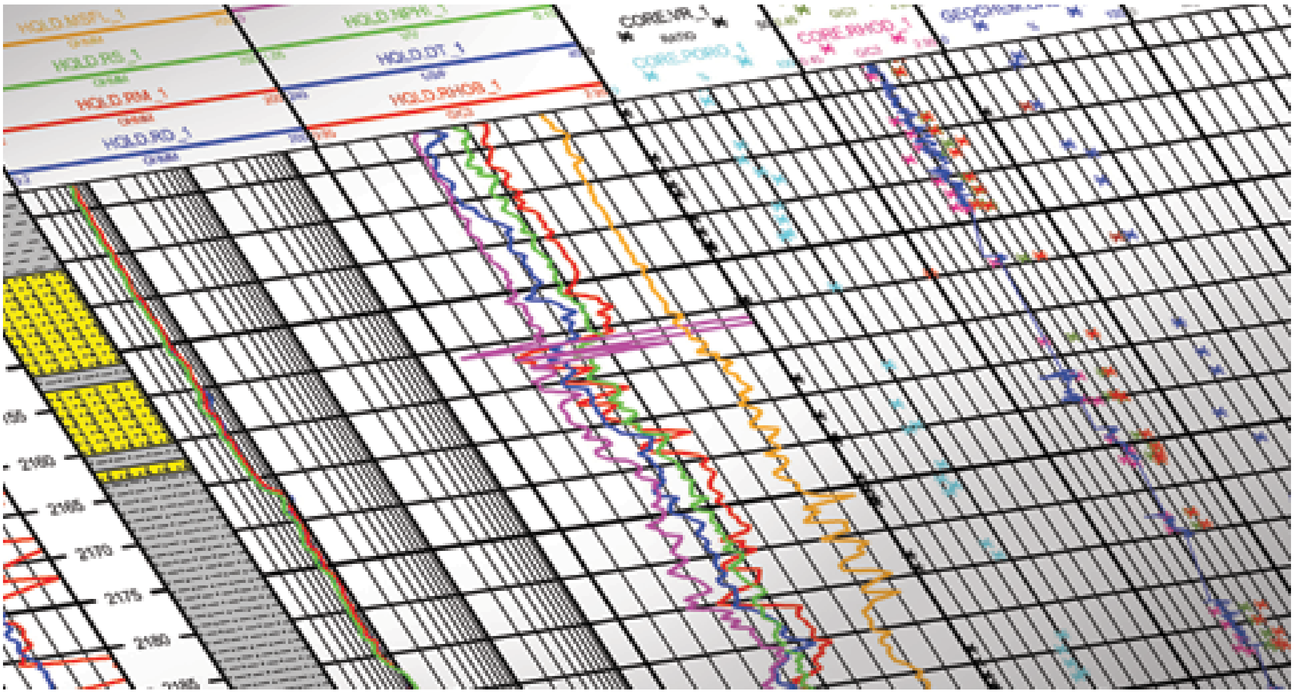
## Geological Multi-client Data

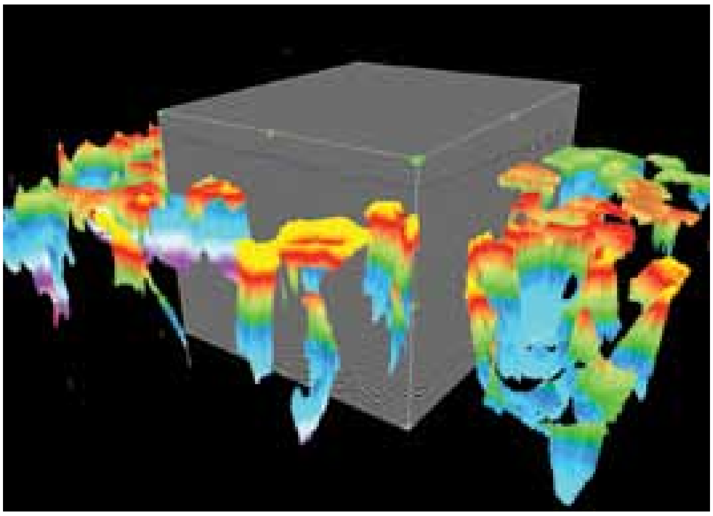
The Geologic Division of TGS is composed of a series of well data products, interpretive studies and services that are licensed or used by oil companies to aid in the search for hydrocarbons. TGS offers the industry's largest collection of digital well logs, available online via LOG-LINE Plus!®. TGS' well data library has expanded to include nationwide US production data, directional surveys and a custom well file database.

The well data group was successful at adding 175,846 new Log Ascii Standard (LAS) well logs to the data library in 2011 which further solidifies the dominant position as the largest provider of well data in North America. In addition, TGS provides a variety of well data products in 32 countries around the world.

TGS also offers interpretation studies and services that integrate seismic, well logs, biostratigraphic data, core data and other geo-scientific data to create basin-wide regional frameworks that are supported by a dynamic visualization tool, Facies Map Browser (FMB). TGS geoscientists are also available for contract consulting work in geology, geophysics and petrophysics. The Geologic Division of TGS completed new basin studies in Western Australia, Brazil, onshore United States and Northwest Europe during 2011.

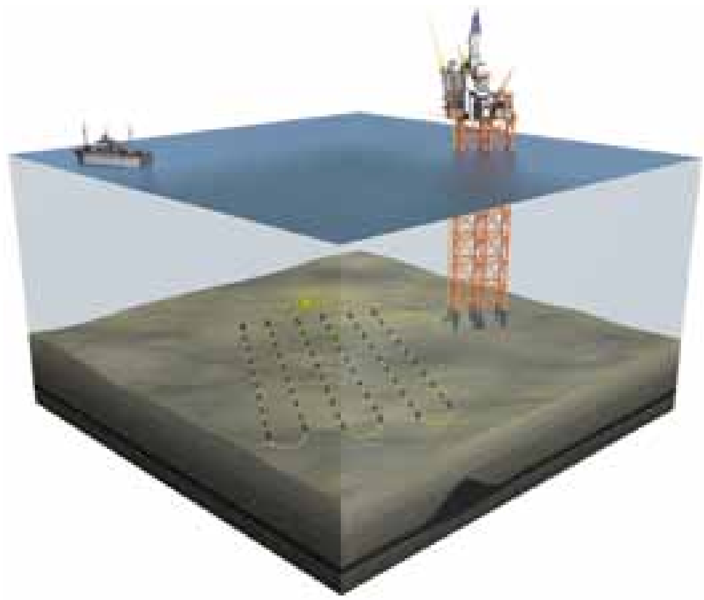






## Imaging Services

The TGS Imaging Services group has developed proprietary technology, expertise and resources to meet the highest geophysical processing objectives required by major oil companies. TGS provides processing solutions directly to customers on a contract basis as well as processing the vast TGS data library around the world. TGS' research and development professionals are continually developing new technology and workflows, as well as enhancing technology already in production. TGS processes both 2D and 3D data, with products and services which include depth and time imaging, marine, land, ocean bottom cable and nodes (OBC & OBN), transition zone processing, WAZ data processing and anisotropic imaging (Vertical Transverse Isotropic and Tilted Transverse Isotropic) utilizing TGS' well log database. In 2011, the Imaging team processed a high volume of WAZ and 3D data for the TGS library as well as on a contract basis. The Imaging Services division grew its processing capacity in Houston and Europe and opened a new processing center in Perth, Australia.



## Reservoir Solutions

TGS acquired Stingray Geophysical in April 2011, expanding its offering into production services.

Stingray provides advanced Permanent Reservoir Monitoring (PRM) solutions enabling increased production and reserves at lower cost and risk over the life of a field through improved reservoir management strategies. Stingray's PRM system uses highly reliable passive fiber-optic sensors providing operators high quality, cost-effective and repeatable seismic on demand in all field scenarios including well zones, deep water and obstructed areas.

Fiber-optic PRM is a rapidly developing market and TGS is encouraged by the client interest and interaction in 2011 for this new offering. As this market matures, TGS will offer integrated seismic PRM solutions from planning through processing, benefitting oil companies in their drive to increase recovery factors from their existing and new fields.

From back left to front right:
John A. Adamick, Zhiming Li, Kjell E. Trommestad
Martin Bett, Bryan Dempsey, Knut Agersborg
Genevieve Erneta, Karen El-Tawil, Stein Ove Isaksen
Robert Hobbs, Kristian Johansen, Rod Starr

### Robert Hobbs – *Chief Executive Officer*

Robert joined TGS in 2008 as Chief Operating Officer and became Chief Executive Officer in 2009. Prior to joining TGS, Robert was Manager, Worldwide Geoscience with Marathon Oil Company. Earlier in his career, Robert spent nine years with Veritas DGC, Inc. in a wide range of roles including President and Managing Director of the company's wholly owned UK subsidiary, where he was responsible for all product lines in the Europe, Africa, Middle East and former Soviet Union regions. He also worked ten years as both a geologist and a geophysicist with ARCO Oil and Gas, Exxon and Union Texas Petroleum. He holds a B.S. degree in Geology from Baylor University and an M.S. degree in Geological Science from the University of Southern California.

### Kristian Johansen – *Chief Financial Officer*

Kristian joined TGS in 2010 as Chief Financial Officer. Prior to joining TGS, Kristian was the Executive Vice President and CFO of EDB Business Partner in Oslo, one of the largest IT groups in the Nordic region. He also has experience in the construction, banking and oil industries. A native of Norway, Kristian earned his undergraduate and Master's degrees in business administration from the University of New Mexico in 1998 and 1999.

### John A. Adamick – *Senior VP Geological Products & Services*

John joined TGS in 1986 and has served the Company in a variety of capacities including Vice President, Business Development before being appointed Senior Vice President Geological Products & Services in 2008. John received a B.S. degree in Geology from Texas A&M University in 1983 and an M.S. degree in Geology from Stephen F. Austin in 1987. He also attended and completed Harvard University's Executive M.B.A. program in 1995.

### Knut Agersborg – *VP Global Services*

Knut joined TGS in 2005 as Manager of Operations. In December 2008, he was appointed Vice President Global Services. Knut has more than 29 years of industry experience including 22 years with Schlumberger/WesternGeco where he held senior managerial positions in Operations and Human Resources in Europe and North America.. Knut graduated from Narvik University College in 1979 with a degree in Electronic Engineering.

### Martin Bett – *Senior VP Reservoir Solutions*

Martin joined TGS in 2011 and has over 30 years of experience in the oil industry working in operational and management positions for Schlumberger, Landmark, I-NET, Trade-Ranger and QinetiQ. He has established and grown businesses in Europe, US, South America and Africa, and has a track record for closing large transactions for new and pioneering products and services. He has a BSc in Geophysics from Southampton University, UK, and an M.B.A. with Distinction from the International Institute for Management Development (IMD), Lausanne, Switzerland.

### Bryan Dempsey – *VP General Counsel*

Bryan joined TGS in 2002 and has been practicing law for more than 15 years. He is licensed in both Texas and Colorado. Previously, Bryan served as legal counsel to AT&T Broadband, BEA Systems and Convergent Communications. Bryan earned a Bachelor's degree in History from Trinity University and a Juris Doctorate degree from the University of Denver.

### Karen El-Tawil – *VP Business Development*

Karen joined TGS in 1997 and has 29 years of experience in the seismic service industry. She is currently responsible for Investor Relations, Corporate Marketing, and Mergers and Acquisitions. Previously, Karen served as Vice President North and South America Sales. She previously worked at both Western Geophysical and Schlumberger. Karen earned a Bachelor's degree in Earth Science and Mathematics from Adrian College in 1983.

### Genevieve Erneta – *VP Human Resources*

Genie joined TGS in 2008 as VP of Human Resources. Genie has over 19 years of international Human Resources experience predominantly in the Oil & Gas industry. Previous to TGS, she held a senior HR role at Marathon Oil Company following a number of progressive HR management roles at Veritas DGC, Inc. Genie has a B.S. degree in Psychology from the University of Houston and holds an M.B.A. from Texas A&M University.

### Stein Ove Isaksen – *Senior VP Eastern Hemisphere*

Stein Ove joined TGS in 2001 as VP New Ventures South Europe and later VP Sales Europe and Russia. In April 2012, he was appointed Senior VP Eastern Hemisphere. Stein Ove has more than 26 years' industry experience including 15 years spent with Schlumberger in various managing and technical positions in Europe, Asia and North and South America. Stein Ove holds an M.S. degree in Geophysics from University of Bergen, Norway.

### Zhiming Li – *Senior VP Data Processing and Research & Development*

Zhiming joined TGS in 2007 as Senior VP of Data Processing, Research & Development through the acquisition of Parallel Data Systems, a premier depth imaging company. He has 29 years' experience in oil companies, geophysical companies and academia. He received a B.S. degree in Exploration Geophysics from East China Petroleum Institute in 1982 and a Ph. D. degree in Geophysics from Stanford University in 1986.

### Rod Starr – *Senior VP Western Hemisphere*

Rod joined TGS in 2001 through its acquisition of A2D Technologies, where he held leadership positions in Sales & Marketing and Global Business Development. He was recently appointed as Senior VP Western Hemisphere. Rod has more than 26 years of industry experience including 16 years at Unocal Corporation. Rod graduated from San Diego State University with a degree in Business/Finance.

### Kjell E. Trommestad – *VP Project Development Europe/Russia, Africa/Middle East*

Kjell joined TGS in 1987 and has 25 years of experience within NOPEC and TGS, and seven years of oil company experience in Superior Oil and DNO. He is now VP Project Development Europe/Russia, Africa/Middle East. Kjell holds a Master's degree in Petroleum Geology from University of Bergen, Norway.






From left to right:
Hank Hamilton, Colette Lewiner, Elisabeth Harstad, Mark S. Leonard, Bengt Lie Hansen and Vicki Messer

# BOARD OF DIRECTORS

## Henry H. Hamilton III – *Chairman*

Born 1959. Mr. Hamilton served as CEO of TGS from 1995 through June of 2009. Hank began his career as a Geophysicist with Shell Offshore before he moved to Schlumberger where he ultimately held the position of VP and General Manager for all seismic product lines in North and South America. Hank joined TGS as its CEO in 1995 and remained in the position following the 1998 merger with NOPEC International that created the initial public listing for TGS. Mr. Hamilton serves as a board member for two non-profit organizations: the Society of Exploration Geophysics (SEG) Foundation and Defy Ventures. He was first elected as a director in 1998 and as Chairman in 2009.

## Dr. Colette Lewiner – *Director (Independent)*

Born 1945. Dr. Lewiner is currently the Vice President and Global Leader of the Energy, Utilities and Chemical sector at Capgemini. Previously she held the positions of assistant professor at Paris University, Executive Vice President at Electricité de France and Chairperson and CEO of SGN-Eurisys. Dr. Lewiner serves as a board member for Bouygues, Colas, Lafarge, Eurotunnel and Nexans and is non-executive Chairwoman at TDF. She was first elected as a director in 2006.

## Elisabeth Harstad – *Director (Independent)*

Born 1957. Ms. Harstad is an Executive Vice President of DNV Kema in the Netherlands, a subsidiary of Det Norske Veritas (DNV). She has held various positions within DNV since 1981, interrupted by one year as research and industry coordinator at Neste Petroleum AS in 1992. Ms. Harstad serves as a board member for Yara ASA. She was first elected as a director in 2007.

## Mark Leonard – *Director (Independent)*

Born 1955. Mr. Leonard is currently the President of Leonard Exploration Inc. and an Executive Director of Indiana University Geologic Field Station. He retired in 2007 from Shell Oil Company after 28 years of service. During his tenure at Shell, Mark held a number of executive positions including Director of New Business Development in Russia/CIS, Director of Shell Deepwater Services, Director of Shell E&P International Ventures and Chief Geophysicist for Gulf of Mexico. He was first elected as a director in 2009.

## Bengt Lie Hansen – *Director (Independent)*

Born 1948. Mr. Hansen is currently a Non-Equity Partner at Selmer Law Firm. He is a former President of Statoil Russia and has also served in various executive positions within Norsk Hydro including Vice President Finance and Control, E&P Division, Senior Vice President Mid and Northern Norway (responsible for the Ormen Lange Project) and Senior Vice President International E&P. Prior to joining Norsk Hydro, he was Vice President at Deminex and Head of Division at Norway's Ministry of Petroleum. Mr. Hansen serves as a board member for Agora Oil & Gas AS, Odfjell Drilling Ltd. and Eastern Europe Group AS. In addition Mr. Hansen is on the Board of Norwegians Worldwide (Nordmannsforbundet). He was first elected as a director in 2010.

## Vicki Messer – *Director (Independent)*

Born 1949. Mrs. Messer is presently an independent consultant. She has 32 years of geophysical industry experience in various executive, management and supervisory positions for CGG Veritas, Veritas DGC, Halliburton Energy Services/Halliburton Geophysical and Geophysical Services Inc. She was first elected as a director in 2011.


CLICK TO RETURN TO TABLE OF CONTENTS

# FROM THE BOARD

TGS-NOPEC Geophysical Company ASA (TGS) is a principal resource for global geoscientific data products and services in the oil and gas industry. TGS specializes in the design, acquisition and processing of multi-client seismic surveys worldwide and delivers advanced high performance seismic imaging and software solutions. The Company also possesses the world's largest online well log database, provides multi-client interpretive products, well data management and subsurface consulting services to the industry. TGS is a global operator and is presently active in North and South America, Europe, Africa, Asia and Australia.

The parent Company is located in Asker, Norway. The main subsidiary is in Houston, Texas, US and TGS has regional offices in the United Kingdom, Australia, Brazil and in the US. All financial statements in this report are presented on the basis of a "going concern" assumption in accordance with the Norwegian Accounting Act section 3-3a, and the Board of Directors confirms that it is of the opinion that the prerequisites for a going concern assumption are indeed present. To the best of the Directors' knowledge, no subsequent events not described in this report have occurred since 31 December 2011 that would alter the accounts as presented for 2011.

| Cumulative (1981-2011) Geoscientific Data Library as of 31 December 2011 | | | |
|---|---|---|---|
| | **Kilometers** | **Kilometers²** | **Units** |
| **Geophysical products** | | | |
| 2D seismic | 2,648,830 | | |
| 3D seismic *(narrow azimuth)* | | 210,392 | |
| 3D seismic *(wide azimuth)* | | 43,271 | |
| **Gravity and magnetic data** | | | |
| Ship-borne | 1,286,165 | 55,680 | |
| CSEM | 547 | 178 | |
| Airborne | 858,193 | | |
| **Bathymetry data** | | | |
| Multibeam sea seep | | 402,286 | |
| **Geological data** | | | |
| Digital well logs | | | 6,454,923 |
| Wells | | | 2,664,345 |
| LAS well logs *(Log ASCII Standard)* | | | 754,157 |
| Directional surveys | | | 99,558 |

## Operations

The seismic market grew in 2011 supported by high oil prices and increased E&P spending. At the presentation of its 2010 results in February 2011, TGS issued expectations for increased 2011 revenues. Despite delays in restarting operations in the Gulf of Mexico after the Deepwater Horizon incident, TGS grew its annual net revenues by 7% in 2011 thereby achieving its stated expectations.

TGS' geoscientific data library is one of the industry's most comprehensive multi-client resources, encompassing a wide range of geophysical, geological, gravity, magnetic and bathymetry data. The table to the left summarizes the Company's cumulative (1981-2011) data inventory at year end.

TGS' primary focus is developing, managing and selling licenses of the Company's multi-client geoscientific data, which accounted for 93% of revenues in 2011. Customer pre-funding of new multi-client projects reduces the Company's investment exposure, while late sales from its library of data products provide the bulk of the revenue stream. Gross late sales increased 10% from 2010 to USD 550.1 million, while net late sales after partner share increased 10% compared to 2010. Pre-funding on new projects was 53% of the operational investments in multi-client data compared to 55% in 2010. Proprietary contract revenues increased by 65%, and represented 7% of total net revenues in 2011. (graph shown on next page)

TGS has a well-balanced geographical portfolio. In 2011 revenues from Europe and Russia (EUR) increased by 36% while revenues from Africa, Middle East and Asia Pacific (AMEAP) grew by 10% compared to 2010. At the same time, revenues from North and South America (NSA) decreased by 15% in 2011.

In 2011 TGS announced its intention to enter the onshore multi-client market in North America. The use of multi-client seismic by oil and gas companies in the development of the unconventional plays in the onshore United States has grown substantially in recent years and TGS sees strong potential to expand its existing library to include land seismic data. Since onshore North America is already the largest market for the Company's well data products business, TGS plans to capitalize on associated synergies in developing its seismic products library.

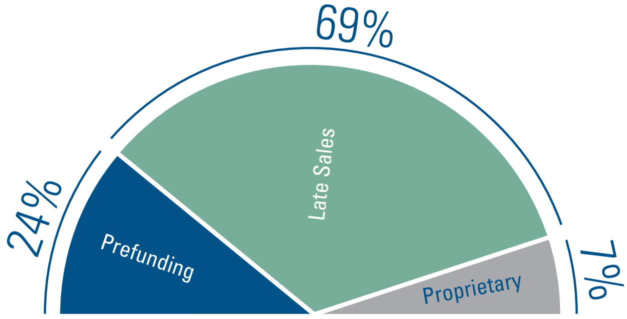
TGS continues to generate multi-client revenues from a well-balanced mix of products. In 2011, multi-client 2D seismic revenues increased 17% from 2010, multi-client 3D seismic revenues decreased 4% and multi-client revenues from geological products increased 20%.

## Multi-client Geoscientific Data Library

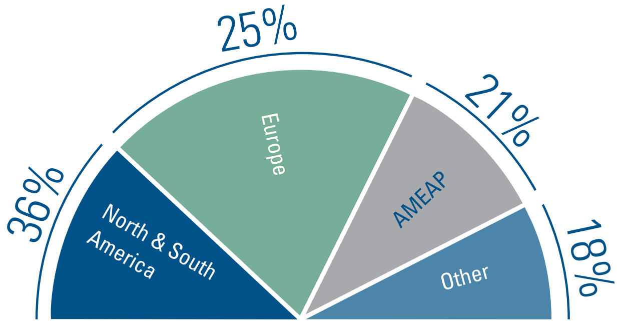
TGS' library of multi-client seismic data, well data and integrated products is its largest single asset, with a net book value representing 38% of the total assets in the balance sheet. Seismic data, representing 87% of the library's net book value, is amortized on a project-by-project basis as a function of sales. Minimum amortization criteria are applied if sales do not match expectations so each project is fully amortized within a four-year period following its completion. Because of the Company's strong track record in delivering sales, the library is amortized more quickly than required by the minimum criteria. As a result, the library's current net book value is heavily weighted toward the newest, most modern projects. The well data library is depreciated on a straight-line basis over seven years.

## Commitments to Seismic Acquisition Capacity

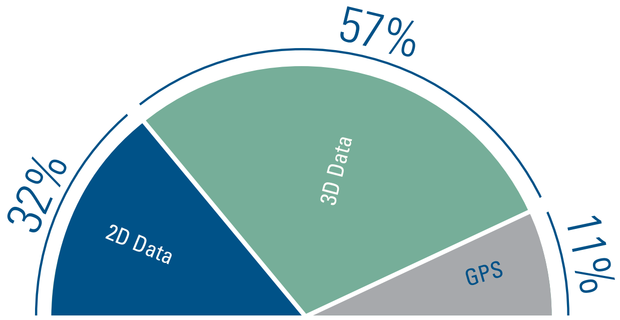
TGS secures all seismic acquisition capacity from external suppliers. At year-end 2011, the Company has entered into commitments for current charter hire of seven 3D seismic acquisition vessels, and three 2D seismic acquisition vessels.



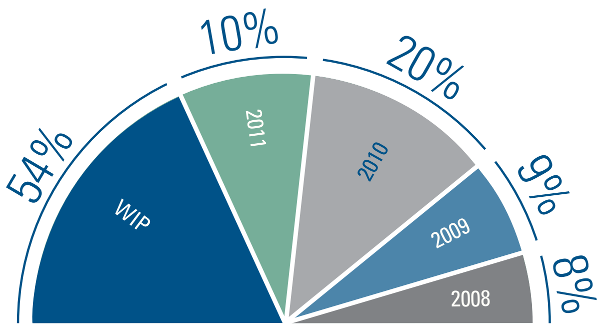

2011 Net Revenues




2011 Net Revenues




2011 Net Multi-client Revenues




Net Book Value of Seismic Library by Year as a Percentage of Total

All commitments will expire in 2012. The amounts committed total USD 165.2 million for the year 2012. In addition the Company has made a commitment to three 3D land seismic crews for land seismic projects in the US. These commitments amount to USD 41.8 million, and will expire in 2012.

The Company also has an option to hire up to 24 months of un-contracted 3D vessel capacity from Wavefield Inseis (now CGGVeritas) by the end of 2012.

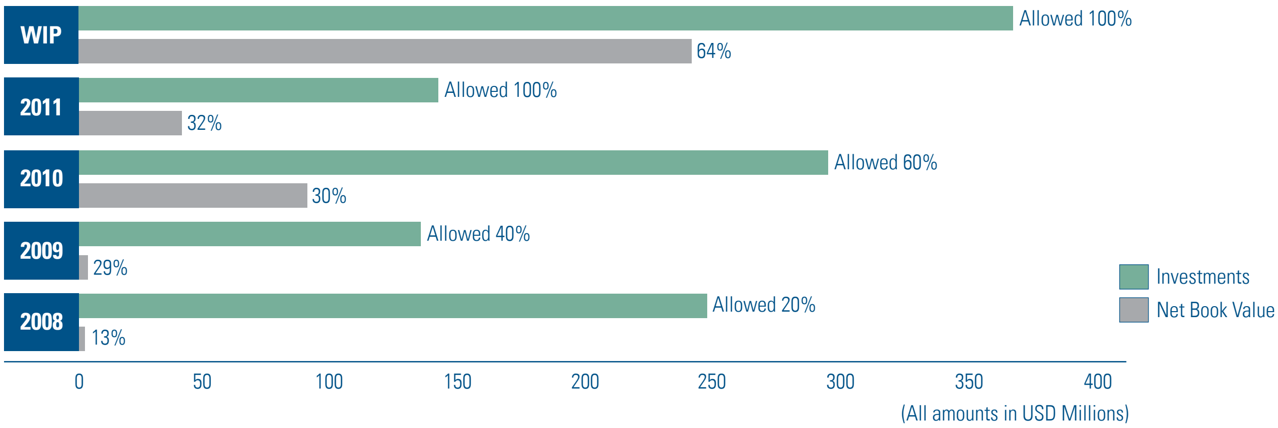
## Results from Operations

Net revenues in 2011 were USD 608.6 million, an increase of 7% compared to 2010 (USD 568.3 million). Operating profit (EBIT) was USD 240.4 million, an increase of 6% compared to 2010 (USD 227.1 million). The 2011 EBIT margin of 40% was the same margin as in 2010. The 2011 operating profit carries a USD 19.5 million impairment due to an updated fair value assessment of TGS' economic interest in the E&P Holding Group (Skeie Energy). Adjusted for this non-recurring item, the operating margin was 43% (USD 259.9 million). With no new lease sales for the Gulf of Mexico in 2011, the market effects from the 2010 Deepwater Horizon accident were still noticeable.

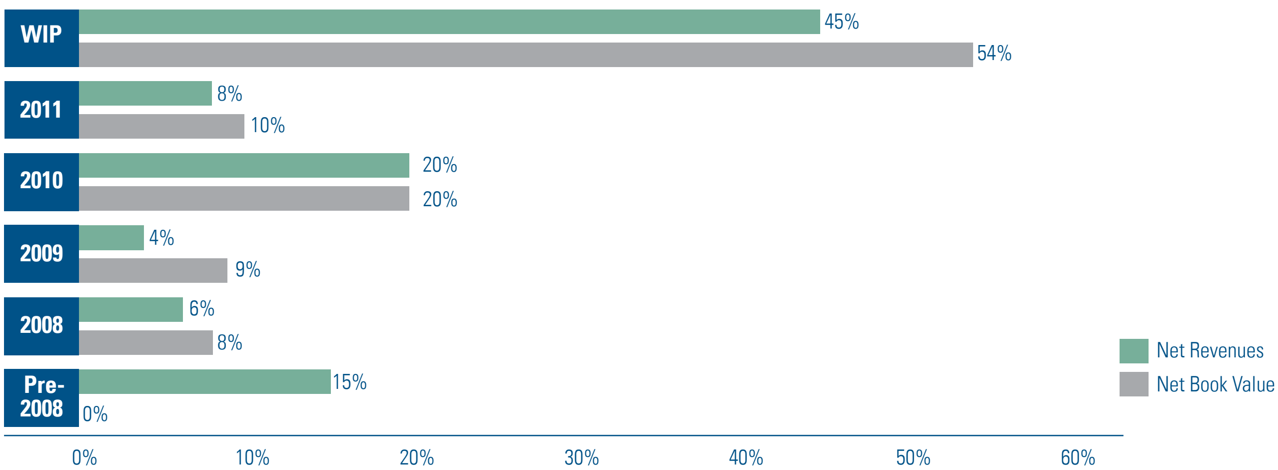
TGS operating cash flow increased by 19% to USD 486.7 million in 2011 (USD 408.8 million). The operating cash flow is significantly higher than the operating profit as amortization of the multi-client library is the Company's largest expense item.

In 2011, TGS paid an increased dividend of USD 93.4 million (NOK 5 per share), up from USD 64.7 million (NOK 4 per share) paid in 2010. In addition the Company bought back its own shares for USD 30.0 million. At year end TGS had cash and cash equivalents of USD 335.7 million compared to USD 290.2 million in 2010. As of 31 December 2011, total equity amounted to USD 973.0 million, corresponding to an equity ratio of 73%.

## Net Book Value vs. Investments per Vintage
*In relation to allowed Net Book Value at year end 2011*




## Annual Net Revenues vs. Net Book Value per Vintage



## Mergers and Acquisitions

On 18 April 2011 the Company completed acquisition of 100% of the shares of Stingray Geophysical Limited (Stingray) in the United Kingdom. The acquisition of Stingray positions TGS as a key player in the Permanent Reservoir Monitoring market. Stingray, founded in 2006, utilizes fiber-optic sensing technology to monitor changes in oil and gas reservoirs as the fields are produced. The technology is designed to enable TGS' customers to more efficiently develop their reservoirs. The consideration for 100% of the shares is based on an initial payment of USD 45 million and incremental payments of up to USD 35 million based on the success in commercializing the technology.

## Investments, Capital, Financing and Dividend

TGS is listed on the OBX List on the Oslo Stock Exchange, being among the 25 most liquid stocks in Norway. TGS did not raise any new equity in the market during 2011 other than shares issued as part of employee stock option programs. The Board does not anticipate issuing any new equity during 2012, apart from issues of stock options to employees, unless necessary to finance the acquisition of another company or a major business opportunity.

During 2011, TGS invested USD 276.8 million in its multi-client library.

TGS still holds a number of Auction Rate Securities (ARS) and classifies them as current financial investments available for sale. Although most of the original holdings have been redeemed at par value, the market for these securities is still distressed. As TGS has no need to liquidate these securities within the near future at discounted prices, TGS has valued the ARS at year-end at fair value based on a third party valuation that considered actual market trades as well as a discounted cash flow valuation method.

As of 31 December 2011, TGS total cash holdings amounted to USD 335.7 million as compared to USD 290.2 million at 31 December 2010.

TGS has sufficient cash and financial capacity to finance the operations and cover other known potential liabilities.

For the accounting year 2011, the Board has proposed to the June 2012 Annual General Meeting a dividend of NOK 6 per share.

| Shareholders and Value Metrics | 2011 | 2010 |
|---|---|---|
| Net revenues | 608,568 | 568,263 |
| Operating profit (EBIT) margin | 40% | 40% |
| Multi-client net revenues / average net book value ratio | 1.15 | 1.21 |
| Pre-tax return on average capital employed (ROCE) | 25% | 26% |
| Cash flow from operations after multi-client investments | 203,494 | 137,464 |
| Shareholders equity as % of balance sheet | 73% | 75% |

The Board of Directors may also continue to buy back its shares in the market under its existing authority from shareholders.

## Risk Management and Internal Control

The activities of TGS Group's clients, exploration and production companies within the oil and gas industry, typically vary with fluctuations in oil and gas commodity prices, or perceived expectations of change. This impacts the TGS Group's activity and profitability. Additionally, TGS is exposed to financial risks like currency, liquidity and credit risk.

TGS' operational exposure to currency risk is low as major portions of the revenues and costs are in US dollars. However, as the Parent Company pays taxes in Norwegian kroner to Norwegian tax authorities, fluctuations between the NOK and the USD impact currency exchange gains or losses on tax expense and financial items.

Liquidity risk arises from a lack of correlation between cash flow from operations and financial commitments. As per 31 December 2011, TGS held current assets of USD 632.4 million, of which cash and cash equivalents represented USD 335.7 million, and current liabilities of USD 217.9 million. The Company's liquidity risk is considered to be low.

TGS is exposed to credit risk through sales and receivables and uses best efforts to manage this risk. All placements of excess cash are either bank deposits or in financial instruments that have a minimum rating of "investment grade."

TGS is constantly striving to maintain and improve its internal controls. The Company's primary business activity is building the multi-client geoscientific data library, the largest financial asset, through multiple investments in new data for sale to clients. TGS utilizes custom investment proposal models and reporting tools in order to assess and monitor the status and performance of the Company's multi-client projects. Reference is made to the more detailed information on risk management under the Corporate Governance section of the Annual Report.

## Organization, Working Environment and Equal Opportunity

TGS' Parent Company had 41 employees as of 31 December 2011. TGS had 485 employees in the United States, 49 employees in Norway, 113 employees in the United Kingdom, 17 employees in Australia, 1 employee in Brazil and 3 employees in Canada totaling 668 employees. The number of employees during 2011 averaged 646.

The Board considers the working environment in the Company to be excellent. The Board and management believe that employees of diversified gender, ethnicity, and nationality are provided with equal opportunity and treated fairly within the Company, and TGS have not seen it necessary to take special measures to correct any discrimination.

Women comprise 46% of the total workforce in the Company. The corresponding figure for managers is 27%.

## Health, Safety and Environmental Issues

TGS interacts with the external environment through the collection of seismic, gravity and magnetic data and the operation of offshore vessels and aircraft. TGS is dedicated to maintaining the environment in which the Company works and providing a safe healthy workplace for the employees and contractors through the active implementation of comprehensive policies. Not only does TGS comply with mandated legislation and local regulations, but the Company also works closely with industry associations in an effort to investigate ways to mitigate the impact of seismic operations on marine fauna.

The sickness absence frequency for TGS in 2011 was 1.3% as compared to 0.7% in 2010.

In 2011, TGS incurred one lost time injury in 1,177,806 man hours, yielding a lost time incident rate of 0.3 per million man hours. This is an improvement over 2010, when the lost time incident rate was 0.5 per million man hours. As part of the continuous improvement strategy for 2011, an audit system was established for TGS' new onshore multi-client business. In addition, a new business continuity plan was implemented and tested for the Houston area offices.

TGS works with its subcontractors to bridge its HSE management system with their respective management systems. In most field operations, TGS-managed observers monitor the HSE activity of the responsible sub-contractor.

## Board Structure and Corporate Governance Policy

The Board of Directors consists of six directors, each serving a one-year term. The Board's Audit and Compensation Committees are composed exclusively of independent directors. No material transactions have occurred between the Company and its management, directors or shareholders.

The independent Nomination Committee, elected by the shareholders for a two-year term at the Annual General Meeting on 7 June 2011, consists of the following members: Tor Himberg Larsen (Chairman), Jarl Ulvin and Christina Stray.

TGS emphasizes independence and integrity in all matters among the Board, management and the shareholders.

TGS conducts an active compliance program designed to continually inform and educate employees on ethical and legal issues. The Company employs a full time Board-appointed compliance officer who reports quarterly on progress.

TGS has based its corporate governance on the Norwegian Code of Practice for Corporate Governance published 21 October 2010 and amended 20 October 2011. It is the opinion of the Board of Directors that the Company complies with Code of Practice and subsequent amendments in all areas. A more detailed description of how TGS complies with the Code of Practice and the Norwegian Accounting Act's requirements for reporting on corporate governance is included in the Report on Corporate Governance included in this Annual Report and on TGS' website: http://www.tgs.com.

## Salary and Other Compensation

TGS compensates its employees according to market conditions that are reviewed on an annual basis by the Compensation committee. Compensation includes base salary, insurance and retirement benefit programs, a profit-sharing bonus plan based on performance and in certain cases a stock option plan or stock appreciation rights program. For further details please refer to the paragraph "Salary and other compensation" in item 12 in the section "Corporate Governance."

The directors do not participate in any bonus plan, profit-sharing plan or stock option plan.

## Outlook

Continued high oil prices and increased exploration and production budgets from TGS' customers will provide a foundation for further growth in 2012. With the announcement that the Central Gulf of Mexico lease sale is expected to take place on 20 June 2012, one of TGS' largest markets is seeing signs of recovery. In addition, global demand for recently-acquired seismic and well log data appears to be increasing as customers expand their efforts in producing and replacing hydrocarbon reserves. This increased activity has resulted in significant customer interest in new project ideas involving mature plays in which TGS has a dominant position as well as in new plays that provide exciting opportunities for growth. TGS is also seeing unprecedented demand for its onshore US well log products as resource play exploration and production activity continues to increase.

TGS' investment activity in 2012 is expected to be more evenly distributed throughout the year compared to the previous two years. Seismic acquisition capacity for land and marine has already been secured for a significant portion of the planned investments.

The pipeline of investment opportunities is strong and TGS enters 2012 with a historically high backlog. The Board believes that the promising market outlook combined with TGS' flexible business model and strong balance sheet provides a foundation for continued profitable growth.

## Allocation of Profit

The Board proposes that the Parent Company's net income shall be applied as follows:

| | |
|---|---|
| Dividends | USD 103.6 million |
| Allocated to Other Equity | USD 6.0 million |
| **Total** | **USD 109.6 million** |

As of 31 December 2011, the Parent Company's free equity was NOK 943.3 million (USD 166.0 million) after accrual for dividends.

As part of the group's tax planning, the Board also proposes that the Parent Company makes intercompany group contributions to certain wholly-owned subsidiaries of USD 1.2 million.

**22 March 2012**

| | | | |
|---|---|---|---|
| **Hank Hamilton**<br>*Chairman* | **Mark S. Leonard**<br>*Director* | **Colette Lewiner**<br>*Director* | **Bengt Lie Hansen**<br>*Director* |
| **Elisabeth Harstad**<br>*Director* | **Vicki Messer**<br>*Director* | **Robert Hobbs**<br>*CEO* | |

# CONFIRMATION FROM THE BOARD OF DIRECTORS AND CEO

We confirm, to the best of our knowledge, that the financial statements for the period 1 January to 31 December 2011 have been prepared in accordance with current applicable accounting standards, and give a true and fair view of the assets, liabilities, financial position and profit or loss of the entity and the group taken as a whole. We also confirm that this report of the Board of Directors with references to the notes to the accounts and the Corporate Governance section of the Annual Report includes a true and fair review of the development and performance of the business and the position of the entity and the Group, together with a description of the principal risks and uncertainties facing the Parent Company and the Group.

**22 March 2012**

**Hank Hamilton**
*Chairman*

**Mark S. Leonard**
*Director*

**Colette Lewiner**
*Director*

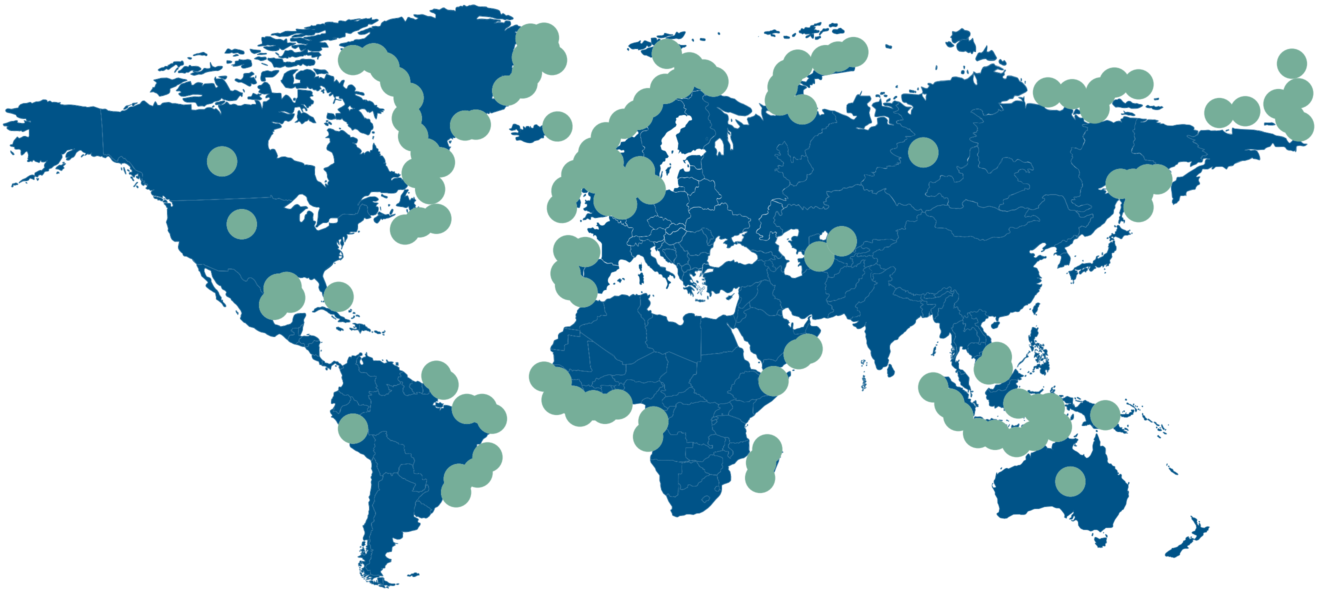
**Bengt Lie Hansen**
*Director*

**Elisabeth Harstad**
*Director*

**Vicki Messer**
*Director*

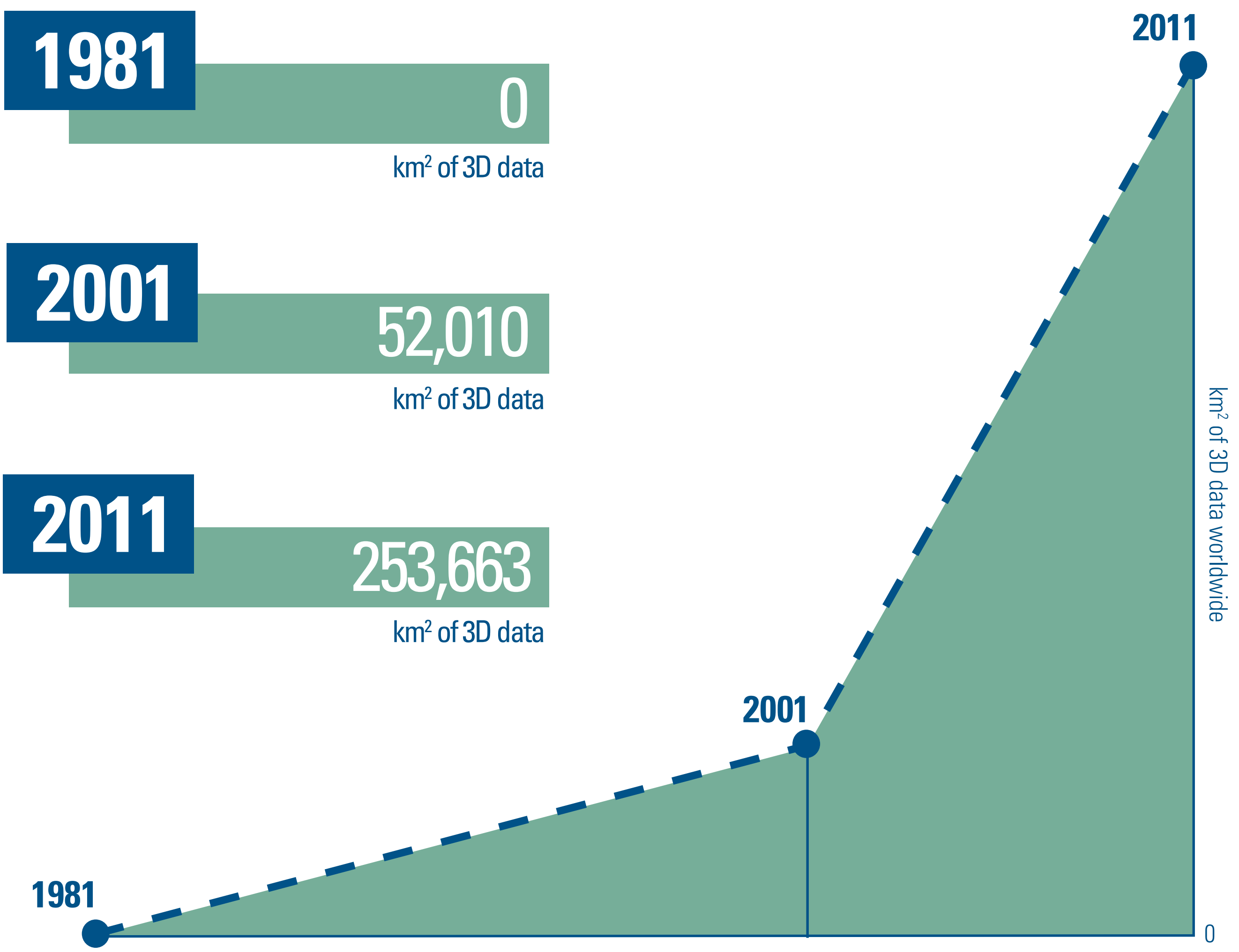
**Robert Hobbs**
*CEO*

## DATA AROUND THE GLOBE

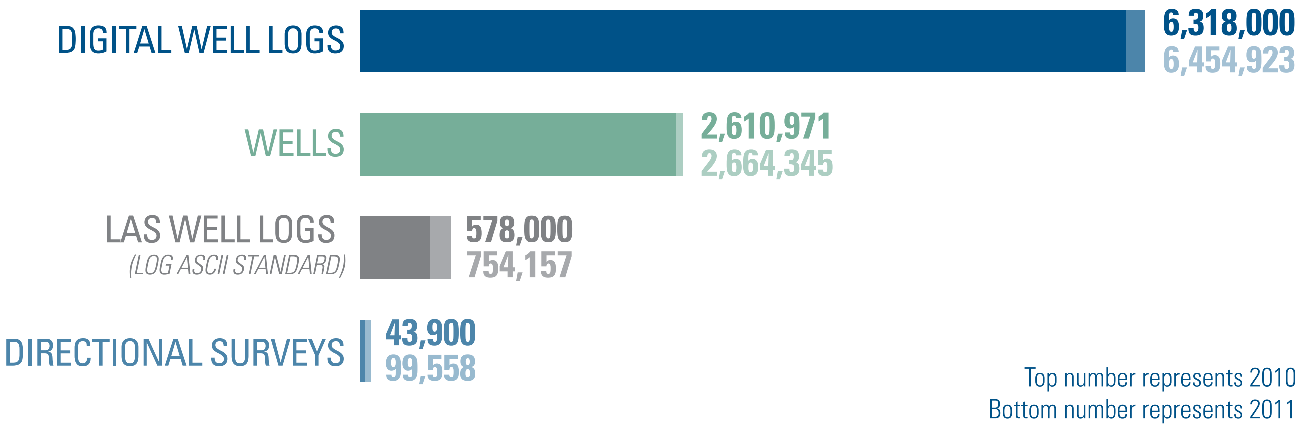


Locations where TGS has data

## KM² OF 3D DATA WORLDWIDE



## GEOLOGICAL DATA FROM 2010 TO 2011




## NEW MARKETS

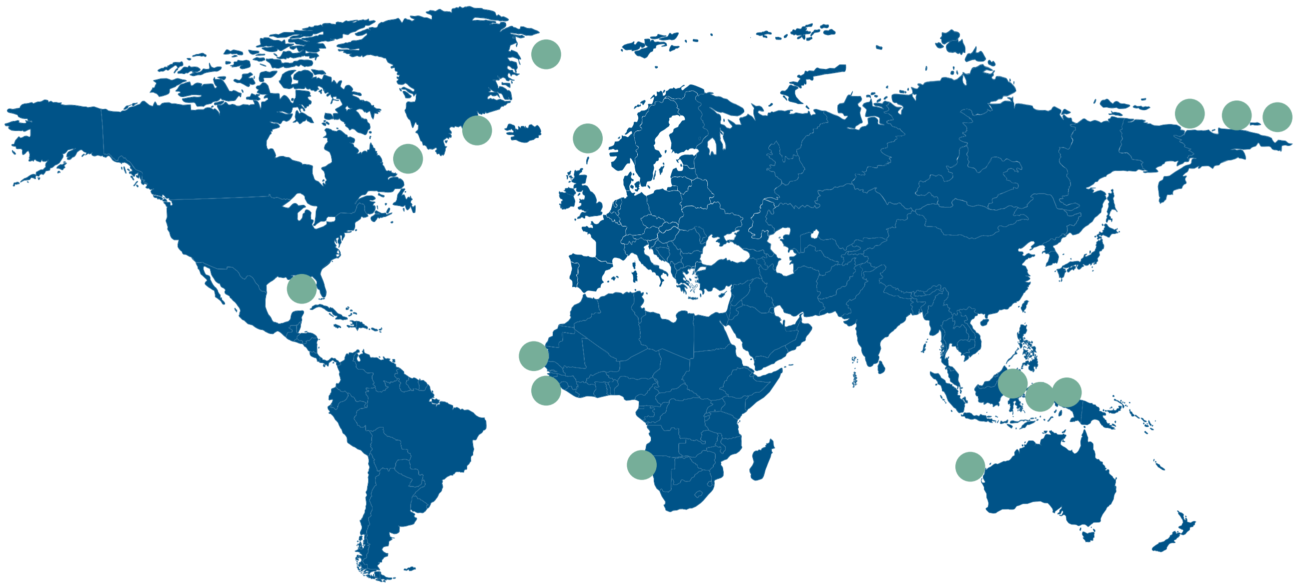
### Onshore Seismic

TGS offers multi-client onshore seismic data across North America. The Company applies the same high standards of quality and customer service with onshore seismic as with its suite of geoscience data products around the world.

### Reservoir Solutions

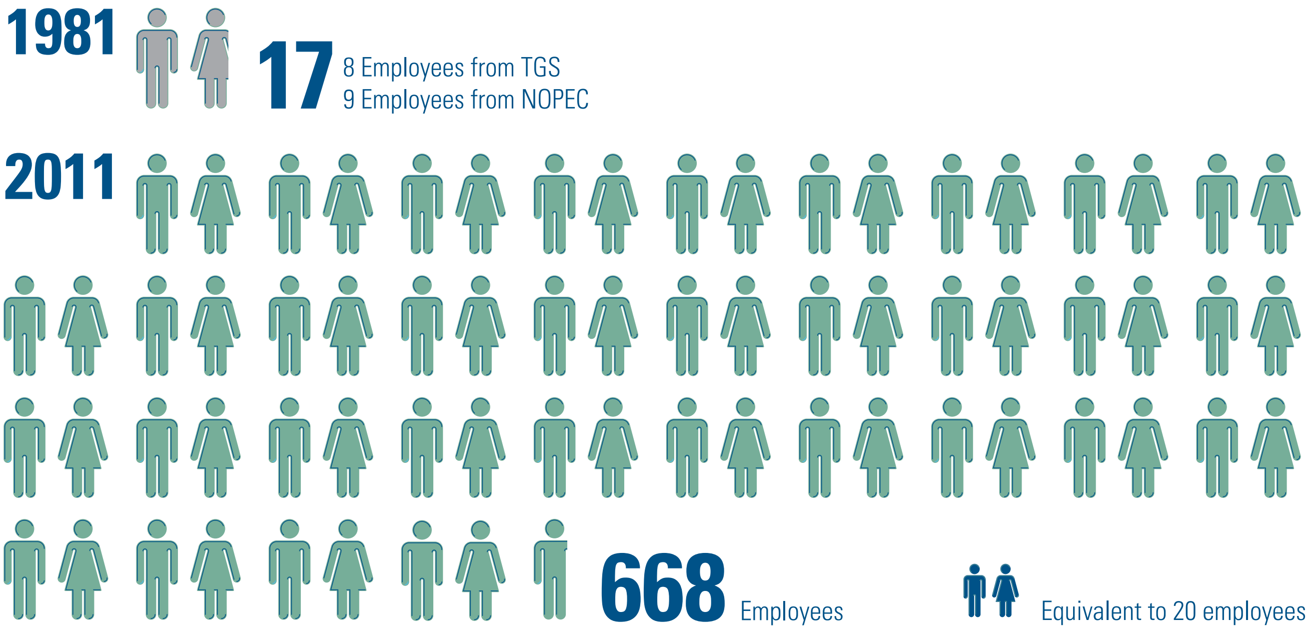
TGS provides advanced Permanent Reservoir Monitoring solutions to the global oil and gas industry, enabling increased production and reserves at lower cost and risk through improved reservoir management strategies.

## AREAS OF ACTIVITY

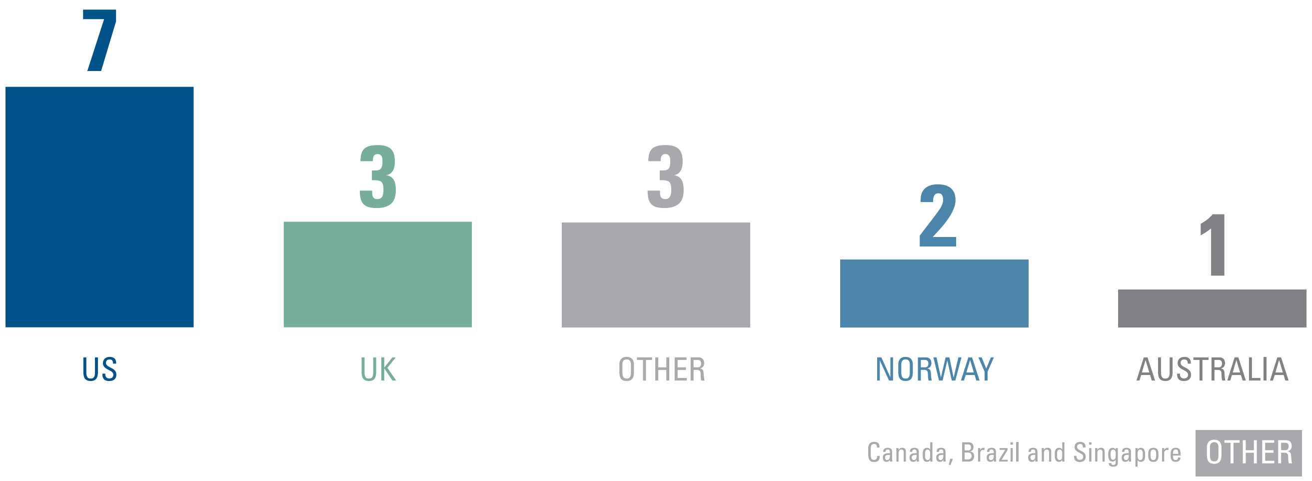


2011 areas of seismic data acquisition

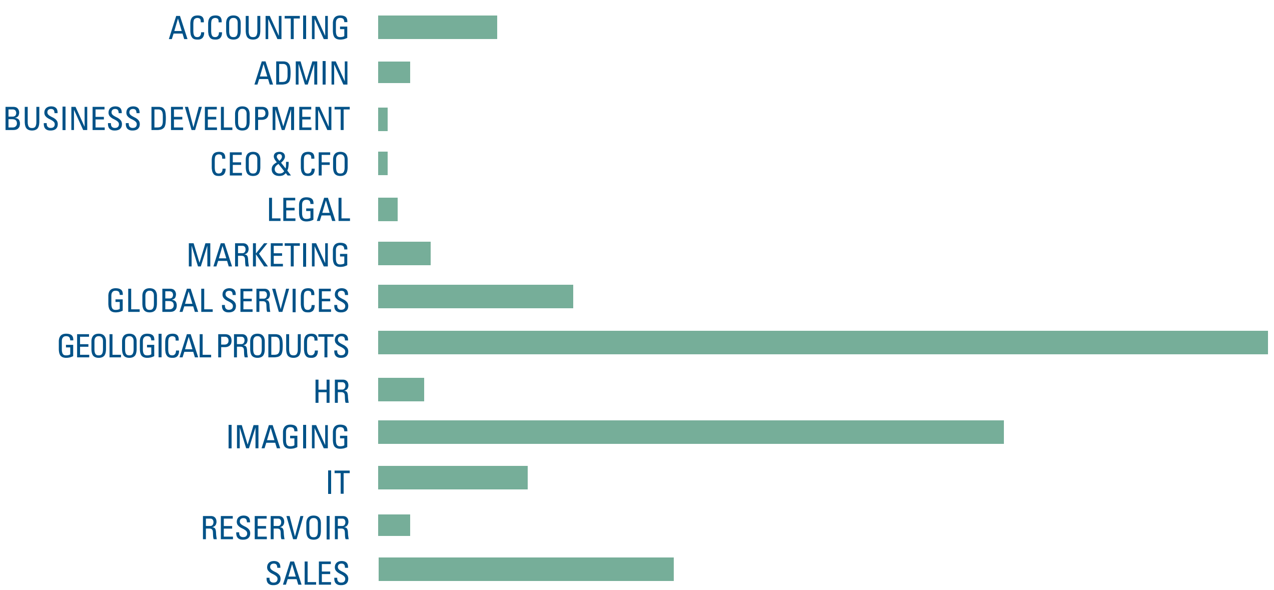
## TGS EMPLOYEES




## TGS LOCATIONS




## EMPLOYEES BY DEPARTMENT

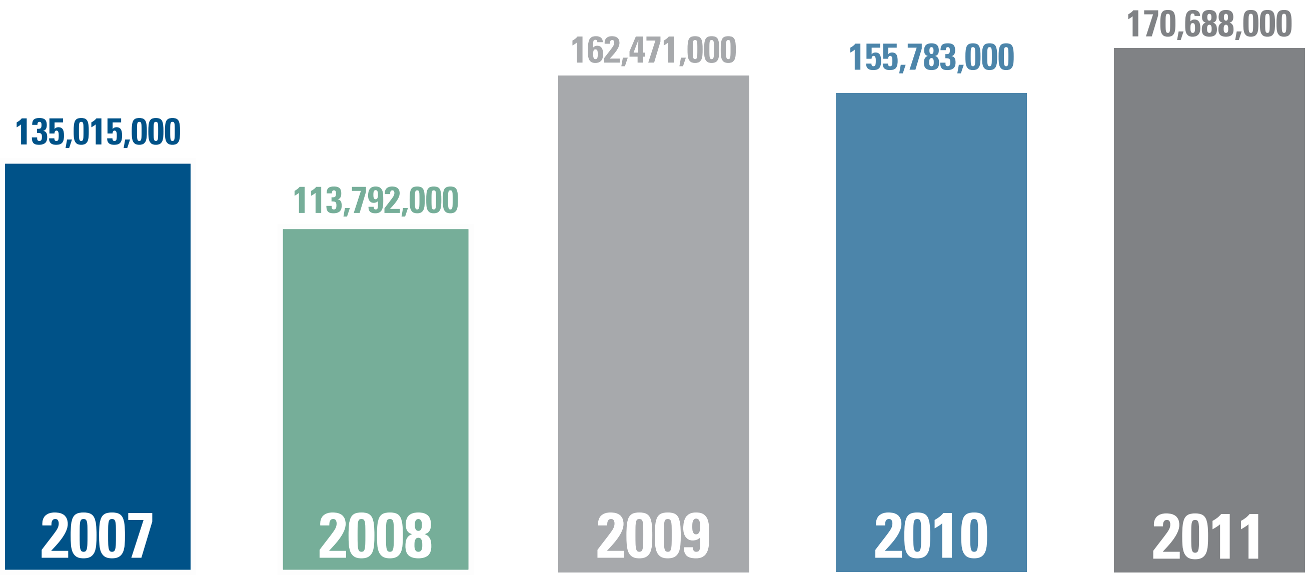


## NET REVENUE

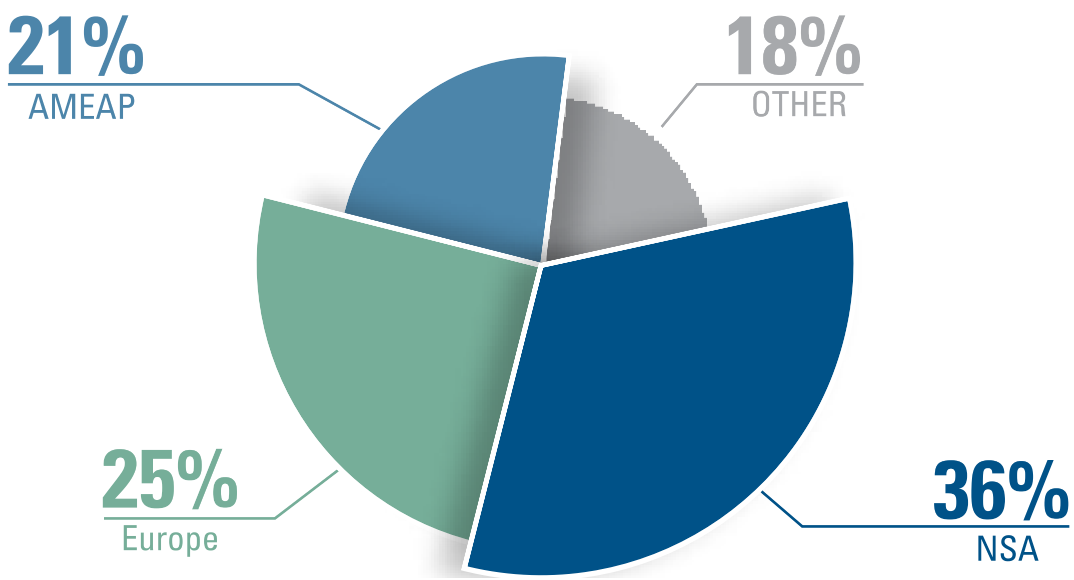
All Amounts in USD

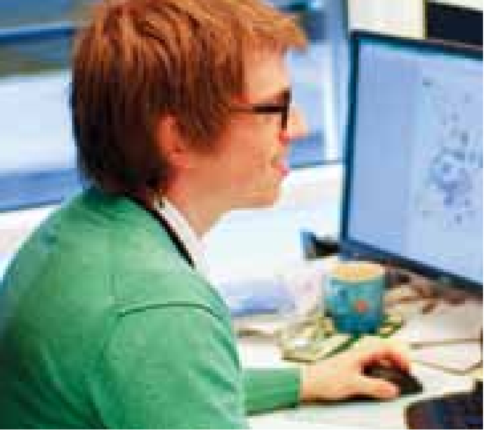

## NET INCOME

All amounts in USD




## NET REVENUE BY REGION





“TGS is responsible to the communities in which we live and work. We actively support reputable charitable programs and encourage our employees to donate their time and energy to help those who are less fortunate.”

# Group Financials

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(All amounts in USD 1,000s unless noted otherwise)

| | Note | 2011 | 2010 |
|---|---|---|---|
| **Net revenues** | 3,23 | **608,568** | 568,263 |
| Cost of goods sold - proprietary and other | 1 | **13,162** | 4,977 |
| Amortization of the multi-client library | 3,5 | **241,509** | 247,874 |
| Personnel costs | 3,7 | **58,409** | 52,897 |
| Cost of stock options | 3,7,8 | **2,066** | 2,446 |
| Other operating expenses | 3,14 | **46,035** | 23,176 |
| Depreciation and amortization | 3,4,5 | **6,985** | 9,785 |
| **Total operating expenses** | | **368,166** | 341,155 |
| **Operating profit** | | **240,402** | 227,108 |
| Financial income | 24 | **2,684** | 2,689 |
| Financial expenses | 24 | **(246)** | (44) |
| Exchange gains/losses | 24 | **(1,815)** | (1,391) |
| Gains/(losses) on financial investments | 24 | **121** | (617) |
| **Net financial items** | | **744** | 637 |
| **Profit before taxes** | | **241,146** | 227,745 |
| Taxes | 25 | **70,458** | 71,962 |
| **Net income** | | **170,688** | 155,783 |
| Earnings per share (USD) | 9 | **1.67** | 1.52 |
| Earnings per share, diluted (USD) | 9 | **1.65** | 1.49 |
| **Other comprehensive income:** | | | |
| Exchange differences on translation of foreign operations | 25 | **(200)** | (167) |
| Net (loss)/gain on available for sale financial assets | 25 | **1,349** | 109 |
| **Other comprehensive income/(loss), net of tax** | | **1,149** | (58) |
| **Total comprehensive income for the period** | | **171,837** | 155,725 |
| Net income attributable to the owners of the parent | | **170,555** | 155,783 |
| Net income attributable to non-controlling interests | | **133** | – |
| | | **170,688** | 155,783 |
| Total comprehensive income attributable to the owners of the parent | | **171,704** | 155,725 |
| Total comprehensive income attributable to non-controlling interests | | **133** | – |
| | | **171,837** | 155,725 |

# CONSOLIDATED BALANCE SHEET

as of 31 December

(All amounts in USD 1,000s unless noted otherwise)

| | Note | 2011 | 2010 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Goodwill | 5,6 | **86,401** | 45,837 |
| Multi-client library | 5 | **511,131** | 475,698 |
| Other intangible non-current assets | 5,6 | **46,731** | 23,614 |
| Deferred tax asset | 25 | **23,137** | 12,052 |
| Buildings | 4 | **816** | 780 |
| Machinery and equipment | 4 | **18,746** | 14,465 |
| Other non-current assets | 14 | **13,814** | 41,744 |
| **Total non-current assets** | | **700,774** | 614,189 |
| **Current assets** | | | |
| Financial investments available for sale | 15 | **18,963** | 21,123 |
| Derivative financial instruments | 14 | **–** | 384 |
| Accounts receivable | 16 | **251,996** | 285,247 |
| Other receivables | 16 | **25,739** | 5,788 |
| Cash and cash equivalents | 11 | **335,709** | 290,185 |
| **Total current assets** | | **632,407** | 602,727 |
| **Total assets** | | **1,333,182** | 1,216,916 |
| **Equity and Liabilities** | | | |
| **Equity** | | | |
| **Paid-in capital** | | | |
| Share capital | 10 | **3,713** | 3,714 |
| Treasury shares held | 10 | **(76)** | (63) |
| Share premium reserve | | **53,256** | 40,894 |
| Other paid-in equity | | **20,310** | 18,244 |
| **Total paid-in capital** | | **77,203** | 62,789 |
| Other equity | | **895,685** | 845,982 |
| **Equity attributable to owners of the parent** | | **972,888** | 908,771 |
| Non Controlling Interests | | **133** | – |
| **Total Equity** | | **973,021** | 908,771 |
| **Liabilities** | | | |
| **Non-current liabilities** | | | |
| Other non-current liabilities | 14 | **29,253** | 12,715 |
| Deferred tax | 25 | **113,047** | 87,687 |
| **Total non-current liabilities** | | **142,300** | 100,402 |
| **Current liabilities** | | | |
| Accounts payable | 17 | **101,000** | 112,845 |
| Taxes payable, withheld payroll tax, social security | 25 | **50,731** | 39,669 |
| Other current liabilities | 17 | **66,130** | 55,229 |
| **Total current liabilities** | | **217,861** | 207,743 |
| **Total liabilities** | | **360,161** | 308,145 |
| **Total equity and liabilities** | | **1,333,182** | 1,216,916 |

22 March 2012

**Hank Hamilton**
*Chairman*

**Mark S. Leonard**
*Director*

**Colette Lewiner**
*Director*

**Bengt Lie Hansen**
*Director*

**Elisabeth Harstad**
*Director*

**Vicki Messer**
*Director*

**Robert Hobbs**
*CEO*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

as of 31 December

(All amounts in USD 1,000s unless noted otherwise)

| | Attributable to the owners of the parent | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **Share Capital** | **Treasury Shares Held** | **Share Premium Reserve** | **Other Paid-in Equity** | **Available for Sale Reserve** | **Foreign Currency Translation Reserve** | **Retained Earnings[1]** | **Total** | **Non controlling Interest** | **Total Equity** |
| **Balance 1 January 2011** | **3,714** | **(64)** | **40,894** | **18,244** | **611** | **(8,393)** | **853,764** | **908,771** | – | **908,771** |
| Net income | – | – | – | – | – | – | 170,555 | 170,555 | 133 | **170,688** |
| Other comprehensive income | – | – | – | – | 1,349 | (200) | – | 1,149 | – | **1,149** |
| Total comprehensive income | – | – | – | – | 1,349 | (200) | 170,555 | 171,704 | 133 | **171,837** |
| Paid-in equity through exercise of stock options | 31 | – | 12,362 | – | – | – | – | 12,393 | – | **12,393** |
| Purchase of treasury shares | – | (56) | – | – | – | – | (29,975) | (30,031) | – | **(30,031)** |
| Distribution of treasury shares | – | 12 | – | – | – | – | 3,361 | 3,373 | – | **3,373** |
| Cancellation of treasury shares held | (32) | 32 | – | – | – | – | – | – | – | **–** |
| Cost of stock options | – | – | – | 2,066 | – | – | – | 2,066 | – | **2,066** |
| Dividends | – | – | – | – | – | – | (95,388) | (95,388) | – | **(95,388)** |
| **Balance 31 December 2011** | **3,713** | **(76)** | **53,256** | **20,310** | **1,960** | **(8,593)** | **902,318** | **972,888** | **133** | **973,021** |

*1) The Board of Directors propose to the shareholders at the June 2012 Annual General Meeting a dividend of NOK 6 per share of outstanding common stock. During 2011, the Board proposed and the shareholders approved a dividend of NOK 5 per share, of which NOK 2 per share was a non-recurring distribution, were paid to the shareholders.*

| | Attributable to the owners of the parent | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **Share Capital** | **Treasury Shares Held** | **Share Premium Reserve** | **Other Paid-in Equity** | **Available for Sale Reserve** | **Foreign Currency Translation Reserve** | **Retained Earnings** | **Total** | **Non controlling Interest** | **Total Equity** |
| **Balance 1 January 2010** | **3,737** | **(37)** | **36,657** | **15,798** | **502** | **(8,226)** | **791,424** | **839,856** | **–** | **839,856** |
| Net income | – | – | – | – | – | – | 155,783 | 155,783 | – | **155,783** |
| Other comprehensive income | – | – | – | – | 109 | (167) | – | (58) | – | **(58)** |
| Total comprehensive income | – | – | – | – | 109 | (167) | 155,783 | 155,725 | – | **155,725** |
| Paid-in equity through exercise of stock options | 16 | – | 4,237 | – | – | – | – | 4,253 | – | **4,253** |
| Purchase of treasury shares | – | (73) | – | – | – | – | (31,805) | (31,878) | – | **(31,878)** |
| Distribution of treasury shares | – | 8 | – | – | – | – | 2,206 | 2,214 | – | **2,214** |
| Cancellation of treasury shares held | (39) | 39 | – | – | – | – | – | – | – | **–** |
| Cost of stock options | – | – | – | 2,446 | – | – | – | 2,446 | – | **2,446** |
| Dividends | – | – | – | – | – | – | (64,027) | (64,027) | – | **(64,027)** |
| Deferred tax asset related to stock options | – | – | – | – | – | – | 183 | 183 | – | **183** |
| **Balance 31 December 2010** | **3,714** | **(64)** | **40,894** | **18,244** | **611** | **(8,393)** | **853,764** | **908,771** | **–** | **908,771** |

# CONSOLIDATED STATEMENT OF CASH FLOW

(All amounts in USD 1,000s unless noted otherwise)

| | Note | 2011 | 2010 |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| Received payments from customers | | **648,060** | 549,597 |
| Payments for salaries, pensions, social security tax | | **(59,316)** | (52,452) |
| Other operational costs | | **(38,397)** | (27,404) |
| Net gain/(loss) on currency exchange | | **(1,815)** | (1,392) |
| Paid taxes | | **(61,822)** | (59,562) |
| **Net cash flow from operating activities**[1] | | **486,711** | 408,787 |
| **Cash flow from investing activities** | | | |
| Received payments from sale of tangible assets | | **–** | 375 |
| Investment in tangible assets | | **(13,078)** | (5,201) |
| Investments in multi-client library | | **(283,217)** | (271,323) |
| Investments through mergers and acquisitions, net of cash acquired | 2 | **(43,851)** | (3,625) |
| Proceeds from sale of short-term investments | | **4,200** | 6,825 |
| Interest received | | **2,674** | 1,488 |
| **Net cash flow from investing activities** | | **(333,272)** | (271,461) |
| **Cash flow from financing activities** | | | |
| Interest paid | | **(246)** | (19) |
| Dividend payments | | **(93,407)** | (64,742) |
| Purchase of own shares | | **(30,031)** | (31,879) |
| Proceeds from share issuances | | **15,768** | 6,004 |
| **Net cash flow from financing activities** | | **(107,916)** | (90,636) |
| Net change in cash and cash equivalents | | **45,525** | 46,692 |
| Cash and cash equivalents at the beginning of the period | 11 | **290,185** | 243,493 |
| **Cash and cash equivalents at the end of the period** | 11 | **335,708** | 290,185 |

| | | | |
|---|---|---|---|
| **1) Reconciliation** | | | |
| Profit before taxes | | **241,146** | 227,745 |
| Depreciation/amortization | 4,5 | **248,494** | 257,659 |
| Impairment of long-term receivables (net) | 14 | **19,500** | – |
| Changes in accounts receivables | | **33,251** | (268) |
| Changes in other receivables | | **(14,399)** | 2,324 |
| Changes in other balance sheet items | | **20,542** | (19,111) |
| Paid taxes | | **(61,822)** | (59,562) |
| **Net cash flow from operating activities** | | **486,711** | 408,787 |

# NOTES TO GROUP FINANCIAL STATEMENTS

(All amounts in USD 1,000s)

## 1 General Accounting Policies

### General Information

TGS-NOPEC Geophysical Company ASA (the Company) is a public limited Company incorporated in Norway on 21 August 1996. The address of its registered office is Lensmannslia 4, 1383 Asker, Norway. The Company is listed on the Oslo Stock Exchange.

The TGS Group consolidated financial statements were authorized by the Board of Directors on 22 March 2012.

### Basis of Preparation

The consolidated financial statements of the TGS Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) in effect as of 31 December 2011 and consist of the consolidated statement of comprehensive income, the consolidated balance sheet, the consolidated cash flow statement, the consolidated statement of changes in equity and notes to the group financial statements.

The consolidated financial statements for the TGS Group have been prepared on a historical cost basis, except for derivative financial instruments and financial investments available for sale that have been measured at fair value. The financial statements of the subsidiaries have been prepared for the same reporting year as the Parent Company, using consistent accounting policies.

### Principles of Consolidation

***Companies Consolidated***

The consolidated financial statements include subsidiaries in which the Parent Company and its subsidiaries directly or indirectly have a controlling interest.

The consolidated financial statements show the TGS Group's financial status, the result of the year's activity and cash flows as one financial entity. Short-term investments, which form part of a trading portfolio and are bought and sold on a continuous basis, are not consolidated unless the TGS Group has control over the entity. All the consolidated companies have applied consistent accounting policies. Acquired subsidiaries are consolidated in the financial statements from the effective date the TGS Group obtains a controlling interest. Subsidiaries sold are consolidated in the financial statements until the effective date of the sale agreement. Material subsidiaries sold are presented as discontinued operations or disposal groups of assets and liabilities as of the date when the transaction is highly probable.

All intra-group balances, balance sheet transactions and profit and loss transactions are eliminated in full. In applying the basic accounting principles and presenting transactions and other issues, a substance over form view is taken.

***Subsidiaries with Functional Currency Other Than USD***

The balance sheets of subsidiaries with functional currency other than USD are translated into USD using the year-end exchange rate. The income statement items are translated at exchange rates prevailing at the date of the transactions. Exchange rate differences arising from the translation of financial statements of such subsidiaries are recorded in other comprehensive income. Variations from period to period in financial balance sheet items due to movements of the exchange rate in a currency other than the related functional currency are charged to the income statement under financial items.

### Presentation Currency

The TGS Group presents its consolidated financial reports in USD. Nearly 100% of the TGS Group's revenues and the majority of expenses are denominated in USD, and USD is the functional currency for most of the entities in the TGS Group, including the Parent Company. The financial statements of the Parent Company are presented separately in this Annual Report.

### Foreign Currency of Transactions and Balances

Non-functional currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities in non-functional currencies are translated into functional currency spot rate of exchange ruling at the date of the balance sheet. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in non-functional currencies are recognized in the income statement.

### Significant Accounting Judgments, Estimates and Assumptions

In the process of applying the TGS Group's accounting principles, management is required to make estimates, judgments and assumptions that affect the amount reported in the consolidated financial statements and accompanying notes. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which will form the basis for making judgments on carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The key sources of judgment and estimation of uncertainties at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

***Future Sales Forecasts as Basis for Multi-client Library Amortization***

The TGS Group determines the amortization expense of the multi-client library based on the proportion of net book value versus estimated future revenue for each individual project. The underlying estimates that form the basis for the sales forecast depend on variables such as number of oil companies operating in the area that would be interested in the data, expectations regarding hydrocarbons in the sector, whether licenses to perform exploration in the sectors exist or will be given in the future, etc. Changes in these estimates may potentially affect the estimated amount of future sales and the amortization rate used materially.

For details about the multi-client library, see Note 5.

***Impairment of Goodwill***

The TGS Group determines whether goodwill is impaired at least on an annual basis or when there are indicators that the carrying amount may not be recoverable. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating a value in use amount requires management to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

***Deferred Tax Assets***

Deferred tax assets are recognized for temporary deductible differences and carry forward tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

***Provision of Impairment of Accounts Receivables***

The TGS Group has made provisions for impairment of specific accounts receivables deemed uncollectible. When assessing the need for provisions, the Group uses all available information about the various outstanding receivables, including the payment history and the credit quality of the actual companies.

***Share–based Payments***

The TGS Group measures the cost of the stock option plans for employees by reference to the fair value of the equity instruments at the date at which they are granted (equity-settled transactions) or at the end of each reporting period (cash-settled transactions). Estimating fair value requires an appropriate valuation model to value the share-based instruments. The values are dependent on the terms and conditions of the granted share-based instruments. This also requires determining the appropriate inputs to the valuation models including the expected life of the instruments, volatility and dividend yield and making assumptions about them.

***Revenue Recognition***

The TGS Group recognizes revenues from pre-funded multi-client surveys based on percentage of completion at the balance sheet date. This requires management to estimate the level of completion of the various ongoing projects of the TGS Group at that date.

## Principles of Assessment

***Revenue Recognition***

Revenue is recognized when it is probable that the economic benefits from a transaction will flow to the TGS Group and the revenue can be reliably measured. Revenue is measured at fair value of the consideration received, net of discounts and sales taxes or duty. The following describes the specific principles:

***Work in Progress (WIP)***

Revenue from work in progress (unfinished projects) at the balance sheet date is recognized on a percentage of completion (POC) basis under binding contracts, normally measured according to the acquired and processed volume of data in relation to the estimated total size of the project. Sales made prior to a certain deadline for each project are recognized as POC pre-funding revenues and sales thereafter during the WIP period as POC late sales revenues.

***Finished Data***

Revenue is recognized for sales of finished data at the time of the transaction; i.e. when the client has gained access to the data under a binding agreement.

***Revenue Sharing***

The TGS Group shares certain multi-client revenues with other companies. Operating revenue is presented net of revenue shared.

***Proprietary Contracts***

Revenue from proprietary contracts for clients is recognized in the same way as work in progress (POC) in accordance with the specific agreement.

***Interest Income***

Interest income is recognized as interest accrues. Interest income is included in financial income in the income statement.

***Royalty Income***

Royalty income is recognized on an accruals basis in accordance with the substance of the relevant agreements.

***Cost of Goods Sold (COGS) – Proprietary and Other***

Cost of goods sold consists of direct costs related to proprietary contract work and costs related to delivery of geoscientific data
.

### Multi-client Library

The multi-client library includes completed and in-progress geophysical and geological data to be licensed on a non-exclusive basis to oil and gas exploration and production companies. The costs directly attributable to data acquisition and processing are capitalized and included in the inventory value. The library also includes the cost of data purchased from third parties. The library of finished multi-client seismic data and interpretations is presented at cost reduced by accumulated amortization.

#### Amortization Related to Sales of Seismic Data

When establishing amortization rates for the multi-client seismic library, management bases their views on estimated future sales for each individual survey. Estimates are adjusted over time with the development of the market. Amortization is recorded in line with how revenues are recognized for each project, in proportion to the remaining net book value versus the estimated future revenue from that project. The revenue estimates are frequently updated and fully reviewed bi-annually. For work in progress, the amortization is based on estimated total cost versus forecasted total revenues of the project.

The consolidated amortization expense reported may vary considerably from one period to another depending on the actual mix of projects sold and changes to estimates.

#### Minimum Amortization Policy on Seismic Data

A minimum amortization criterion is applied: The maximum net book value of the individual survey one year after completion is 60% of original cost. The minimum cumulative amortization increases by 20% of cost each year thereafter, with the result that each survey is fully amortized in the balance sheet by the end of the fourth year following its completion.

#### Amortization Policy on Well Data Products

The library of multi-client well logs is presented at cost, reduced by accumulated amortization. Amortization is recorded as a straight-line amortization over seven years.

#### Impairment Test Library

When there are indicators that the book value may not be recoverable, the library is tested for impairment either individually per project (seismic and interpretation reports) or at the cash generating unit level (well logs) as appropriate.

### Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets in a business combination is its fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses, if any.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least annually. The straight-line amortization method is used for most intangible assets as this best reflects the consumption of the assets.

### Business Combinations and Goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions at the acquisition date. This includes the separation of embedded derivatives in host contracts by acquiree.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to fair value of the contingent consideration, which is deemed to be an asset or liability, will be recognized in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of IAS 39, it is measured in accordance with the appropriate IFRS.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill from a business combination is, from the acquisition date, allocated to each of the TGS Group's cash generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the TGS Group are assigned to those units. Each unit, or group of units to which the goodwill is allocated, represents the lowest level within the TGS Group at which the goodwill is monitored for internal management purposes. This involves recognizing identifiable assets (including previously unrecognized intangible assets) and liabilities (including contingent liabilities but excluding future restructuring) of the purchased business at fair value.

Should part of an operation carrying goodwill be disposed of, the goodwill which is associated with the disposed operation is then included in book value of the operation when determining the gain or loss on the disposal. The goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash generating unit retained.

When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation differences and goodwill is recognized in the income statement. Material subsidiaries sold are presented as discontinued operations or disposal groups of assets and liabilities as of the date when the transaction is highly probable.

Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the book value of the cash-generating unit (group of cash-generating units) to which goodwill has been allocated, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

***Tangible Non-current Assets and Principles of Depreciation***

Tangible non-current assets are presented at historical cost less accumulated depreciation and impairment charges. If an indication of impairment exists, an impairment test is performed. If the fair value of a tangible non-current asset is lower than book value, the asset will be written down to the higher of fair value less cost to sell and value in use. Depreciation is determined in light of the asset's useful life. Purchases which are expected to have a technical and economic life of more than one year are capitalized as tangible non-current assets. Depreciation begins when the assets are available for use. Tangible non-current assets held for sale are stated at the lower of book value and presumed market value and are not subject to depreciation.

***Software Development Costs***

Software development costs that do not meet the criteria of capitalization are expensed as incurred.

***Provisions***

Provisions are made when the TGS Group has a current obligation (legal or constructive) as result of a past event, it is probable that the TGS Group will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

If the effect of the time value of money is material, provisions are discounted using a pre-tax rate that reflects, where appropriate, the risks specific to the liability.

***Income Taxes***

***Current Income Tax***

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

***Deferred Tax***

Deferred tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities have been recognized for all taxable temporary differences.

Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred taxes relate to the same taxable company and the same taxation authority. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

The Parent Company pays its tax obligation in NOK and the fluctuations between the NOK and the USD impact the financial items. The TGS units that do not have their tax base in USD are exposed to changes in the USD/tax base-currency rates. Effects within the current year are classified as tax expense.

***Share-based Payments***

Key employees of the TGS Group receive remuneration in the form of share-based payment whereby employees render services as consideration for stock options and Stock Appreciation Rights (SARs).

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. The fair value is determined by an external value using an appropriate pricing model.

The cost of equity-settled transactions is recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the vesting date). The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the TGS Group's best estimate of the number of equity instruments that will ultimately vest. The income statement charge or credit for a period represents the movement in cumulative expense recognized at the beginning and end of that period. No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

In some tax jurisdictions, the Company receives a tax deduction in respect of remuneration in the form of stock options to employees. The tax deduction is not received until the stock options are exercised and is based on the intrinsic value of the award at the date of exercise. In accordance with IAS 12, the tax relief must be allocated between profit or loss and equity so that the amount of the tax deduction exceeding the cumulative cost of stock options expensed by the Company is recognized directly to equity.

The fair value of the SARs are measured at the end of each reporting period and are accrued over the period until the employees have earned an unconditional right to receive them (cash-settled transactions). The ultimate cost of such a cash-settled transaction will be the actual cash paid by TGS, which will be the fair value at settlement date. The fair value of the vested part of the SARs is recognized as a payroll expense and as a liability.

***Financial Investments and Other Financial Instruments***

The TGS Group classifies financial investments in the following categories: financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification at initial recognition and re-evaluates this designation at every reporting date. When financial assets or financial liabilities are recognized initially, they are measured at fair value, plus, for all financial investments other than those at fair value through profit or loss, directly attributable transaction costs. The purchases and sales of financial assets or financial liabilities are recognized at the date of trade.

The TGS Group does not apply hedge accounting.

***Financial Assets at Fair Value Through Profit or Loss***

Financial assets at fair value through profit or loss are derivative financial instruments and shares held for trading that are quoted in an active market with fair value changes recognized through the profit or loss statement.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognized in the income statement.

***Loans and Receivables***

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are subsequently carried at amortized cost using the effective interest method less any allowance for impairment. Amortized cost is calculated taking into account any discount or premium on payment and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognized in the income statement when the loans and receivables are de-recognized or impaired, the same as through the amortization process.

***Available-for-Sale Financial Assets***

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any other category. After initial measurement, the available-for-sale financial assets held are measured at fair value with unrealized gains or losses being recognized as other comprehensive income in the available-for-sale reserve, until the investment is derecognized. Then the cumulative gain or loss is recognized in other operating income, or determined to be impaired when a negative development is considered significant or prolonged, at which time the cumulative loss is recognized in the income statement in finance cost and removed from the available-for-sale reserve.

The fair value of financial investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined applying commonly used valuation techniques.

***De-recognition of Financial Assets and Liabilities***

A financial asset is de-recognized when:

- The rights to receive cash flows from the asset have expired, or
- The TGS Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the TGS Group has transferred its rights to receive cash flows from an asset but has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the TGS Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the TGS Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option on the transferred asset, the extent of the TGS Group's continuing involvement is the amount of the transferred asset that the TGS Group may repurchase, except that in the case of a written put option on an asset measured at fair value, the extent of the TGS Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

A financial liability is de-recognized when the obligation under the liability is discharged, cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the income statement.

***Impairment of Financial Assets***

The TGS Group assesses, at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and when observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

***Non-current Assets Held for Sale***

Non-current assets and disposal groups classified as held for sale are measured at the lower of the assets' previous book value and fair value less cost to sell. Non-current assets and disposal groups are classified as held for sale if their book value will be recovered principally through a sales transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Property, plant and equipment and intangible assets, once classified as held for sale, are not depreciated or amortized.

***Pensions***

The TGS Group operates defined-contribution plans in Norway, UK and in the US (401k), and covers superannuation in Australia. Contributions are charged to the income statement as they become payable.

***Leases***

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. The evaluation is based on the substance of the transaction at the inception date of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Finance leases are recorded as assets and liabilities, and lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in the income statement.

Operating lease payments are recognized as an expense in the income statement on a straight line basis over the lease term.

***Cash and Cash Equivalents***

Cash and cash equivalents in the balance sheet comprise cash in bank accounts and on hand and short-term deposits with an original maturity of three months or less.

***Accounts Receivable and Other Receivables***

Receivables are measured at cost less any amounts expected to be uncollectible.

***Treasury Shares***

TGS-NOPEC Geophysical Company ASA's shareholding of treasury shares is recorded using the par value method, where the total par value of the shares acquired is debited the treasury stock account, reducing total equity and the difference between the purchase price and par value is debited other equity. Gains or losses on sales of treasury shares are treated as equity transactions and booked directly to equity.

***Dividends***

A dividend approved by the Company's shareholders is recognized as a liability in the Group's financial statements.

This is treated differently in the Parent Company which reports its financial statements in accordance with the Norwegian Accounting Act and generally accepted accounting practices in Norway. The Parent Company recognizes dividends as a liability in the financial statements when it is proposed by the Board of Directors.

***Cash Flow Statement***

The cash flow statement is compiled using the direct method.

## Changes in Accounting Policy and Disclosures

***(a) New and amended standards and interpretations***

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on or after 1 January 2011 that would be expected to have a material impact on the group.

***(b) New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2011 and not early adopted***

- IFRS 7 Financial Instruments – Disclosures (amendment)
  The amendment relates to disclosure requirements for financial assets that are derecognized in their entirety, but where the entity has a continuing involvement. The amendments will assist users in understanding the implications of transfers of financial assets and the potential risks that may remain with the transferor. The amended IFRS 7 is effective for annual periods beginning on or after 1 July 2011. The Group expects to implement the amended IFRS 7 as of 1 January 2012. The amendment affects disclosure only and has no impact on the Group's financial position or performance.
- IFRS 7 Financial Instruments – Disclosures (amendment)
  The IASB has introduced new disclosure requirements in IFRS 7. These disclosures, which are similar to the new US GAAP requirements, would provide users with information that is useful in (a) evaluating the effect of potential effect of netting arrangements on an entity's financial position and (b) analyzing and comparing financial statements prepared in accordance with IFRSs and US GAAP. The amended IFRS 7 is effective for annual periods beginning on or after 1 January 2013, but the amendment is not yet approved by the EU. The Group expects to implement the amended IFRS 7 as of 1 January 2013. The amendment affects disclosure only and has no impact on the Group's financial position or performance.
- IFRS 9 Financial Instruments
  IFRS 9 as issued reflects the first phase of the IASBs work on replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. According to IFRS 9 financial assets with basic loan features shall be measured at amortized cost, unless one opts to measure these assets at fair value. All other financial assets shall be measured at fair value. The classification and measurement of financial liabilities under IFRS 9 is a continuation from IAS 39, with the exception of financial liabilities designated at fair value through profit or loss (fair value option), where change in fair value relating to own credit risk shall be separated and shall be presented in other comprehensive income. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. IFRS 9 is effective for annual periods beginning on or after 1 January 2015, but the standard is not yet approved by the EU. The Group expects to apply IFRS 9 as of 1 January 2015.
- IFRS 10 Consolidated Financial Statements
  IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation — Special Purpose Entities. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27. This standard becomes effective for annual periods beginning on or after 1 January 2013, but is not yet approved by the EU. The Group expects to apply IFRS 10 as of 1 January 2013.
- IFRS 11 Joint Arrangements
  IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities — Non-monetary Contributions by Venturers. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. This standard becomes effective for annual periods beginning on or after 1 January 2013, but is not yet approved by the EU. The Group expects to apply IFRS 11 as of 1 January 2013.
- IFRS 12 Disclosure of Involvement with Other Entities
  IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard becomes effective for annual periods beginning on or after 1 January 2013, but is not yet approved by the EU. The Group expects to apply IFRS 12 as of 1 January 2013.
- IFRS 13 Fair Value Measurement
  IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Group is currently assessing the impact that this standard will have on the financial position and performance. This standard becomes effective for annual periods beginning on or after 1 January 2013, but is not yet approved by the EU. The Group expects to apply IFRS 13 as of 1 January 2013.
- IAS 1 Financial Statement Presentation (amendment)
  The amendments to IAS 1 change the grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has there no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012, but is not yet approved by the EU. The Group expects to apply the amended IAS 1 as of 1 January 2013.
- IAS 12 Income Taxes (amendment)
  The amendments intend to provide a practical solution to a problem relating to investment properties that arises in certain jurisdictions. As a result of the amendments deferred tax on investment property measured at fair value is required to be determined using the rebuttable presumption that the carrying amount of the underlying asset will be recovered through sale (rather than use). The presumption is rebutted if the investment property is depreciable and it is held within a business model whose objective is to consume substantially all of the economic benefits in the investment property over time, rather

than through use. The amendments incorporate SIC 21 Income Taxes – Recovery of Revalued Non-Depreciable Assets into IAS 12. As a result IAS 12 will require that deferred tax arising from a non-depreciable asset measured using the revaluation model in IAS 16 Property, plant and equipment will always be determined on a sale basis. The amended IAS 12 is effective for annual periods beginning on or after 1 January 2012, but the amendment has not yet been approved by the EU. The Group expects to implement the amended IAS 12 as of 1 January 2012.

- IAS 27 Separate Financial Statements (as revised in 2011)
  As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. IAS 27 as revised in 2011 becomes effective for annual periods beginning on or after 1 January 2013, but the revised standard has not yet been approved by the EU. The Group expects to implement the revised IAS 27 as of 1 January 2013.
- IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)
  As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. IAS 28 as revised in 2011 becomes effective for annual periods beginning on or after 1 January 2013, but the revised standard has not yet been approved by the EU. The Group expects to implement the revised IAS 28 as of 1 January 2013.
- IAS 32 Financial Instruments - Presentation (amendment)
  The amendments to IAS 32 clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneously. The amended IAS 32 is effective for annual periods beginning on or after 1 January 2014, but the amendment has not yet been approved by the EU. The Group expects to implement the amended IAS 32 as of 1 January 2014.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the group.

# 2 Business Combinations

### Acquisitions 2011:

On 18 April 2011 the Company acquired 100% of the shares in Stingray Geophysical Ltd, a privately held company in United Kingdom. Stingray holds a license to commercialize fiber-optic sensing technology for seismic Permanent Reservoir Monitoring and some other oil and gas applications. The acquisition is expected to provide TGS with a strong position in the growing market of Permanent Reservoir Monitoring.

The allocation of the purchase price of Stingray has been based upon preliminary fair value studies.

| | Fair Value Recognized On Acquisition |
|---|---|
| **Assets** | |
| Other intangible assets (technology) | 30,916 |
| Deferred tax asset | 5,138 |
| Machinery and equipment | 69 |
| Other current receivables | 266 |
| Cash and cash equivalents | 1,149 |
| | **37,538** |
| **Liabilities** | |
| Deferred tax liability | (6,121) |
| Other current liabilities | (2,012) |
| | (8,133) |
| **Total identifiable net assets at fair value** | **29,405** |
| Goodwill arising on acquisition | 40,563 |
| **Purchase consideration transferred** | **69,968** |

The goodwill of USD 40.6 million comprises the value of expected synergies arising from the transaction, add-on values from the technologies and values related to the current workforce of Stingray. None of the goodwill recognized is expected to be deductible for income tax purposes.

From the date of acquisition, Stingray has represented a net loss before tax of USD 4.7 million to the consolidated statement of comprehensive income. No revenues are recognized during this period. If the combination had taken place at the beginning of the year, revenues would have been USD 0.1 million and the net loss before tax would have been USD 7.1 million.

| **Purchase consideration** | |
|---|---|
| Cash paid | 45,000 |
| Contingent consideration liability | 24,968 |
| **Total consideration** | **69,968** |

| **Analysis of cash flows on acquisition** | |
|---|---|
| Transaction costs of the acquisition | (1,362) |
| Net cash acquired with the subsidiary | 1,149 |
| **Net cash flow on acquisition** | **(213)** |

The transaction costs of USD 1.4 million have been expensed and are included in other operating expenses.

As part of the purchase agreement with the previous owners of Stingray, a contingent consideration has been agreed. There will be additional cash payments to the previous owners of Stingray of:

1. USD 14.0 million (Tranche 1), if awarded a contract to furnish and install a permanent reservoir monitoring system within 2 years from completing the transaction.
2. USD 14.0 million (Tranche 2), if completing the installation of the equipment as well as acquisition of data from reservoir(s) comprised by a qualifying contract. The final shot point of data must be completed within 3 years from the date of execution of the underlying agreement.
3. USD 7.0 million (Tranche 3), conditional upon a subsequent acquisition of data over the reservoir(s) originally shot as part of fulfillment of Trance 2. The acquisition must be completed within 3 years from the date of execution of the underlying agreement.

As at the acquisition date, the fair value of the contingent consideration was estimated at USD 25.0 million.

As at 31 December 2011, there has been no change in the amount recognized for the liability at the acquisition date as there has been no change in the range of outcomes or assumptions used to develop the estimate of the liability.

No other significant business combinations, either individually or collectively, has taken place in 2011.

## Acquisitions 2010:

On 15 June 2010 the Company purchased certain assets, considered to form a business, of P2 Energy Solutions (P2ES), a privately held company in the United States specializing in software, data and services for the oil and gas industry.

***Assets acquired***

The fair value of the identifiable assets of P2ES at the date of acquisition was:

| | **Fair Value Recognized On Acquisition** |
|---|---|
| Multi-client library | 2,900 |
| Intangible assets | 620 |
| Goodwill arising on acquisition | 105 |
| **Total assets acquired** | **3,625** |

| | |
|---|---|
| **Purchase consideration transferred** | **3,625** |
| P2ES multi-client library[1] | 2,900 |
| P2ES software[2] | 300 |
| P2ES non-compete agreements[3] | 320 |
| **Total identified values** | **3,520** |
| Goodwill | 105 |

*(1) Multi-client library: Represents the fair value of the directional surveys acquired.*
*(2) Software: Represents the fair value of the acquired software that will be used by the TGS Group to process and display directional surveys. This software contains certain code protected as trade secrets by the Company.*
*(3) Non-compete agreements: Fair value of three non-compete agreements legally restricting two key employees and P2ES from competing with TGS in any business activity related to the directional survey business anywhere in the world for two, three and five years.*

No other significant business combinations, either individually or collectively, took place in 2010.

## 3 Segment Information

TGS Group's reporting structure, as reported to the executive management, is broken down into the geographic areas forming the operating segments, North and South America (NSA), Europe and Russia (EUR) and Africa, Middle-East and Asia/Pacific (AMEAP).

In addition to these, the Group has segments that do not individually meet the quantitative thresholds to produce reportable segments. The segments which are aggregated and form "Other segments/Corporate costs" include GPS Well Logs, GPS Interpretations, Global Services, Imaging, Stingray, G&A and Corporate.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements. However, group financing (including finance costs and finance income) and income taxes are managed on a group basis and are not allocated to operating segments.

Transactions between operating segments are on an arm's length basis in a manner similar to transactions with third parties. No inter-segment sales between the reportable segments have taken place during 2011 or 2010.

| 2011 | North and South America | Europe and Russia | Africa, Middle East and Asia/Pacific | Other Segments/ Corporate Costs | Consolidated |
|---|---|---|---|---|---|
| Net operating revenues | 176,421 | 196,540 | 129,738 | 105,868 | 608,568 |
| Other revenues | | | | | |
| **Net external revenues** | **176,421** | **196,540** | **129,738** | **105,868** | **608,568** |
| Costs of goods sold - proprietary and other | – | 12,244 | 5 | 912 | 13,162 |
| Amortization of multi-client library | 73,243 | 71,485 | 78,588 | 18,193 | 241,509 |
| Operational costs | 3,794 | 28,335 | 6,325 | 68,057 | 106,512 |
| Depreciation and amortization | 102 | 204 | 83 | 6,595 | 6,985 |
| **Operating profit** | **99,283** | **84,271** | **44,737** | **12,110** | **240,402** |

| 2010 | North and South America | Europe and Russia | Africa, Middle East and Asia/Pacific | Other Segments/ Corporate Costs | Consolidated |
|---|---|---|---|---|---|
| Net operating revenues | 207,309 | 144,509 | 118,006 | 98,439 | 568,263 |
| Other revenues | | | | | |
| **Net external revenues** | **207,309** | **144,509** | **118,006** | **98,439** | **568,263** |
| Costs of goods sold - proprietary and other | – | 2,808 | 165 | 2,004 | 4,977 |
| Amortization of multi-client library | 96,592 | 49,483 | 85,603 | 16,196 | 247,874 |
| Operational costs | 2,861 | 6,503 | 8,454 | 60,701 | 78,519 |
| Depreciation and amortization | 9 | 105 | 234 | 9,438 | 9,785 |
| **Operating profit** | **107,847** | **85,610** | **23,550** | **10,101** | **227,108** |

A reconciliation of Operating profit to Profit before taxes is provided as follows:

| | 2011 | 2010 |
|---|---|---|
| Operating profit for reportable segments | 228,291 | 217,005 |
| Operating profit for other segments/corporate costs | 12,110 | 10,101 |
| **Total segments** | **240,402** | **227,108** |
| Financial income | 2,684 | 2,689 |
| Financial expenses | (246) | (44) |
| Exchange gains/losses | (1,815) | (1,391) |
| Impairment on financial assets available for sale | 121 | (617) |
| **Profit before taxes** | **241,146** | **227,745** |

"Total assets" and "Investments in non-current assets" per reportable segment is not a part of the information regularly provided to executive management. The Group does not report a measure of liabilities for the reportable segments.

As the operating segments reported are broken down to geographic areas, there is no further breakdown of revenues to the customer's country of domicile.

In 2011 and in 2010, no customers represented sales that amounted to 10% or more of net sales.

Analysis of revenues by product type:

| | 2011 | 2010 |
|---|---|---|
| 2D seismic | 195,068 | 159,800 |
| 3D seismic | 346,651 | 350,245 |
| Well logs and integrated products | 66,849 | 58,218 |
| **Total net revenues** | **608,568** | **568,263** |

## 4 Tangible Non-current Assets

| **2011** | | | |
|---|---|---|---|
| **Acquisition Cost and Depreciation:** | **Machinery and Equipment** | **Buildings[2]** | **Total** |
| Cost as of 1 January 2011 | 74,915 | 1,134 | 76,049 |
| Aquisition of a subsidiary | 103 | 35 | 138 |
| Additions | 12,956 | 78 | 13,034 |
| Disposals[1] | (992) | – | (992) |
| Exchange adjustment | (45) | – | (45) |
| Cost as of 31 December 2011 | 86,937 | 1,247 | 88,184 |
| | | | |
| Accumulated depreciation as of 1 January 2011 | 60,451 | 353 | 60,804 |
| Depreciation for the year | 3,271 | 78 | 3,349 |
| Accumulated amortization/depreciation on disposals[1] | (820) | – | (820) |
| Capitalized to the multi-client library | 5,313 | – | 5,313 |
| Exchange adjustment | (23) | – | (23) |
| Accumulated depreciation as of 31 December 2011 | 68,192 | 431 | 68,623 |
| | | | |
| Net book value as of 31 December 2011 | 18,746 | 816 | 19,561 |
| | | | |
| Useful life | 2 to 7 years | 50 years | |

*1) Profit on disposal during the year was USD 43*
*2) Buildings include some furniture and fixtures with a useful life of ten years*

**2010**

| **Acquisition Cost and Depreciation:** | **Machinery and Equipment** | **Buildings[2]** | **Total** |
|---|---|---|---|
| Cost as of 1 January 2010 | 75,116 | 1,528 | 76,644 |
| Reclassification | 396 | (396) | – |
| Additions | 5,710 | 24 | 5,734 |
| Disposals[1] | (6,228) | – | (6,228) |
| Exchange adjustment | (79) | (22) | (101) |
| Cost as of 31 December 2010 | 74,915 | 1,134 | 76,049 |
| | | | |
| Accumulated depreciation as of 1 January 2010 | 55,005 | 484 | 55,489 |
| Reclassification | 201 | (201) | – |
| Depreciation for the year | 5,778 | 78 | 5,856 |
| Accumulated amortization/depreciation on disposals[1] | (5,634) | – | (5,634) |
| Capitalized to the multi-client library | 5,142 | – | 5,142 |
| Exchange adjustment | (41) | (8) | (49) |
| Accumulated depreciation as of 31 December 2010 | 60,451 | 353 | 60,804 |
| | | | |
| Net book value as of 31 December 2010 | 14,465 | 780 | 15,244 |
| | | | |
| Useful life | 2 to 7 years | 50 years | |

*1) Profit on disposal during the year was USD 56*
*2) Buildings include some furniture and fixtures with a useful life of ten years*

## 5 Intangible Assets

**2011**

| **Acquisition Cost and Depreciation:** | **Goodwill** | **Multi-client Library** | **Other Intangible Assets** | **Total** |
|---|---|---|---|---|
| Cost as of 1 January 2011 | 55,880 | 1,674,338 | 65,696 | 1,795,914 |
| Business combinations | 40,563 | – | 30,916 | 71,479 |
| Additions | – | 276,804 | 1,834 | 278,638 |
| Exchange adjustment | – | 271 | (553) | (283) |
| Cost as of 31 December 2011 | 96,443 | 1,951,413 | 97,892 | 2,145,748 |
| | | | | |
| Accumulated depreciation as of 1 January 2011 | 10,043 | 1,198,793 | 42,082 | 1,250,918 |
| Amortization for the year | – | 241,509 | – | 241,509 |
| Depreciation for the year | – | – | 3,636 | 3,636 |
| Capitalized to the multi-client library | – | – | 5,610 | 5,610 |
| Exchange adjustment | – | (19) | (167) | (187) |
| Accumulated depreciation as of 31 December 2011 | 10,043 | 1,440,282 | 51,161 | 1,501,486 |
| | | | | |
| Net book value as of 31 December 2011 | 86,401 | 511,131 | 46,731 | 644,262 |
| | | | | |
| Useful life | | | 3 to 7 years | |

| 2010 | | | | |
|---|---|---|---|---|
| **Acquisition Cost and Depreciation:** | **Goodwill** | **Multi-client Library** | **Other Intangible Assets** | **Total** |
| Cost as of 1 January 2010 | 55,144 | 1,375,578 | 65,446 | 1,496,168 |
| Business combinations | 105 | 4,000 | 881 | 4,986 |
| Reclassification | 631 | – | (631) | – |
| Additions | – | 295,290 | – | 295,290 |
| Exchange adjustment | – | (170) | – | (170) |
| Cost as of 31 December 2010 | 55,880 | 1,674,698 | 65,696 | 1,796,273 |
| | | | | |
| Accumulated depreciation as of 1 January 2010 | 9,649 | 951,296 | 30,764 | 991,710 |
| Reclassification | 393 | – | (393) | |
| Amortization for the year | – | 247,874 | – | 247,874 |
| Depreciation for the year | – | – | 3,929 | 3,929 |
| Capitalized to the multi-client library | – | – | 7,782 | 7,782 |
| Exchange adjustment | – | (170) | – | (170) |
| Accumulated depreciation as of 31 December 2010 | 10,042 | 1,199,000 | 42,082 | 1,251,124 |
| | | | | |
| Net book value as of 31 December 2010 | 45,837 | 475,698 | 23,614 | 545,149 |
| | | | | |
| Useful life | | | 3 to 7 years | |

For the year ended 31 December 2011, USD 11.2 million of impairments is included in the amortization for the year (2010: USD 2.0 million).

See the General Accounting Policies for the amortization policies of the multi-client library.

For a description of the impairment testing of goodwill and other intangible assets, see Note 6.

# 6 Goodwill and Other Intangible Assets

| Specification of goodwill: | Imaging | GPS Well Data | GPS Interpretations | Stingray | Other[1] | Total |
|---|---|---|---|---|---|---|
| NBV as of 1 January 2011 | 25,406 | 11,798 | 7,558 | – | 1,076 | 45,838 |
| + /- changes during the year | – | – | – | 40,563 | – | 40,563 |
| NBV as of 31 December 2011 | 25,406 | 11,798 | 7,558 | 40,563 | 1,076 | 86,401 |

*1) Other includes goodwill related to CGUs within TGS ASA and Maglight AS*

| Specification of other intangible assets: | Imaging | GPS Well Data | GPS Interpretations | Stingray | Vessel Charter | Total |
|---|---|---|---|---|---|---|
| NBV as of 1 January 2011 | 20,356 | 1,953 | – | – | 1,306 | 23,615 |
| + /- changes during the year | (6,210) | (1,103) | 605 | 30,477 | (653) | 23,116 |
| NBV as of 31 December 2011 | 14,146 | 850 | 605 | 30,477 | 653 | 46,731 |

## Impairment testing of goodwill

In accordance with IFRS, TGS tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired. The test is performed at year end.

Based on the impairment testing performed, no impairment exists as of 31 December 2011.

Goodwill and other intangible assets acquired through business combination have been allocated to individual cash generating units (CGU) as referred to in the tables above. GPS Well Logs, GPS Interpretations and Imaging form operating segments which are included in "Other segments/Corporate costs" in Note 3.

All of the CGUs have been tested for impairment. We have commented below on 95% of the net book value of goodwill and other intangible assets as of 31 December 2011.

Discount rates represent the current market assessment of the risks specific to each CGU, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Group and its operating segments and is derived from its weighted average cost of capital (WACC). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investments by the Group's investors. The cost of debt is based on the Group's estimated interest costs. Segment-specific risk is incorporated by applying individual beta factors. The beta factors are evaluated annually based on public available market data.

### GPS Well Logs

The value in use of GPS Well Logs has been determined based on revenue and cash flow projections from financial estimates prepared by management of the business unit.  The approved budget has been used for 2012. A historical growth rate of 5% on all income statement items has been used for the subsequent four years.

A terminal value in 2016 of the business unit was determined by discounting the projected cash flow in 2016 assuming a nominal growth of 2.5%. The terminal value and the cash flows in the five year projection period were discounted using a 14% (pre tax) discount rate.

The impairment calculations are most sensitive to the changes in the forecasted growth rates and the discount rate. Management does not see any reasonable changes in key assumptions that would cause the value in use to be lower than its carrying value.

### Imaging

The goodwill and intangible assets acquired through the Nutec, Bips and PDS acquisitions have been combined for purposes of the goodwill impairment test because these combinations have resulted in the Imaging division of the Company.

The value in use of the division has been determined based on revenue and cash flow projections from financial estimates prepared by management of the business unit.  The approved budget has been used for 2012. A historical growth rate of 5% on all income statement items has been used for the subsequent four years.

This division of the Company also processes the multi-client projects of the Company and generates internal revenue from the Company's other divisions at an agreed cost plus rate. The internal revenue from processing the multi-client data has not been included in the impairment calculations.

A terminal value in 2016 of the business unit was determined by discounting the projected cash flow in 2016 assuming a nominal growth of 2.5%. The terminal value and the cash flows in the five year projection period were discounted using a 14% (pre tax) discount rate.

The impairment calculations are sensitive to the changes in the forecasted growth rates and the discount rate. Management does not see any reasonable change in key assumptions that would cause the value in use to be lower than its carrying value.

### GPS Interpretations

The recoverable amount of GPS Interpretations has been determined based on additional sales of the multi-client library deriving from the external interpretation work carried out by GPS Interpretations. The additional sales are estimated to be in the range of USD 2-10 million annually for the next five years. The lowest estimate has been used in the calculations together with a discount rate of 13% (pre tax).

A terminal value in 2016 of the business unit was determined by discounting the projected cash flow in 2016 assuming a nominal growth of 2.5%.

Management does not see any reasonable changes in key assumptions that would cause the value in use to be lower than its carrying value.

### Stingray

The value in use of Stingray has been determined based on revenue and cash flow projections from financial estimates prepared by management of the business unit.  These estimates are supplemented by the assessments made when performing a purchase price allocation in May 2011 and the preceding valuation analysis. The approved budget has been used for 2012.  Thereafter, a growth rate for four years has been decided in accordance with the valuation analysis and updated knowledge.

A terminal value in 2016 of the business unit was determined by discounting the projected cash flow in 2016 assuming a nominal growth of 2.5%. The terminal value and the cash flows in the five year projection period were discounted using a 21% (pre tax) discount rate.

The impairment calculations are sensitive to the changes in the forecasted growth rates and the discount rate. Management does not see any reasonable change in key assumptions that would cause the value in use to be lower than its carrying value. Further, calculations are sensitive to delayed project revenues compared to original plans made at the time of the acquisition. Postponements of twelve months compared to initial projections would however not lead to significant impairments.

# 7 Salaries / Benefits / Number of Employees / Audit Fees

| | 2011 | 2010 |
|---|---|---|
| Payroll | **64,298** | 58,850 |
| Social security costs | **5,828** | 5,224 |
| Pension costs | **2,847** | 2,546 |
| Other employee related costs | **5,798** | 4,762 |
| Salaries capitalized to multi-client library | **(20,362)** | (18,485) |
| Personnel costs | **58,409** | 52,897 |
| Cost of stock options (see Note 8) | **2,066** | 2,446 |
| Personnel costs and cost of stock options | **60,475** | 55,343 |

The number of employees per 31 December 2011 was 668 vs. 634 per 31 December 2010. No loans to employees are outstanding as of 31 December 2011 or 31 December 2010.

The Group has a profit sharing plan for all employees following a six month trial period. The profit sharing (bonus) is payable quarterly, and is calculated as a function of operating profit vs. budget and the individual employee's employment conditions. All bonuses earned in 2011 have been paid or accrued as of 31 December 2011.

| Board of Directors 2011 | Director's fee[1] | Value of Shares Received[2] | Total Remunerations |
|---|---|---|---|
| Hank Hamilton *(Chairman of the Board)*[3] | 365 | 48 | 413 |
| Colette Lewiner | 74 | 32 | 106 |
| Elisabeth Harstad | 89 | – | 89 |
| Mark Leonard | 74 | 32 | 106 |
| Bengt Lie Hansen | 74 | 32 | 106 |
| Vicki Messer *(Director from June 2011)* | 26 | 32 | 58 |

| Board of Directors 2010 | Director's fee[1] | Value of Shares Received[2] | Total Remunerations |
|---|---|---|---|
| Hank Hamilton *(Chairman of the Board)*[3] | – | – | – |
| Colette Lewiner | 45 | 18 | 63 |
| Elisabeth Harstad | 60 | – | 60 |
| Mark Leonard | 45 | 18 | 63 |
| Bengt Lie Hansen *(Director from June 2010)* | – | 18 | 18 |
| Arne-Kristian Mæland *(Director until June 2010)* | 45 | – | 45 |

*1) The tables include Director's fees paid during the year. With effect from June 2011, Directors receive fees on a bi-annual basis as decided by the AGM.*
*2) In June 2011, each of the Directors, other than the Chairman received 1,600 restricted shares in the Company, while the Chairman received 2,400 restricted shares. One of the Directors was not permitted by her employer to own shares in other companies and will receive cash in lieu of restricted shares in an amount equal to the amount the other Directors will be able to sell their restricted shares for at the closing share price on the first day that a sale is permitted.*
*3) Hank Hamilton did not receive a Director's fee for 2010. His compensation for 2010 is included under Executive Management below.*

| | No. of Restricted Shares Received During 2011 | No. of Shares Held 31/12/2011 |
|---|---|---|
| Hank Hamilton *(Chairman of the Board)* | 2,400 | 1,602,400 |
| Colette Lewiner *(Director)* | 1,600 | 7,700 |
| Elisabeth Harstad *(Director)* | – | – |
| Mark Leonard *(Director)* | 1,600 | 8,700 |
| Bengt Lie Hansen *(Director)* | 1,600 | 3,200 |
| Vicki Messer *(Director)* | 1,600 | 1,600 |

| Compensation to the Members of the Nomination Committee[1] | 2011 | 2010 |
|---|---|---|
| Nils B. Gulnes *(Chairman until June 2011)* | 44 | 25 |
| Tor Himberg-Larsen *(Chairman from June 2011)* | 26 | 12 |
| Jarl Ulvin | 26 | 12 |
| Christina Stray *(Member from June 2011)* | – | – |

*1) The table shows compensation paid during the year.*

| Executive Management | No. of Shares Held 31/12/2011 | No. of Options Held 31/12/2011 | No. of Options Granted in 2011 | No. of Options Exercised in 2011 | WAEP[1] (in NOK) |
|---|---|---|---|---|---|
| Robert Hobbs (CEO) | 26,500 | 135,000 | 50,000 | 12,500 | 70.80 |
| Kristian Johansen (CFO) | – | 28,000 | 28,000 | – | – |
| John Adamick (SVP Geological Products and Services) | 35,000 | 31,900 | 14,400 | 8,750 | 70.80 |
| Knut Agersborg (VP Geophysical Operations) | 2,100 | 72,000 | 28,000 | 41,000 | 97.88 |
| Martin Bett (SVP Stingray) | – | 28,000 | 28,000 | – | – |
| Bryan Dempsey (VP General Counsel) | – | 46,500 | 28,000 | 25,500 | 87.79 |
| Karen El-Tawil (VP Business Development) | 59,250 | 40,650 | 14,400 | – | – |
| Genevieve Erneta (VP Human Resources) | – | 31,900 | 14,400 | 8,750 | 70.80 |
| Stein Ove Isaksen (SVP North and South America) | 1,000 | 49,400 | 14,400 | – | – |
| Zhiming Li (SVP Data Processing and Research & Development) | 105,694 | 71,750 | 28,000 | 17,500 | 74.73 |
| Rod Starr (SVP Africa, Middle East, Asia Pacific) | 24,020 | 54,250 | 28,000 | 49,500 | 94.62 |
| Kjell Trommestad *(SVP Europe and Russia)* | 4 | 20,750 | 12,000 | 17,500 | 70.80 |

*1) WAEP: Weighted average exercise prices on options exercised*

| Executive Management 2011 | Salary | Bonuses | Other Benefits | Share-based Payments Expensed | Total Remunerations |
|---|---|---|---|---|---|
| Robert Hobbs | 445 | 1,039 | 14 | 181 | 1,679 |
| Kristian Johansen | 283 | 273 | 31 | 148 | 735 |
| John A. Adamick | 202 | 338 | 13 | 103 | 656 |
| Knut Agersborg | 202 | 163 | 31 | 97 | 493 |
| Martin Bett *(From 11 April)* | 160 | 61 | 17 | 34 | 272 |
| Bryan Dempsey | 139 | 106 | 13 | 67 | 325 |
| Karen El-Tawil | 205 | 359 | 13 | 103 | 680 |
| Genevieve Erneta | 174 | 87 | 13 | 103 | 377 |
| Rod Starr | 237 | 228 | 84 | 108 | 657 |
| Stein Ove Isaksen | 234 | 275 | 123 | 108 | 740 |
| Zhiming Li | 260 | 366 | 13 | 108 | 747 |
| Kjell E. Trommestad | 251 | 294 | 31 | 101 | 676 |

| Executive Management 2010 | Salary | Bonuses | Other Benefits | Share-based Payments Expensed | Total Remunerations |
|---|---|---|---|---|---|
| Robert Hobbs | 412 | 915 | 18 | 202 | 1,547 |
| Kristian Johansen *(CFO from 1 July)* | 146 | 55 | 14 | 54 | 269 |
| John A. Adamick | 206 | 293 | 17 | 67 | 583 |
| Knut Agersborg | 174 | 126 | 27 | 121 | 448 |
| Bryan Dempsey | 129 | 72 | 16 | 63 | 280 |
| Karen El-Tawil | 196 | 317 | 17 | 67 | 597 |
| Genevieve Erneta | 165 | 72 | 16 | 67 | 319 |
| David Hicks | 203 | 209 | 22 | 89 | 522 |
| Stein Ove Isaksen | 192 | 213 | 110 | 67 | 582 |
| Zhiming Li | 252 | 318 | 23 | 124 | 717 |
| Kjell E. Trommestad | 229 | 244 | 30 | 67 | 569 |
| Arne Helland *(CFO until 30 April)* | 367 | 226 | – | – | 593 |
| Hank Hamilton *(Non-executive advisor until 31 August)* | 242 | – | 23 | 36 | 302 |

Together with the other members of the executive management, Robert Hobbs participates in the Company's profit sharing bonus plan in the same manner that all other Company employees participate. Mr. Hobbs receives a bonus that is proportional to the TGS Group's annual operating profit before bonus charges and the target amount of each year's annual bonus is determined by the Board of Directors. The maximum amount payable to Mr. Hobbs in case of termination of his employment by the Board of Directors is equal to three times the highest annual base salary of the preceding three years spread over an ensuing three year period. The maximum amount payable in the same case of termination following a "change of control" event is three years total cash compensation.

Stein Ove Isaksen, Zhiming Li, and Rod Starr have employment contracts providing for a maximum amount payable in case of termination of employment equal to one times the highest annual base salary of the preceding three years spread over an ensuing one year period. The maximum amount payable in the same case of termination following a "change of control" event is one year total cash compensation.

The maximum amount payable to Kristian Johansen in case of termination of his employment by the Company amounts to six months base salary.

The maximum amount payable to Martin Bett in case of termination of employment by the Company amounts to full base salary and holiday entitlement up to the expiration of his employment agreement resulting from the acquisition of Stingray Geophysical Ltd. The expiration of this employment agreement is April 8, 2014.

No other members of the executive management team have termination agreements.

The members of the executive management receive a bonus that is proportional to the TGS Group's annual operating profit before bonus charges and the target amount of each year's annual bonus is determined by the Board.

| Auditor's Fee | 2011 | 2010 |
|---|---|---|
| Statutory audit | 575 | 624 |
| Other attestation services | 19 | 38 |
| Tax advice | 462 | 116 |
| Other services outside the audit scope | 107 | 42 |
| **Total fees** | **1,163** | **820** |

All amounts are exclusive of VAT.

The Company elected the audit company as its global tax advisor with effect from 2011.

## 08 Share-based Payment Plans

The Company has a stock option plan under which key employees are granted options secured by warrants or treasury shares.

When stock options are exercised, the transaction booked follows general procedures of an equity issue at agreed rates (exercise price). Following receipt of the subscription amount (exercise price) the Company issues new shares or transfer shares from treasury. Options granted under the 2008 and the 2011 plan are secured by treasury shares held.

At the Annual General Meeting on 4 June 2010, the proposed stock option plan and resolution to issue free-standing warrants did not obtain the required two-thirds qualified majority. As a result of this no new stock options and warrants were issued in 2010, but a limited amount of stock appreciation rights (SARs) were issued to key employees. The SARs plan is a cash-settled plan measured at the end of each reporting period. Under the terms of the SARs, 50% will vest three years after grant and 100% will be fully vested four years after grant. The SARs expire five years after grant if not exercised.

### The expense recognized for employee services during the year is shown in the following table:

| | 2011 | 2010 |
|---|---|---|
| Expense arising from equity-settled share-based payment plans | 2,066 | 2,446 |
| Expense arising from cash-settled share-based payment plans | 1,113 | 795 |

The Company's shares are traded in NOK at the Oslo Stock Exchange. The Company's functional currency is USD and the share-based payment plans will expose the Company for currency risk in relation to the amount of costs booked with fluctuations between NOK and USD.

The exercise price of the options is equal to the market price of the share at market close the day prior to grant. The contractual life of an option is five years and there are no cash settlement alternatives.

The fair value of share options granted is estimated at the date of the grant using the Black & Scholes model, taking into account the vesting pattern of each option.

There were 645,200 share options granted in 2011, while 506,050 SARs were granted in 2010.

The following table illustrates the number (No.) and weighted average prices (WAEP*) of, and movements in, share options during the year:

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | No. | WAEP (NOK) | No. | WAEP (NOK) |
| Outstanding at 1 January | 2,267,800 | 84.63 | 2,375,750 | 84.84 |
| Granted during the year | 645,200 | 113.80 | 506,050[1] | 86.15 |
| Forfeited during the year | (113,450) | 78.54 | (56,250) | 73.46 |
| Exercised during the year | 929,250 | 92.96 | 557,750 | 69.20 |
| Expired during the year | – | | – | |
| Outstanding at 31 December | 1,870,300 | 90.93 | 2,267,800 | 84.63 |
| Exercisable at 31 December | 312,750 | | 907,000 | |

*1) SARs*

The weighted average remaining contractual life for the share options outstanding on 31 December 2011 is 3.07 years (2010: 2.60 years).

The weighted average fair value of options granted during 2011 was NOK 59.90. The weighted average fair value of SARs granted during 2010 was NOK 8.94.

The range of exercise prices for options outstanding at the end of the year was NOK 70.80 - NOK 113.80 (2010: NOK 70.80 - NOK 105.50)

### The following table lists the input to the Black & Scholes model:

| | 2011 | 2010[1] |
|---|---|---|
| *Expected volatility* | | |
| For options vested after 3 years | 0.62 | 0.59 |
| For options vested after 4 years | 0.59 | 0.62 |
| *Expected risk-free interest rate* | | |
| For options vested after 3 years | 1.82% | 2.54% |
| For options vested after 4 years | 1.94% | 2.72% |
| Expected life of options beyond vesting period (years) | 1.00 | 1.00 |
| Expected annual turnover of employees | 1.00% | 1.00% |
| Dividend yield | 0.00% | 0.00% |

*1) SARs*

The expected life of the options is based on historical data and management's assessment. This is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumptions that the historical volatility is indicative of future trends, which may also deviate from the actual outcome

The option plan is equity-settled and the fair value is measured at grant date.

The fair value of the SARs is measured at every reporting date, and per 31 December 2011, the liability arising from the plan amounted to USD 1.9 million.

**Outstanding Stock Options/Warrants as of 31 December 2011:**

| No. of Options | Exercise Dates | Holders | Price/Conditions | Granted |
|---|---|---|---|---|
| 393,500 | See below[1] | Key employees | NOK 70.80 Warrants expiring on 4 June 2013 | 14 August 2008 |
| 382,750 | See below[2] | Key employees | NOK 78.66 Warrants expiring on 4 June 2014 | 13 August 2009 |
| 645,200 | See below[3] | Key employees | NOK 113.80 Secured by treasury shares. Options expiring on 7 June 2016 | 11 August 2011 |
| **1,421,450** | | | | |

**Outstanding SARs as of 31 December 2011:**

| No. of SARs | Exercise Dates | Holders | Price/Conditions | Granted |
|---|---|---|---|---|
| 448,850 | See below[4] | Key employees | NOK 86.15 SARs expiring on 3 June 2015 | 12 August 2010 |
| **448,850** | | | | |

*1) The holders may request shares issued in exchange for warrants as follows: Up to 25% beginning 14 August 2009, up to 50% beginning 14 August 2010 less previously exercised, up to 75% beginning 14 August 2011 less previously exercised and 100% beginning 14 August 2012 less previously exercised.*
*2) The holders may request shares issued in exchange for warrants as follows: Up to 25% beginning 13 August 2010, up to 50% beginning 13 August 2011 less previously exercised, up to 75% beginning 13 August 2012 less previously exercised and 100% beginning 13 August 2013 less previously exercised.*
*3) The holders may request shares in exchange for the stock options as follows: Up to 50% beginning 11 August 2014 and 100% beginning 11 August 2015 less previously exercised.*
*4) The holders may request exercise of up to 50% of the SARs beginning 12 August 2013 and 100% beginning 12 August 2014 less previously exercised.*

All stock options become immediately exercisable should a change of control occur as defined in the stock option plans. Additionally, terminated employees may exercise vested options and/or exchange warrants if an active exercise period is in progress at the time employment is terminated or, provided the employment was not terminated for cause, during the first Exercise period that begins after the termination date.

## 9 Earnings per Share

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding (net of treasury shares) during the year.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares (stock options) into ordinary shares.

The following reflects the income and share data used in the basic and diluted earnings per share computations:

| | 2011 | 2010 |
|---|---|---|
| Net profit attributable to ordinary equity holders of the Parent | 170,555 | 155,783 |
| Weighted average number of ordinary shares (excluding treasury shares) for basic earnings per share | 101,983 | 102,595 |
| Effect of dilution: | | |
| Share options | 1,431 | 1,811 |
| Weighted average number of ordinary shares (excluding treasury shares) adjusted for effect of dilution | 103,415 | 104,406 |
| Basic earnings per share | 1.67 | 1.52 |
| Diluted earnings per share | 1.65 | 1.49 |

On 23 February 2012, employees exercised 125,500 stock options. There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these financial statements.

## 10 Equity and Shareholders Authorizations

### Ordinary Shares Issued and Fully Paid

| | Number of Shares | USD |
|---|---|---|
| 1 January 2010 | 104,062,275 | 3,738 |
| Issued 2 March 2010 for cash on exercise of stock options | 250,000 | 11 |
| Issued 28 May 2010 for cash on exercise of stock options | 90,000 | 3 |
| Issued 19 August 2010 for cash on exercise of stock options | 2,500 | – |
| Cancelled 950,450 treasury shares held 2 September 2010 | (950,450) | (39) |
| Issued 23 November 2010 for cash on exercise of stock options | 31,500 | 1 |
| 31 December 2010 | 103,485,825 | 3,714 |
| Issued 4 March 2011 for cash on exercise of stock options | 427,750 | 19 |
| Issued 27 May 2011 for cash on exercise of stock options | 178,750 | 8 |
| Issued 23 August 2011 for cash on exercise of stock options | 51,750 | 2 |
| Cancelled 741,701 treasury shares held 23 August 2011 | (741,701) | (32) |
| Issued 22 November 2011 for cash on exercise of stock options | 22,000 | 1 |
| 31 December 2011 | 103,424,374 | 3,713 |

### Treasury Shares

The Company, from time to time, buys back shares under authorizations given by the shareholders. The shares may be held in treasury, used as payment in M&A transactions, used in relation to exercise of employees' stock options, or eventually cancelled. As of 31 December 2011 the Company held 1,816,250 treasury shares, 1.8% of the total shares issued (2010: 1,567,151 shares, 1.5%). During 2011 the Company bought back shares for USD 30.0 million.

The following table shows the movement of treasury share holdings:

| | Number of Shares | USD |
|---|---|---|
| 1 January 2010 | 947,750 | 37 |
| Treasury shares used to cover exercises and distributed to Board members (Note 7 and 8) | (188,550) | (8) |
| Shares bought back in 2010 | 1,758,401 | 73 |
| Cancellation of treasury shares in 2010 | (950,450) | (39) |
| 31 December 2010 | 1,567,151 | 63 |
| Treasury shares used to cover exercises and distributed to Board members (Note 7 and 8) | (257,800) | (10) |
| Shares bought back in 2011 | 1,248,600 | 56 |
| Cancellation of treasury shares in 2011 | (741,701) | (32) |
| 31 December 2011 | 1,816,250 | 76 |

### Shareholders' Authorization to the Board to Increase Share Capital in the Company

By resolution of the Annual General Meeting held 7 June 2011, the Board is authorized to, on behalf of the Company, increase share capital of the Company with up to NOK 2,597,839 by issuance of up to 10,391,356 new shares, each at the par value of NOK 0.25. This authorization shall be valid until 6 June 2012. The Board of Directors may resolve that the shareholders shall not have their preemption rights to subscribe for the new shares as stipulated in the Public Limited Companies Act section 10-14. This authority includes capital increase by issuance of new shares both against payment in cash and against payment in kind. The authorization can be used in connection with a merger in accordance with the Public Limited Companies Act section 13-5.

### Shareholders' Authorization to the Board to Buy Back Shares in the Company

By resolution of the Annual General Meeting held 7 June 2011, the Board is authorized to, on behalf of the Company, acquire Company own shares for an aggregate par value of NOK 5,000,000, provided that the total amount of own shares at no time exceed 10% of the Company's share capital. The lowest price to be paid per share shall be NOK 0.25 and the highest price to be paid per share shall be the price as quoted on the stock exchange at the time of acquisition plus 5%. Acquisition and sale of the Company's own shares can take place in the manner which the Board of Directors considers to be in the Company's best interest, but not through subscription of new shares. This authorization expires on 6 June 2012.

The Company purchased 1,248,600 own shares during 2011 related to this authorization.

### Dividends Paid and Proposed

The Board of Directors propose to the shareholders at the June 2012 Annual General Meeting a dividend of NOK 6 per share of outstanding common stock.

The Annual General Meeting held 7 June 2011 approved the Board of Directors' proposal to distribute dividend for 2010 of NOK 5 per share, of which NOK 2 was non-recurring distribution. Following this approval, dividend payments totalling USD 93.4 million were made.

### The 20 Largest Shareholders as of 31 December 2011 as Registered with VPS:

| Name | Country | Account Type | Shares | Percent |
|---|---|---|---|---|
| FOLKETRYGDFONDET | NORWAY | | 9,593,391 | 9.4% |
| STATE STREET BANK AND TRUST CO. | US | Nominee | 6,337,695 | 6.2% |
| CLEARSTREAM BANKING S.A. | LUXEMBOURG | Nominee | 4,110,910 | 4.0% |
| JPMORGAN CHASE BANK | GREAT BRITAIN | Nominee | 3,803,516 | 3.7% |
| PARETO AKSJE NORGE | NORWAY | | 3,626,956 | 3.6% |
| THE NORTHERN TRUST COMPANY SUB | NORWAY | Nominee | 2,820,000 | 2.8% |
| BANK OF NEW YORK MELLON | US | Nominee | 2,254,353 | 2.2% |
| BNYM AS EMEA ASIA 25 OMNIBUS | US | Nominee | 2,242,155 | 2.2% |
| STATE STREET BANK AND TRUST CO | US | Nominee | 2,020,956 | 2.0% |
| STATE STREET BANK & TRUST CO. | US | Nominee | 1,840,488 | 1.8% |
| PARETO AKTIV | NORWAY | | 1,676,693 | 1.7% |
| HAMILTON, HENRY HAYWOOD | US | | 1,602,400 | 1.6% |
| JPMORGAN CHASE BANK | GREAT BRITAIN | Nominee | 1,341,116 | 1.3% |
| STATE STREET BANK AND TRUST CO. | US | Nominee | 1,284,631 | 1.3% |
| JPMORGAN CHASE BANK | GREAT BRITAIN | Nominee | 1,177,229 | 1.2% |
| EGERTON CAPITAL LTD | GREAT BRITAIN | | 1,150,796 | 1.1% |
| SKAGEN VEKST | NORWAY | | 1,075,867 | 1.1% |
| THE NORTHERN TRUST CO. | GREAT BRITAIN | Nominee | 982,899 | 1.0% |
| STATE STREET BANK AND TRUST CO. | US | Nominee | 940,565 | 0.9% |
| PERSHING LLC | US | Nominee | 925,330 | 0.9% |
| **20 largest shareholders** | | | **50,807,946** | **50.0%** |
| **Total number of shares (excluding treasury shares), par value of NOK 0.25** | | | **101,608,124** | **100.0%** |

Norwegian shareholders held 36,275,349 (35.7%) of the Company's outstanding shares (excluding treasury shares) at 31 December 2011. Shares held in treasury at 31 December 2011 were 1,816,250.

# 11 Cash and Cash Equivalents

Cash and cash equivalents include demand deposits and high liquid instruments purchased with maturities of three months or less.

| Cash and cash equivalent | 2011 | 2010 |
|---|---|---|
| Bank deposits | 335,223 | 289,605 |
| Restricted cash deposits | 486 | 580 |
| **Total cash bank deposits** | **335,709** | **290,185** |

The bank deposits are mainly denominated in USD. Restricted cash deposits are for employee tax withholdings.

# 12 Related Parties

## Terms and Conditions of Transactions with Related Parties

No material transactions took place during 2011 or 2010 with related parties.

All companies within the TGS Group are 100% owned, directly or indirectly, by the Parent Company. See Note 26 for further information about the subsidiaries. Internal transactions are eliminated in the group accounts and do not represent transactions with related parties.

See Note 7 for further information of the remuneration to the Board of Directors and to the executive management.

# 13 Financial Risk Management Objectives and Policies

The TGS Group has various financial assets such as accounts receivables, cash and financial investments available for sale, which arise directly from its operations. These are mainly held in USD, which is the functional currency to most of the Group entities. The TGS Group's principal financial liabilities comprise of trade payables and other current liabilities. The main source for financing is equity. The TGS Group does not hold any currency or interest rate swaps.

It is, and has been, the TGS Group's policy that no trading in derivatives shall be undertaken. The main risks arising from the financial risk management are currency risk, liquidity risk and credit risk.

The Board of Directors reviews and agrees policies for managing each of these risks which are summarized below.

## Currency Risk

Major portions of the TGS Group's revenues and costs are in US dollars. Due to this, the TGS Group's operational exposure to exchange rate fluctuation is low. However, as the Parent Company pays taxes in Norwegian kroner to Norwegian Tax Authorities, fluctuations between the NOK and the USD impact currency exchange gains or losses on tax expense and financial items of the consolidated accounts. For taxes payable in NOK, a change of 10% on the NOK/USD currency exchange rate could have an impact of equity of approximately USD 3.8 million (2010: USD 2.5 million) with a corresponding effect to profit or loss.

## Liquidity Risk

Liquidity risk arises from a lack of correlation between cash flow from operations and financial commitments. Management considers the liquidity risk as low. Per the balance sheet date, the TGS Group held current assets of USD 632.4 million, of which cash and cash equivalents represent USD 335.7 million and current liabilities USD 210.2 million.

The table shows a maturity analysis for the different financial items:

| 2011 | 0-6 Months | 6-12 Months | > 1 Year | Total |
|---|---|---|---|---|
| Accounts payable and debt to partners | 101,000 | – | – | 101,000 |
| Other non-current liabilities | – | – | 29,253 | 29,253 |
| **Total** | **101,000** | **–** | **29,253** | **130,253** |

| 2010 | 0-6 Months | 6-12 Months | > 1 Year | Total |
|---|---|---|---|---|
| Accounts payable and debt to partners | 112,845 | – | – | 112,845 |
| Other non-current liabilities | – | – | 12,715 | 12,715 |
| **Total** | **112,845** | **–** | **12,715** | **125,560** |

## Credit Risk

All placements of excess cash are either bank deposits or in financial instruments that at minimum carry an "investment grade" rating. The Company's clients are oil and gas companies. TGS is exposed to credit risk through sales and uses best efforts to manage this risk. As per 31 December 2011, the Company has made a provision of USD 3.5 million against certain accounts receivables (2010: USD 2.3 million).

The Company from time to time accepts extended payment terms on parts of firm commitments from clients. To the extent these terms do not carry interest compensation to be paid by clients, the revenues recognized by the Company are discounted to reflect this element. The Company may also seek extra security from the clients in certain cases, such as overriding royalty interest agreements (ORRIs) or carried interest in an exploration license held by the client or a conversion right to equity.

At 31 December 2011, none of the outstanding accounts receivable were secured by ORRIs.

Other non-current assets originally comprised two loans to E&P Holding AS and Skeie Energy AS of USD 21.0 million and USD 21.1 million, gross to the Company, entered into in 2009. The related revenue share agreements amounted to USD 12.7 million. Accordingly, TGS' nominal net exposure was at USD 29.4 million. Following restructuring agreements signed on 23 December 2011, TGS has decided, subject to the raising of new equity in Skeie Energy AS and a restructuring of the E&P Holding Group's indebtedness, to convert its originally outstanding loan to Skeie Energy AS of USD 21.1 million to equity during the first half of 2012. A structured process of raising new cash equity capital in Skeie Energy AS was initiated following the restructuring agreements.

E&P Holding AS will not undertake any future business activities, but will pursue a structured process of collecting outstanding receivables.

Based on the restructuring agreements, the Company has reconsidered the fair value of the loans and the related revenue share agreements. The loss recognized in 2011 amounts to USD 19.5 million. After including the effect of the embedded derivative (see Note 14), TGS' net exposure to the E&P Holding Group is at USD 9.5 million per 31 December 2011.

For details of the auction rate securities, please see Note 15.

For details of the accounts receivables, please see Note 16.

## Political Risk

The TGS Group's investments in multi-client surveys are to a certain extent exposed to risk associated with change in political climate or regimes around the world.

## Oil and Gas Prices

The activities of TGS Group's clients, oil and gas companies, change following shifts in commodity prices in the market or future expectations of such. This impacts the TGS Group's activity and profitability.

## Capital Management

The goals for TGS's capital management of funds held are to:

1. Protect and preserve investment principal
2. Provide liquidity
3. Return a market rate of return or better

The main source for financing is equity. As per 31 December 2011, total equity represented 73% of total assets.

## Fair Value of Financial Instruments

Set out below is a comparison by class of the book value and fair value of the financial instruments that are carried in the financial statements.

The fair value of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

- Cash and cash equivalents, accounts receivables and other short term receivables approximate their carrying amounts largely due to the short-term maturities of these instruments
- Fair value of derivative financial instruments and available-for-sale financial assets (ARS) are estimated using appropriate valuation techniques
- Fair value of other financial non-current assets is evaluated by the Company based on parameters such as interest rates and the individual creditworthiness of the counterparty
- Fair value of other financial liabilities is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities

| 2011 | Carrying Amount | Fair Value | Financial Instruments by Category: Cash and Cash Equivalents | Loans and Receivables | Assets/Liabilities at Fair Value Through the Profit and Loss | Available for Sale | Other Financial Liabilities |
|---|---|---|---|---|---|---|---|
| **Financial Assets** | | | | | | | |
| Cash and cash equivalents | 335,709 | 335,709 | 335,709 | – | – | – | – |
| Accounts receivables and other short term receivables | 277,735 | 277,735 | – | 277,735 | – | – | – |
| Derivative financial instruments | – | – | – | – | – | – | – |
| Auction rate securities (ARS) | 18,963 | 18,963 | – | – | – | 18,963 | – |
| Other non-current assets | 13,814 | 13,814 | – | 13,814 | – | – | – |
| **Total** | **646,221** | **646,221** | **335,709** | **291,549** | **–** | **18,963** | **–** |
| **Financial Liabilities** | | | | | | | |
| Other non-current liabilities | 29,253 | 29,253 | – | – | – | – | 29,253 |
| **Total** | **29,253** | **29,253** | **–** | **–** | **–** | **–** | **29,253** |

| 2010 | Carrying Amount | Fair Value | Financial Instruments by Category: Cash and Cash Equivalents | Loans and Receivables | Assets/Liabilities at Fair Value Through the Profit and Loss | Available for Sale | Other Financial Liabilities |
|---|---|---|---|---|---|---|---|
| **Financial Assets** | | | | | | | |
| Cash and cash equivalents | 290,185 | 290,185 | 290,185 | – | – | – | – |
| Accounts receivables and other short term receivables | 291,035 | 291,035 | – | 291,035 | – | – | – |
| Derivative financial instruments | 384 | 384 | – | – | 384 | – | – |
| Auction rate securities (ARS) | 21,123 | 21,123 | – | – | – | 21,123 | – |
| Other non-current assets | 41,744 | 41,744 | – | 41,744 | – | – | – |
| **Total** | **644,471** | **644,471** | **290,185** | **332,779** | **384** | **21,123** | **–** |
| **Financial Liabilities** | | | | | | | |
| Other non-current liabilities | 12,715 | 12,715 | – | – | – | – | 12,715 |
| **Total** | **12,715** | **12,715** | **–** | **–** | **–** | **–** | **12,715** |

## Fair Value Hierarchy

The TGS Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities
- Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly
- Level 3: Techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The financial derivative related to a convertible loan agreement with the E&P Holding Group and the available for sale investments are valued by level 3-techniques. The valuation of the derivative was performed by using a Black & Scholes model with Monte Carlo simulation. Note 15 describes the valuation of the available for sale investments.

Other non-current assets comprise two loans to the E&P Holding Group. Together with the related revenue share agreements which go into "Other non-current liabilities", fair values have been determined by using a level 2-technique.

The fair value of the contingent consideration liability related to the acquisition of 100% of the shares in Stingray Geophysical Ltd in April 2011 has been determined by a level 3-technique. The contingent consideration liability is included in "Other non-current liabilities".

In 2011, the TGS Group incurred a loss of USD 0.4 million in the statement of comprehensive income with respect to the derivative financial instruments (2010: USD 0 million). For the available for sale investments, USD 1.2 million was recorded as a financial income (2010: USD 1.2 million) and USD 0.8 million was recorded as a financial expense in 2011 (2010: USD 0.6 million). USD 1.3 million was recognized as a gain in other comprehensive income in 2011 with respect to the available for sale investments (2010: USD 0.1 million).

No changes have been made to the fair value of the contingent consideration liability during 2011, which is further described in Note 2. By changing the probabilities of having to make the additional payments by 5%, the contingent consideration liability would change by USD 1.4 million. By delaying the two first tranche payments with 6 months each, the contingent consideration liability would be reduced by USD 1.3 million.

# 14 Other Financial Assets and Liabilities

## Other Financial Assets

| | 2011 | 2010 |
|---|---|---|
| **Financial instruments at fair value through profit or loss** | | |
| Embedded derivatives | – | 384 |
| **Total financial instruments at fair value** | **–** | **384** |
| **Loans and receivables** | | |
| Interest bearing loans | 13,814 | 41,744 |
| **Total loans and receivables** | **13,814** | **41,744** |
| **Available for sale investments** | | |
| Auction rate securities | 18,963 | 21,123 |
| **Total loans and receivables** | **18,963** | **21,123** |
| **Total other financial assets** | **32,777** | **63,251** |
| **Total current** | **18,963** | **21,507** |
| **Total non-current** | **13,814** | **41,744** |

## Other Financial Liabilities

| | 2011 | 2010 |
|---|---|---|
| **Other financial liabilities** | | |
| Interest bearing loans | 4,285 | 12,715 |
| Contingent consideration liability | 24,968 | – |
| **Total other financial liabilities** | **29,253** | **12,715** |
| **Total current** | **–** | – |
| **Total non-current** | **29,253** | 12,715 |

## Embedded Derivatives

During 2011, an embedded derivative related to a convertible loan agreement with the E&P Holding Group has been carried at fair value through profit or loss. Following restructuring agreements signed on 23 December 2011, TGS has decided, subject to the raising of new equity in Skeie Energy AS and a restructuring of the E&P Holding Group's indebtedness, to convert its outstanding loan to Skeie Energy AS of USD 21.1 million to equity during the first half of 2012. A structured process of raising new cash equity capital in Skeie Energy AS has been initiated following the restructuring agreements. Accordingly, the fair value of the embedded derivative has been considered to be USD 0 million per 31 December 2011. The loss recognized in 2011 amounts to USD 0.4 million.

### Interest Bearing Loans

During 2011, the two loans to the E&P Holding Group have been interest bearing at a rate equal to the default interest rate from time to time prescribed for under the Norwegian Default Interest Act. Due to the uncertainty related to the collectability, the Company has not recognized any interest revenue during 2011.

Based on the restructuring agreements, TGS has updated the fair value assessments of the loans and the related revenue share agreements. TGS has decided, subject to the raising of new equity in Skeie Energy AS and a restructuring of the E&P Holding Group's indebtedness, to convert its originally outstanding loan to Skeie Energy AS of USD 21.1 million to equity during the first half of 2012. E&P Holding AS will not undertake any future business activities, but will pursue a structured process of collecting outstanding receivables.

The fair value of the loans and the related revenue share agreements amounts to USD 9.5 million per 31 December 2011. Consequently, an impairment of USD 19.5 million has been recognized, due to the nature of the loans, through other operating expenses. After the impairment, the fair value of the loans are at USD 13.8 million while the fair value of the revenue share agreements are at USD 4.3 million.

### Contingent Consideration Liability

For a detailed description, see Note 2.

### Auction Rate Securities

For a detailed description, see Note 15.

## 15 Available for Sale Financial Investments (ARS)

| Security | Quantity | Cost Price | Fair Value | Unrealized Write-down | Accrued Interest | Fair Value Plus Accrued Interest |
|---|---|---|---|---|---|---|
| Blackrock Muni Investment Fund A F28 | 49 | 1,225 | 1,225 | – | 0.07 | 1,225 |
| Blackrock Muni Yield Quality Fund II B F28 | 5 | 125 | 125 | – | – | 125 |
| Blackrock Municipal Quality Fund II A F28 | 40 | 1,000 | 1,000 | – | 0.06 | 1,000 |
| DNP Select Income Fund V E | 50 | 5,000 | 3,750 | (1,250) | 0.60 | 3,751 |
| Neuberger Berman Intermediate Municipal Fund | 195 | 4,875 | 3,656 | (1,219) | 0.12 | 3,656 |
| VKM Advantage Municipal Income II H | 10 | 250 | 248 | (2) | 0.03 | 248 |
| VKM Municipal Opportunity TR I A | 89 | 2,225 | 2,203 | (22) | 0.08 | 2,203 |
| VKM Municipal Opportunity TR I E | 27 | 675 | 668 | (7) | 0.05 | 668 |
| VKM Municipal Opportunity TR I F | 12 | 300 | 297 | (3) | – | 297 |
| VKM Municipal Trust D | 14 | 350 | 347 | (3) | 0.01 | 347 |
| VKM Select Sector C A | 76 | 1,900 | 1,881 | (19) | 0.20 | 1,881 |
| VKM Select Sector II B | 26 | 650 | 643 | (7) | 0.02 | 643 |
| VKM Trust Investment Grade D | 82 | 2,050 | 2,029 | (21) | 0.07 | 2,029 |
| VKM Trust Investment Grade G | 36 | 900 | 891 | (9) | 0.02 | 891 |
| **Total** | | **21,525** | **18,962** | **(2,562)** | **1.32** | **18,963** |

As of 31 December 2011, TGS held USD 21.5 million in auction rate securities (ARS) comprised of AAA-rated closed-end funds. An ARS is an instrument for which the interest rate is reset when the instrument trades, typically every 7, 28, or 35 days, through a descending price auction. When an ARS is up for trade, buyers submit a bid and the lowest rate necessary to sell the last available share establishes the clearing rate. If there are not enough buyers, then a failed auction occurs. A failed auction is not a default; the holder of the ARS continues to hold the security and receive interest payments at the failed rate – a maximum rate defined by the issuer. The most significant impact of a failed auction is a loss of liquidity; the security for which an auction has failed will continue to pay interest and be auctioned every 7, 28 or 35 days until there are buyers, the issuer calls the security for redemption, the issuer establishes a different form of financing to replace the security or the security matures.

TGS began experiencing failed auctions in February 2008. Since experiencing the first failed auction, TGS has received redemptions from the issuers totaling USD 65.1 million of ARS at par value and USD 4.8 million at 93% of par value. Of these, USD 65.7 million were redeemed prior to 2011, USD 4.0 million in Q2 2011 and USD 0.2 million in Q3 2011.

The ARS portfolio is deemed to be a current financial investment available for sale. The Company has sufficient cash and financial capacity to finance its operations and other known potential liabilities without selling the ARS. TGS intends, however, to continue to sell these given the right opportunities.

As of 31 December 2011, the ARS portfolio was valued by an external party using a valuation technique that weights comparable secondary market transactions that have closed and discounted cash flows to determine fair market value. For the market comparables method, the ARS are valued based on indications from the secondary market, of what discounts buyers demand when purchasing similar ARS. For the discounted cash flow model valuation, the expected cash flows of the ARS are discounted to the present using a yield that incorporates compensation for illiquidity and a term which incorporates the possibility of redemption of the ARS by the issuing fund. The weighted average yield for the discounted cash flow model was 4%. The concluded discount is derived using a higher weighting on the market comparables method (3:1) to reflect the robustness of available secondary market transaction data.

The fair value valuation resulted in a net reduction of the book value of the ARS's amounting to USD 2.6 million (2010: USD 4.6 million).

Factors that may impact valuation of the ARS portfolio include comparable secondary market sales, length of maturity, potential for redemptions, credit ratings of the securities and underlying assets, ARS maximum yields and market interest rates. Key assumptions used in the valuation technique are the weighting given to the comparable transactions and discounted cash flows models (3:1) and the assumed term to a liquidity event (8-13 years) based on maturity and redemption potential. Thus, the fair market values determined by using this valuation technique are sensitive to decreases in the price of comparable secondary market sales and a reduction in the redemption potential that could result in additional future write-downs.

Either a 1% change in the price of comparable secondary market sales or a one year change in the term to a liquidity event will result in a USD 0.2 million fair value gain or loss.

## 16 Accounts Receivable and Other Short-term Receivables

Accounts receivable are stated in the balance sheet at net realizable value.

In cases where extended payment terms have been agreed, the time-value-of-money is reflected in the stated amount.

| | **2011** | **2010** |
|---|---|---|
| Accounts receivables | 255,470 | 287,500 |
| - Provision for impairment of accounts receivables | (3,474) | (2,253) |
| Accounts receivables - net | 251,996 | 285,247 |
| Other short-term receivables | 25,739 | 5,788 |
| **Total accounts receivables and other short-term receivables** | **277,735** | **291,035** |

The aging of the accounts receivables is as follows:

| | **Total** | **Not Due** | **< 30 Days** | **30 - 60 Days** | **60 - 90 Days** | **90 - 120 Days** | **Over 120 Days** |
|---|---|---|---|---|---|---|---|
| **2011** | **251,996** | 221,027 | 14,931 | 2,225 | 5,287 | 844 | 7,682 |

| | **Total** | **Not Due** | **< 30 Days** | **30 - 60 Days** | **60 - 90 Days** | **90 - 120 Days** | **Over 120 Days** |
|---|---|---|---|---|---|---|---|
| **2010** | **285,247** | 238,906 | 12,629 | 3,048 | 4,674 | 2,445 | 23,545 |

Receivables with impairment provisions are all within the aging group "Over 120 days".

Movements on the group provision for impairment of accounts receivables are as follows:

| | **2011** | **2010** |
|---|---|---|
| At 1 January | 2,253 | 2,500 |
| Provision for receivables impairment | 2,864 | 1,366 |
| Receivables written off during the year as uncollectible | 110 | – |
| Unused amount reversed | (1,753) | (1,613) |
| **At 31 December** | **3,474** | **2,253** |

The provision for impaired receivables has been included in "Other operating expense" in the statement of comprehensive income. Amounts charged to the allowance account are generally written off, when there is no expectation of recovering additional cash.

For a description of credit risk, see Note 13.

# 17 Accounts Payable and Other Payables

| | 2011 | 2010 |
|---|---|---|
| Accounts payable and debt to partners | 101,000 | 112,845 |
| Other current liabilities | 66,130 | 55,229 |
| **Total accounts payable and other payables** | **167,130** | **168,074** |

Accounts payables are non-interest bearing and are normally settled on 30-day terms.

Other current liabilities consist of accrued expenses and deferred revenues.

# 18 Bank Overdraft Facility and Guarantees

## Multi Currency Bank Overdraft Facility

Limit USD 10.0 million. Terms: US Fed Funds Daily Effective Rate + 0.75% per annum on drawn currency amounts. Facility fee: 0.1% per annum on the total facility amount. Both parties have a mutual right to terminate the agreement on 14 days notice. Per 31 December 2011 the TGS Group had not drawn on this facility.

| Book Value of Assets Used as Collateral | 2011 | 2010 |
|---|---|---|
| Accounts receivable | 77,390 | 53,982 |
| Multi-client library | 404,399 | 408,271 |
| Machinery, equipment | 1,436 | 1,790 |
| **Total** | **483,226** | **464,044** |

## Bank Guarantees

Per 31 December 2011, the Company's bank has issued a bank guarantee on behalf of the Company of USD 0.2 million in conjunction with the Company's lease contract for the premises in Asker, Norway. The bank has also issued a bank guarantee on behalf of the Company of USD 0.5 million for a subsidiary's customer and a bank guarantee on behalf of the Company of USD 0.2 million related to a seismic project.

# 19 Commitments and Contingencies

## Operating Leases - Group as Lessee

The TGS Group has entered into commercial leases on certain office premises and office equipment. The leases for premises expire between 1-10 years and have renewal options. There are no restrictions placed upon the lessee by entering into these leases.

Operating leases of USD 4.9 million were recognized as expenses in 2011.

Future minimum payments for operating leases at 31 December are as follows:

| | 2011 | 2010 |
|---|---|---|
| Within one year | 4,431 | 3,289 |
| After one year but not more than five years | 18,792 | 14,784 |
| More than five years | 5,350 | 4,933 |
| | **28,573** | **23,006** |

The Company has entered into commitments for current charter hire of seven 3D seismic acquisition vessels, and three 2D seismic acquisition vessels. All the commitments will expire in 2012. The amounts committed total USD 165.2 million for the year 2012. The Company also has an option to hire up to 24 months of un-contracted 3D vessel capacity from Wavefield Inseis by the end of 2012. In addition the Company has made a commitment to three land crews for land seismic projects in the US. These commitments amount to USD 41.8 million, and the commitments will expire in 2012.

## 20 Events After the Balance Sheet Date

To the best of the management's and the Directors' knowledge, no other significant subsequent events not described in this Annual Report have occurred since 31 December 2011 that would alter the accounts as presented for 2011.

## 21 Contingent Liabilities

In February 2007, the Company entered into an agreement with Terra Energy Services (Terra) related to acquisition of geophysical data in Equatorial Guinea (EG). In the agreement, Terra provided the right to acquire the data through a joint venture with the EG government's national oil company. In February 2009, TGS was informed by the EG government that Terra no longer had the right to market the EG data. TGS entered into separate agreements with the EG government to market the data and sold licenses to the data on 30 September 2010 to two customers. TGS received a request for arbitration from Terra in December 2010 containing a demand for approximately USD 21 million. TGS presented an answer and counterclaim against Terra for approximately USD 3 million. The arbitration proceeding occurred in December 2011. The final decision has not yet been made.

TGS believes it has meritorious claims and is vigorously defending the litigation. No provision is recognized related to Terra's claim.

Brenham Oil filed against TGS, among others, for tortuous interference with prospective relations and participatory liability for aiding and abetting concerning a deepwater concession in the Republic of Togo. Brenham claims that TGS worked with another company to ensure that Brenham was not awarded the concession. Brenham has not filed for a quantum of damages. The trial is currently scheduled for July 2012.

TGS is vigorously defending the claim. No provision is recognized related to Brenham Oil's claim.

## 22 Environmental Conditions

The TGS Group interacts with the external environment through the collection of seismic data and operation of vessels. The TGS Group continues to work actively to minimize any impact on the environment. Regularly, monitoring and controls are carried out in order to limit the risk of pollution. It is the TGS Group's policy to comply with national and international regulations.

## 23 Gross and Net Revenues

The TGS Group shares certain multi-client revenue with other companies. Operating revenue is presented net of portion shared. The table below provides the breakdown of gross revenue for 2010 and 2011.

| | 2011 | 2010 |
|---|---|---|
| Gross revenues from sales | 755,488 | 700,497 |
| Revenue sharing | (146,920) | (132,234) |
| **Net revenues** | **608,568** | **568,263** |

## 24 Financial Items

| | 2011 | 2010 |
|---|---|---|
| Interest income | 2,684 | 1,488 |
| Exchange gains | 40 | 114 |
| Gain on financial investments available for sale | 759 | 1,193 |
| Other financial income | 557 | 8 |
| **Total financial income** | **4,040** | **2,803** |
| Interest expense | (246) | (19) |
| Exchange loss | (1,855) | (1,505) |
| Fair value impairment on ARS held[1] | (789) | (617) |
| Other financial expenses | (406) | (25) |
| **Total financial expenses** | **(3,296)** | **(2,166)** |
| **Net financial items** | **744** | **637** |

*1) Impairment of auction rate securities (ARS)*

# 25 Tax Expense and Deferred Tax

| | 2011 | 2010 |
|---|---|---|
| **Profit before taxes** | | |
| Norway | 159,231 | 136,157 |
| Outside Norway | 81,915 | 91,588 |
| Total profit before taxes | 241,146 | 227,745 |
| | | |
| **Current taxes** | | |
| Norway | 49,143 | 29,815 |
| Outside Norway | 5,274 | 31,738 |
| Total current taxes | 54,416 | 61,552 |
| | | |
| **Deferred taxes** | | |
| Norway | (4,157) | 10,697 |
| Outside Norway | 20,199 | (288) |
| Total deferred taxes | 16,042 | 10,409 |
| | | |
| **Income tax expense reported in the income statement** | **70,458** | **71,962** |

*1) Includes subsidiaries outside Norway*

| **Income tax expense for the year reported in the income statement** | **2011** | **2010** |
|---|---|---|
| Current tax on net income | 54,416 | 61,552 |
| Deferred tax - changes | 16,042 | 10,409 |
| Total tax expense for the year | **70,458** | **71,962** |
| Effective average tax rate | 29% | 32% |

| **Tax expense related to other comprehensive income** | **2011** | **2010** |
|---|---|---|
| Items related to deferred tax: | | |
| Unrealized gain/loss on available for sale financial assets | 726 | 59 |
| Exchange differences on translation of foreign operations | – | – |
| Tax expense - other comprehensive income | 726 | 59 |

## Effective Tax Rate

The table below reconciles the reported income tax to the expected income tax expense according to the corporate income tax rate of 28% in Norway. It also shows major components of tax expense (income).

| | 2011 | 2010 |
|---|---|---|
| Profit before taxes: | 241,146 | 227,745 |
| Expected income taxes according to corporate income tax rate in Norway (28%) | 67,520 | 63,769 |
| Tax rates outside Norway different from 28% | 5,303 | 6,252 |
| Adjustment in respect of current income tax of previous year | 403 | 213 |
| Deferred tax asset related to stock options | 798 | (1,087) |
| Change in deferred tax asset not recognized | 84 | 139 |
| Non-taxable income | (1,818) | (1,369) |
| Tax effect on exchange gain/(loss) on dividend | (2,307) | 1,971 |
| Non-deductible expenses | 1,360 | 1,978 |
| Currency effects | (886) | 96 |
| **Income tax expense** | **70,458** | **71,962** |
| **Effective tax rate in %** | 29% | 32% |

## Comments on Selected Line Items in the Preceding Table

***Tax Rates Outside Norway Different from 28%***

The tax rates for subsidiaries outside Norway are higher than the Norwegian 28% tax rate. The most significant effects were that the US subsidiaries have a tax rate of 35%.

***Deferred Tax Asset Related to Stock Options***

In some tax jurisdictions, the Company receives a tax deduction in respect of remuneration in the form of stock options. The Company recognizes an expense for employee services in accordance with IFRS 2 which is based on the fair value of the award at the date of the grant. The tax deduction is not received until the stock options are exercised and is based on the intrinsic value of the award at the date of exercise. In accordance with IAS 12, the tax relief must be allocated between profit or loss and equity so that the amount of the tax deduction exceeding the cumulative cost of stock options expensed by the Company is recognized directly to equity.

***Tax Effect on Exchange Gain/Loss on Dividend***

The Parent Company recognized an exchange gain/loss related to the dividend accrual due to financial statements reported in accordance with general accepted accounting practices in Norway. The exchange gain/loss is taxable/deductible for the Parent Company, but the exchange gain/loss does not qualify for recognition according to IFRS.

***Deferred Tax Asset Not Recognized***

Deferred tax assets are not recognized for carry forward of unused tax losses when TGS cannot demonstrate that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized.

The Group has unused tax losses and deductible temporary differences of USD 0.4 million where no deferred tax asset is recognized in the balance sheet, all outside Norway. If the Group was able to recognize all unrecognized deferred tax assets, profit would increase by USD 0.1 million.

***Currency Effects***

The TGS units that do not have their tax base in USD are exposed to changes in the USD/tax base-currency rates. Effects within the current year are classified as tax expense.

## Tax Effect of Temporary Differences and Tax Loss Carryforwards as of 31 December

| | 2011 | 2010 |
|---|---|---|
| *Differences that give raise to a deferred asset or a deferred tax liability:* | | |
| Multi-client library/well logs | (100,132) | (80,145) |
| Fixed assets | (18,598) | (8,396) |
| Goodwill | (3,107) | 2,091 |
| Accruals | 9,954 | 4,151 |
| "Correction income"* | 10,433 | – |
| Accounts receivable | (2,094) | 960 |
| Tax losses carried forward | 8,126 | 1,383 |
| Deferred revenue | 2,775 | 89 |
| Stock options | 1,891 | 2,690 |
| Financial instruments | 662 | 1,377 |
| Other | 180 | 164 |
| **Total net deferred tax liability** | **(89,910)** | **(75,635)** |
| | | |
| Of which: | | |
| **Deferred tax asset** | **23,137** | **12,052** |
| **Deferred tax liability** | **113,047** | **87,687** |

| **Change in net deferred tax liability** | 2011 | 2010 |
|---|---|---|
| As of 1 January | 75,635 | 64,632 |
| Recognized in profit or loss | 23,662 | 10,409 |
| Acquisition of subsidiary | 983 | – |
| Taxes on "correction income" paid for 2010* | (10,433) | – |
| Taxes charged to equity | – | (124) |
| Currency effects | 63 | 718 |
| **As of 31 December** | **89,910** | **75,635** |

* The so-called "correction income" is an adjustment of the tax base for deferred taxed income that is distributed to shareholders and implies that deferred taxes become payable if the deferred tax base is distributed as dividends. These rules are abolished with effect from 2012 and will be applied for the last time on regular dividend distributions related to the 2011 financial statements that are approved at the Annual General Meeting in June 2012.

## Letter from the Norwegian Tax Authorities Regarding Taxable Depreciation Rates

In October 2011, TGS received a letter from the Norwegian Tax Authorities who questioned the Company's taxable depreciations of the multi-client library. The Company has responded with documentation of the current taxable depreciation rates and is currently awaiting a decision from the Tax Authorities.

If a decision from the Norwegian Tax Authorities requires any changes to the current taxable depreciation rates, this will not have any impact on the tax expense. Changes in taxable depreciation rates will imply a reclassification between deferred tax liability and taxes payable.

# 26 Subsidiaries

### The TGS Group Consists of:

| Company Name | Country of Incorporation | Main Operations | Ownership | Voting Power |
|---|---|---|---|---|
| **TGS-NOPEC Geophysical Company ASA** | Norway | (Parent Company) Invests in multi-client seismic data | | |
| **Marine Exploration Partners AS** | Norway | Managed vessel under charter until 2010 | 100% | 100% |
| **TGS AP Investments AS** | Norway | Invests in multi-client seismic data | 100% | 100% |
| **Maglight AS** | Norway | Developing new acquisition methods for aeromagnetic data | 100% | 100% |
| **Magsurvey, Ltd.** | UK | Developing new acquisition methods for aeromagnetic data | 100% | 100% |
| **TGS-NOPEC Geophysical Company** | US | Provides seismic data processing and data management, and brokerage for multi-client projects owned by the Parent Company. The Company from time-to-time invests in multi-client projects | 100% | 100% |
| **A2D Technologies Inc** | US | Digitizing and marketing well log data and providing related services | 100% | 100% |
| **Parallel Data Systems, Inc.** | US | Seismic data processing services | 100% | 100% |
| **TGS do Brasil Ltda** | Brazil | Invests in multi-client seismic data | 100% | 100% |
| **Calibre Seismic Company** | US | Invests in multi-client seismic data | 50% | 50% |
| **TGS-NOPEC Geophysical Company , Ltd.** | UK | Seismic data processing and acts as broker for multi-client projects owned by the Parent Company | 100% | 100% |
| **Aceca, Ltd.** | UK | Seismic data interpretive products and subsurface consulting services | 100% | 100% |
| **Stingray Geophysical, Ltd.** | UK | Holds license to commercialize fibre-optic sensing technology for permanent reservoir monitoring | 100% | 100% |
| **Aceca Norge AS** | Norway | Seismic data interpretive products and subsurface consulting services | 100% | 100% |
| **TGS-NOPEC Geophysical Company PTY, Ltd.** | Australia | Broker for multi-client projects owned by the Parent Company. | 100% | 100% |
| **TGS-NOPEC Geophysical Company Moscow, Ltd.** | Russia | Provides seismic data processing and act as broker for multi-client projects owned by the Parent Company | 100% | 100% |
| **MxP Marine Seismic Services Ltd.** | Cyprus | Operated a vessel under charter until 2010 | 100% | 100% |
| **Rimnio Shipping Ltd.** | Cyprus | Dormant | 100% | 100% |

# Parent Company Financials

# INCOME STATEMENT

(All amounts in USD 1,000s)

| | Note | 2011 | 2010 |
|---|---|---|---|
| Net operating revenues | 17 | **453,821** | 413,284 |
| **Net revenues** | | **453,821** | **413,284** |
| | | | |
| Cost of goods sold - proprietary and other | | **12,247** | 3,220 |
| Amortization of the multi-client library | 3 | **206,294** | 217,420 |
| Personnel costs | 4 | **9,225** | 8,705 |
| Cost of stock options | 4 | **342** | 353 |
| Other operating expenses | 13, 18 | **59,109** | 41,347 |
| Depreciation, amortization and write-down | 2, 3 | **1,306** | 3,347 |
| **Total operating expenses** | | **288,524** | **274,393** |
| | | | |
| **Operating profit** | | **165,298** | **138,891** |
| | | | |
| Interest income | 15 | **484** | 628 |
| Financial income | 15 | **1** | 6 |
| Exchange gains/losses | 15 | **(9,343)** | 6,025 |
| Interest expenses | 15 | **(616)** | (497) |
| Financial expenses | 15 | **(3,333)** | (1,744) |
| **Net financial items** | | **(12,806)** | **4,418** |
| | | | |
| **Profit before taxes** | | **152,491** | **143,309** |
| | | | |
| Tax expense | 16 | **42,957** | 41,026 |
| | | | |
| **Net income** | | **109,534** | **102,283** |
| | | | |
| Profit for the year is proposed allocated as follows: | | | |
| | | | |
| Dividends | 6 | **103,550** | 87,015 |
| To other equity | 6 | **5,984** | 15,268 |
| | | | |
| **Total allocated** | | **109,534** | **102,283** |

# BALANCE SHEET

As of 31 December

(All amounts in USD 1,000s)

| | Note | 2011 | 2010 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| **Intangible non-current assets** | | | |
| Multi-client library | 3, 12 | **404,399** | 408,271 |
| Other intangible assets | 3 | **653** | 1,306 |
| **Total intangible non-current assets** | | **405,052** | **409,577** |
| **Tangible non-current assets** | | | |
| Machinery and equipment | 2, 12 | **1,436** | 1,790 |
| **Total tangible non-current assets** | | **1,436** | **1,790** |
| **Financial non-current assets** | | | |
| Investments in subsidiaries | 7, 21 | **62,396** | 19,965 |
| Other non-current assets | 18 | **13,798** | 42,128 |
| **Total financial non-current assets** | | **76,194** | **62,093** |
| **Total non-current assets** | | **482,682** | **473,460** |
| **Current assets** | | | |
| **Receivables** | | | |
| Accounts receivable | 9 | **149,115** | 134,947 |
| Current receivables group companies | 10 | **21,066** | 2,013 |
| Other receivables | 9 | **10,342** | 3,887 |
| **Total receivables** | | **180,523** | **140,847** |
| Cash and cash equivalents | 8 | **54,993** | 22,218 |
| **Total current assets** | | **235,516** | **163,065** |
| **Total assets** | | **718,199** | **636,525** |

| | Note | 2011 | 2010 |
|---|---|---|---|
| **Equity and Liabilities** | | | |
| **Equity** | | | |
| **Paid-in capital** | | | |
| Share capital | 5, 6 | **3,713** | 3,714 |
| Treasury shares | 5, 6 | **(76)** | (63) |
| Share premium reserve | 6 | **53,256** | 40,894 |
| Other paid-in equity | 6 | **2,924** | 2,582 |
| **Total paid-in capital** | | **59,817** | **47,126** |
| **Retained earnings** | | | |
| Other equity | 6 | **177,975** | 198,734 |
| **Total retained earnings** | | **177,975** | **198,734** |
| **Total equity** | | **237,792** | **245,860** |
| **Liabilities** | | | |
| **Non-current liabilities** | | | |
| Other non-current liabilities | 18 | **4,285** | 12,715 |
| Deferred tax | 16 | **68,331** | 77,007 |
| **Total non-current liabilities** | | **72,616** | **89,722** |
| **Current liabilities** | | | |
| Accounts payable | | **79,958** | 100,895 |
| Current liabilities group companies | 10 | **153,980** | 57,406 |
| Taxes payable | 16 | **51,140** | 30,878 |
| Social security, VAT and other duties | | **845** | 768 |
| Provisions for dividends | 6 | **103,550** | 87,015 |
| Other current liabilities | 11 | **18,317** | 23,982 |
| **Total current liabilities** | | **407,790** | **300,944** |
| **Total liabilities** | | **480,406** | **390,666** |
| **Total equity and liabilities** | | **718,199** | **636,525** |

22 March 2012

**Hank Hamilton**
*Chairman*

**Mark S. Leonard**
*Director*

**Colette Lewiner**
*Director*

**Bengt Lie Hansen**
*Director*

**Elisabeth Harstad**
*Director*

**Vicki Messer**
*Director*

**Robert Hobbs**
*CEO*

# CASH FLOW

(All amounts in USD 1,000s)

| | Note | 2011 | 2010 |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| Received payments from customers | | **518,313** | 402,654 |
| Payments for salaries, pensions, social security tax | | **(8,972)** | (8,835) |
| Other operational costs | | **(52,600)** | (44,814) |
| Net gain/(loss) on currency exchange | 15 | **(9.343)** | 6,025 |
| Paid taxes | | **(33,282)** | (28,761) |
| **Net cash flow from operating activities[1]** | | **414,117** | **326,269** |
| **Cash flow from investing activities** | | | |
| Received payments from sale of tangible assets | 2 | **200** | 340 |
| Investment in tangible assets | 2 | **(344)** | (137) |
| Investments in multi-client library | 3 | **(227,753)** | (260,006) |
| Investments in subsidiaries | 7 | **(45,644)** | (22) |
| Interest received | 15 | **484** | 628 |
| **Net cash flow from investing activities** | | **(273,057)** | **(259,197)** |
| **Cash flow from financing activities** | | | |
| Interest paid | 15 | **(616)** | (497) |
| Dividend payments | 6 | **(93,407)** | (64,742) |
| Purchase of own shares | 6 | **(30,031)** | (31,879) |
| Paid-in equity | 6 | **15,770** | 6,004 |
| **Net cash flow from financing activities** | | **(108,285)** | **(91,114)** |
| Net change in cash and cash equivalents | | **32,775** | (24,041) |
| Cash and cash equivalents at the beginning of the period | 8 | **22,218** | 46,260 |
| **Cash and cash equivalents at the end of the period** | | **54,993** | **22,218** |
| **1) Reconciliation** | | | |
| Profit before taxes | 16 | **152,491** | 143,309 |
| Depreciation/amortization | 2, 3 | **207,600** | 220,767 |
| Write-down shares in subsidiaries and receivables | 7, 10 | **20,537** | 4,100 |
| Changes in accounts receivables | | **(15,312)** | (15,982) |
| Changes in other receivables | | **(319)** | 973 |
| Changes in other balance sheet items | | **82,401** | 1,864 |
| Paid taxes | | **(33,282)** | (28,761) |
| **Net cash flow from operating activities** | | **414,117** | **326,269** |

# NOTES TO PARENT FINANCIAL STATEMENTS

(All amounts in USD 1,000s apart from EPS and ratios)

## 1 General Accounting Policies

### General Information

TGS-NOPEC Geophysical Company ASA (the Company) is a public limited Company incorporated in Norway on 21 August 1996. The address of its registered office is Lensmannslia 4, 1371 Asker, Norway. The Company is listed on the Oslo Stock Exchange.

The Company's financial statements were authorized for issue by the Board of Directors on 22 March 2012.

As from 2010, TGS has been granted exemption from the Norwegian Tax Authority to publish its Annual Report in English only.

### Reporting Currency

The Parent Company, TGS-NOPEC Geophysical Company ASA, reports its financial results in US Dollar which is the Company's functional currency.

### General Accounting Policies

The financial statements are prepared in accordance with the Norwegian Accounting Act and generally accepted accounting principles in Norway. The notes are an integral part of the financial statements.

### Significant Accounting Judgments, Estimates and Assumptions

In the process of applying the Company's accounting principles, management is required to make estimates, judgments and assumptions that affect the amount reported in the financial statements and accompanying notes. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which will form the basis for making judgments on carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The key sources of judgment and estimation of uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

***Future Sales Forecasts as Basis for Multi-client Library Amortization***

The Company determines the amortization expense of the multi-client library based on the proportion of net book value versus estimated future revenue for each individual project. The underlying estimates that form the basis for the sales forecast depend on variables such as number of oil companies operating in the area that would be interested in the data, expectations regarding hydrocarbons in the sector, whether licenses to perform exploration in the sectors exist or will be given in the future, etc. Changes in these estimates may potentially affect the estimated amount of future sales and the amortization rate used materially.

***Deferred Tax Assets***

Deferred tax assets are recognized for temporary deductible differences and carry forward tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

***Share–based Payments***

The Company measures the cost of the stock option plans for employees by reference to the fair value of the equity instruments at the date at which they are granted (equity-settled transactions) or at the end of each reporting period (cash-settled transactions) in accordance with NRS 15A (IFRS 2). Estimating fair value requires appropriate valuation model to value the share-based instruments. The value is dependent on the terms and conditions of the granted share-based instruments. This also requires determining the appropriate inputs to the valuation model including the expected life of the option, volatility and dividend yield and making assumption about them.

***Revenue Recognition***

The Company recognizes revenues from pre-funded multi-client surveys based on percentage of completion at the balance sheet date. This requires management to estimate the level of completion of the various ongoing projects of the Company at that date.

### Principles of Assessment

***Revenue Recognition***

Revenue is recognized when it is probable that the economic benefits from a transaction will flow to the Company and the revenue can be reliably measured. Revenue is measured at fair value of the consideration received, net of discounts and sales taxes or duty. The following describes the specific principles:

***Work in Progress (WIP)***

Revenue from work in progress (unfinished projects) at the balance sheet date is recognized on a percentage of completion (POC) basis under binding contracts, normally measured according to the acquired and processed volume of data in relation to the estimated total size of the project. Sales made prior to a certain deadline for each project are recognized as POC pre-funding revenues and sales thereafter during the WIP period as POC late sales revenues.

***Finished Data***

Revenue is recognized for sales of finished data at the time of the transaction; i.e. when the client has gained access to the data under a binding agreement.

***Revenue Sharing***

The TGS Group shares certain multi-client revenues with other companies. Operating revenue is presented net of revenue shared.

***Proprietary Contracts***

Revenue from proprietary contracts for clients is recognized in the same way as work in progress (POC) in accordance with the specific agreement.

***Interest Income***

Interest income is recognized as interest accrues. Interest income is included in the financial items in the income statement.

***Royalty Income***

Royalty income is recognized on an accruals basis in accordance with the substance of the relevant agreements.

***Cost of Goods Sold (COGS) – Proprietary and Other***

Cost of goods sold includes only direct cost related to proprietary contract work, and costs related to delivery of geoscientific data.

***Multi-client Library***

The multi-client library includes completed and in-progress geophysical data to be licensed on a non-exclusive basis to oil and gas exploration and production companies. The costs directly attributable to data acquisition and processing are capitalized and included in the inventory value. The library also includes the cost of data purchased from third parties. The library of finished multi-client seismic data and interpretations is presented at cost reduced by accumulated amortization.

***Amortization Related to Sales of Seismic Data***

When establishing amortization rates for the multi-client seismic library, management bases their views on estimated future sales for each individual survey. Estimates are adjusted over time with the development of the market. Amortization is recorded in line with how revenues are recognized for each project, in proportion to the remaining net book value versus the estimated future revenue from that project. The revenue estimates are frequently updated and fully reviewed every twelve months. For work in progress, the amortization is based on estimated total cost versus forecasted total revenues of the project.

The amortization expense reported may vary considerably from one period to another depending on the actual mix of projects sold and changes to estimates.

***Minimum Amortization Policy on Seismic Data***

A minimum amortization criterion is applied: The maximum net book value of the individual survey one year after completion is 60% of original cost. The minimum cumulative amortization increases by 20% of cost each year thereafter, with the result that each survey is fully amortized in the balance sheet by the end of the fourth year following its completion.

***Impairment Test Library***

The library is annually, or when there are indicators that the book value may not be recoverable, tested for impairment individually per project (seismic and interpretation reports) as appropriate.

***Goodwill***

Goodwill is depreciated over ten years. In addition goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

***Tangible Non-current Assets and Principles of Depreciation***

Tangible non-current assets are presented at historical cost less accumulated depreciation and impairment charges. If an indication of impairment exists, an impairment test is performed. If the fair value of a tangible non-current asset is lower than book value, the asset will be written down to the higher of fair value less cost to sell and value in use. Depreciation is determined in light of the asset's economic life. Depreciation begins when the assets are available for use.

***Exchange Rate Adjustments***

Transactions in foreign currency are translated at the rate applicable on the transaction date. Monetary assets, receivables and liabilities are translated at the exchange rate on the balance sheet date. Changes to exchange rates are recognized in the income statement as they occur during the accounting period.

***Software Development Costs***

Software development costs that do not meet the criteria of capitalization are expensed as incurred.

***Provisions***

Provisions are established when the Company has a current obligation (legal or constructive) as result of a past event, it is probable that the Company will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

***Income Taxes***

***Current Income Tax***

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

***Deferred Income Tax***

Deferred income tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences.

Deferred income tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable company and the same taxation authority. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

The Company pays its tax obligation in Norwegian Kroner (NOK), and the fluctuations between the NOK and the USD impact the financial items. Exchange rate fluctuations related to the basis for current year income tax expense is presented as tax expense.

***Share-based Payments***

Key employees of the Company receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for stock options and Stock Appreciation Rights (SARs).

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. The fair value is determined by an external value using an appropriate pricing model.

The cost of equity-settled transactions is recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('the vesting date'). The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest. The income statement charge or credit for a period represents the movement in cumulative expense recognized at the beginning and end of that period.

No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which is treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

The fair value of the SARs are measured at the end of each reporting period and are distributed over the period until the employees have earned an unconditional right to receive them (cash-settled transactions). The ultimate cost of such a cash-settled transaction will be the actual cash paid by the Company, which will be the fair value at settlement date. The fair value of the SARs is recognized as a payroll expense and as a liability.

***Pensions***

The Company operates defined-contribution plans in Norway. Contributions are charged to the income statement as they become payable.

***Leases***

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. The evaluation is based on the substance of the transaction at the inception date of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Finance leases are recorded as assets and liabilities, and lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in the income statement.

Operating lease payments are recognized as an expense in the income statement on a straight line basis over the lease term.

***Cash and Cash Equivalents***

Cash and cash equivalents in the balance sheet comprise cash in bank accounts and on hand and short-term deposits with an original maturity of three months or less.

***Accounts Receivable and Other Receivables***

Receivables are measured at cost less any amounts expected to be uncollectible.

***Investments in Subsidiaries and Associated Companies***

Investments in subsidiaries and investments in associates are valued at cost in the Company accounts. The investment is valued as cost of the shares in the subsidiary, less any impairment losses. An impairment loss is recognized if the impairment is not considered temporary, in accordance with generally accepted accounting principles. Impairment losses are reversed if the reason for the impairment loss disappears in a later period.

Dividends, group contributions and other distributions from subsidiaries are recognized in the same year as they are recognized in the financial statement of the provider. If dividends/group contribution exceed withheld profits after the acquisition date, the excess amount represents repayment of invested capital, and the distribution will be deducted from the recorded value of the acquisition in the balance sheet for the Parent Company.

***Dividends***

The dividends are recognized as a liability in the financial statements when proposed by the Board of Directors.

***Financial Instruments***

Financial instruments are valued at the lower of historical cost and market value.

Loans are recognized at the amount received, net of transactions costs. The loans are thereafter recognized at amortized costs using the effective interest rate method.

***Treasury Shares***

The Company's shareholding of treasury shares is recorded using the par value method, where the total par value of the shares acquired is debited the treasury stock account, and the difference between the purchase price and par value is debited other equity. Gains or loss on sales of treasury shares are treated as equity transactions and booked directly against equity.

***Cash Flow Statement***

The cash flow statement is compiled using the direct method.

# 2 Tangible Non-Current Assets

| **2011** | |
|---|---|
| **Acquisition cost and depreciation:** | **Machinery and Equipment** |
| **Cost as of 1 January 2011** | **10,933** |
| Additions | 344 |
| Disposals[1] | (398) |
| **Cost as of 31 December 2011** | **10,879** |
| **Accumulated depreciation as of 1 January 2011** | **9,143** |
| Depreciation for the year | 653 |
| Accumulated depreciation on disposals[1] | (353) |
| **Accumulated depreciation as of 31 December 2011** | **9,443** |
| **Net book value as of 31 December 2011** | **1,436** |
| Straight-line depreciation percentage | 14% - 33.3% |
| Useful life | 3 - 7 years |

*1) Profit on disposals during the year was USD 49.*

| **2010** | |
|---|---|
| **Acquisition cost and depreciation:** | **Machinery and Equipment** |
| **Cost as of 1 January 2010** | **16,334** |
| Additions | 360 |
| Disposals[1] | (5,761) |
| **Cost as of 31 December 2010** | **10,933** |
| **Accumulated depreciation as of 1 January 2010** | **11,647** |
| Depreciation for the year | 2,694 |
| Accumulated depreciation on disposals[1] | (5,198) |
| **Accumulated depreciation as of 31 December 2010** | **9,143** |
| **Net book value as of 31 December 2010** | **1,790** |
| Straight-line depreciation percentage | 14% - 33.3% |
| Useful life | 3 - 7 years |

*1) Profit on disposals during the year was USD 48.*

# 3 Intangible Non-current Assets

| 2011 | | | | |
|---|---|---|---|---|
| **Acquisition cost and depreciation:** | **Goodwill** | **Multi-client Library[1]** | **Other Intangible Assets** | **Total** |
| **Cost as of 1 January 2011** | **3,073** | **1,423,243** | **4,280** | **1,430,596** |
| Additions | – | 202,422 | – | 202,422 |
| **Cost as of 31 December 2011** | **3,073** | **1,625,665** | **4,280** | **1,633,018** |
| **Accumulated amortization as of 1 January 2011** | **3,073** | **1,014,972** | **2,974** | **1,021,019** |
| Amortization for the year | – | 206,294 | – | 206,294 |
| Depreciation for the year | – | – | 653 | 653 |
| Capitalized to the multi-client library | – | – | – | – |
| **Accumulated amortization as of 31 December 2011** | **3,073** | **1,221,266** | **3,627** | **1,227,966** |
| **Net book value as of 31 December 2011** | **-** | **404,399** | **653** | **405,052** |
| Straight-line amortization percentage | 10% | | | |
| Useful life | 10 years[2] | max 5 years | | |

*1) Multi-client Library: See "General Accounting Policies", section multi-client library for policies on amortization of this asset.*
*2) Goodwill paid for in acquisitions of companies is amortized over the first 10 years after the date of the acquisition.*

| 2010 | | | | |
|---|---|---|---|---|
| **Acquisition cost and depreciation:** | **Goodwill** | **Multi-client Library[1]** | **Other Intangible Assets** | **Total** |
| **Cost as of 1 January 2010** | **3,073** | **1,159,714** | **4,280** | **1,167,067** |
| Additions | – | 263,529 | – | 263,529 |
| **Cost as of 31 December 2010** | **3,073** | **1,423,243** | **4,280** | **1,430,596** |
| **Accumulated amortization as of 1 January 2010** | **3,073** | **797,552** | **1,394** | **802,019** |
| Amortization for the year | – | 217,420 | – | 217,420 |
| Depreciation for the year | – | – | 653 | 653 |
| Capitalized to the multi-client library | – | – | 927 | 927 |
| **Accumulated amortization as of 31 December 2010** | **3,073** | **1,014,972** | **2,974** | **1,021,019** |
| **Net book value as of 31 December 2010** | **–** | **408,271** | **1,306** | **409,577** |
| *Straight-line amortization percentage* | 10% | | | |
| *Useful life* | 10 years[2] | max 5 years | | |

*1) Multi-client Library: See "General Accounting Policies", section multi-client library for policies on amortization of this asset.*
*2) Goodwill paid for in acquisitions of companies is amortized over the first 10 years after the date of the acquisition.*

# 4 Salaries/Number of Employees/Benefits/Pensions

| | **2011** | **2010** |
|---|---|---|
| Payroll | 7,350 | 7,166 |
| Social security costs | 1,345 | 1,122 |
| Pension costs | 316 | 239 |
| Other employee related costs | 249 | 178 |
| Salaries capitalized | (34) | – |
| **Personnel costs** | **9,225** | **8,705** |
| Cost of stock options | 342 | 353 |
| **Personnel costs and cost of stock options** | **9,567** | **9,058** |
| Number of employees at 31 December | 43 | 35 |
| Average number of employees | 40 | 34 |

At 31 December 2011, the Company had 43 employees: 30 male employees and 12 female employees.

The Company operates defined-contribution plans in Norway. The plans fulfill the requirements of the Norwegian law.

| Auditor's Fees | 2011 | 2010 |
|---|---|---|
| Statutory audit | 233 | 221 |
| Other quarterly audit/review | 4 | 3 |
| Tax advice | 131 | 13 |
| Other services outside the audit scope | 58 | 21 |
| **Total fees** | **427** | **258** |

All amounts are exclusive of VAT.

Information about remuneration of the Board of Directors and the executive management is included in Note 7 to the consolidated financial statements. The Company's executive management consists of Robert Hobbs (CEO), Kristian Johansen (CFO), Knut Agersborg (VP Geophysical Operations) and Kjell Trommestad (SVP Europe).

# 5 Share Capital and Shareholder Information

The share capital of TGS Nopec Geophysical Company ASA as of 31 December 2011 was NOK 25,856,093.50 consisting of 103,424,374 ordinary shares at NOK 0.25 per share. The Company's shares have equal voting rights.

For information of treasury shares, shareholders' authorization and the 20 largest shareholders, see Note 10 to the consolidated financial statements.

# 6 Equity Reconciliation

| Equity Reconciliation | Share Capital | Treasury Shares | Share Premium Reserve | Other Reserves | Retained Earnings | Total Equity |
|---|---|---|---|---|---|---|
| **Balance 1 January 2011** | **3,714** | **(63)** | **40,894** | **2,582** | **198,734** | **245,860** |
| Capital increase during 2011 | 31 | – | 12,362 | – | – | 12,393 |
| Purchase of treasury shares | – | (56) | – | – | (29,975) | (30,031) |
| Treasury shares distributed | – | 11 | – | – | 3,366 | 3,377 |
| Treasury shares deleted | (32) | 32 | – | – | – | – |
| Cost of stock options | – | – | – | 342 | – | 342 |
| Variance of provisions for dividends and paid dividends | – | – | – | – | (133) | (133) |
| Provisions for dividends (NOK 6.00 per share) | – | – | – | – | (103,550) | (103,550) |
| Profit for the year | – | – | – | – | 109,534 | 109,534 |
| **Balance 31 December 2011** | **3,713** | **(76)** | **53,256** | **2,924** | **177,975** | **237,792** |
| | | | | | | |
| **Balance 1 January 2010** | **3,738** | **(37)** | **36,657** | **2,229** | **212,074** | **254,660** |
| Capital increase during 2010 | 16 | – | 4,237 | – | – | 4,253 |
| Purchase of treasury shares | – | (73) | – | – | (31,805) | (31,879) |
| Treasury shares distributed | – | 8 | – | – | 2,206 | 2,214 |
| Treasury shares deleted | (39) | 39 | – | – | – | – |
| Cost of stock options | – | – | – | 353 | – | 353 |
| Variance of provisions for dividends and paid dividends | – | – | – | – | 990 | 990 |
| Provisions for dividends (NOK 5.00 per share) | – | – | – | – | (87,015) | (87,015) |
| Profit for the year | – | – | – | – | 102,283 | 102,283 |
| **Balance 31 December 2010** | **3,714** | **(63)** | **40,894** | **2,582** | **198,734** | **245,860** |

## 7 Investments in Subsidiaries

As of 31 December 2011 the Parent Company had the following investments in subsidiaries:

| Included in the balance sheet as: | Share Capital of Company | No. of Shares | Nominal Value | Balance Sheet Value | Ownership Held |
|---|---|---|---|---|---|
| Maglight AS (Asker, Norway) | 100 | 100,000 | NOK 1 | – | 100% |
| TGS AP Investments AS (Asker, Norway) | 100 | 1,000 | NOK 100 | 484 | 100% |
| Marine Exploration Partners AS (Asker, Norway) | 800 | 800,000 | NOK 1 | 9 | 100% |
| TGS-NOPEC Geophysical Company (Houston, US) | USD 1 | 1,000 | USD 1 | 1,483 | 100% |
| TGS-NOPEC Geophysical Company (UK) Ltd. (Bedford, UK) | GBP 50,1 | 50,100 | GBP 1 | 956 | 100% |
| Aceca Ltd. (Surbiton, UK) | GBP 50,762 | 507,620 | GBP 0,1 | 13,580 | 100% |
| Stingray Geophysical Ltd. (Surrey, UK) | GBP 166,035 | 16,603,534 | GBP 0,01 | 45,049 | 100% |
| TGS-NOPEC Geophysical Comp. PTY Ltd. (Perth, Australia) | AUD 0,001 | 1 | AUD 1 | 0 | 100% |
| TGS do Brasil Ltda. (Rio de Janeiro, Brazil) | BRL 1,140, 722.22 | 1,000 | BRL 1 | 595 | 90% |
| TGS-NOPEC Geophysical Company Moscow Ltd. (Moscow, Russia) | RUB 300 | 1 | RUB 300,000 | – | 100% |
| MxP Marine Seismic Services Ltd. (Limassol, Cyprus) | USD 133,278 | 25,000 | USD 1 | 240 | 100% |
| Riminio Shipping Ltd. (Limassol, Cyprus) | CYP 1 | 1,000 | CYP 1 | – | 100% |
| **Balance sheet value** | | | | **62,396** | |

The Parent Company has direct or indirect 100% voting rights in all subsidiaries.

In 2011 the shares in MxP Marine Seismic Services Ltd have been written down by USD 2,328 and in Maglight AS the shares have been written down by USD 1,002.

## 8 Restrictions on Bank Accounts

Per 31 December 2011, USD 476 of cash and cash equivalents are restricted to meet the liability arising from payroll taxes withheld. (2010: USD 449).

## 9 Accounts Receivable and Other Receivables

Accounts receivable is stated in the balance sheet at net realizable value and totaled USD 149,115 per 31 December 2011 (2010: USD 134,947). The Company has made a bad debt provision of USD 3,397 in 2011 (2010: USD 2,253). The Company expects to collect the stated balance of receivables per 31 December 2011. Realized losses on trade receivables in 2011 amounted to USD 250 (2010: USD 1). Prepayments to suppliers and other short-term receivables totaled USD 10,342 per 31 December 2011 (2010: USD 3,887).

## 10 Current Receivables and Liabilities Group Companies

| | 2011 | | 2010 | |
|---|---|---|---|---|
| **Company** | **Receivables** | **Liabilities** | **Receivables** | **Liabilities** |
| Maglight AS | – | 1,142 | – | 1,375 |
| Marine Exploration Partners AS | 560 | – | 554 | – |
| TGS AP Investments AS | 18,798 | – | – | – |
| Aceca Norge AS | – | 3,752 | – | 4,581 |
| TGS-NOPEC Geophysical Company | – | 127,490 | – | 36,495 |
| A2D Technologies Inc. | – | 200 | – | 696 |
| TGS-NOPEC Geophysical Company (UK) Ltd. | – | 6,840 | – | 5,258 |
| Aceca Ltd. | 1,708 | – | 1,458 | – |
| TGS-NOPEC Geophysical Company PTY Ltd. | – | 14,222 | – | 4,956 |
| MxP Marine Seismic Services Ltd. | – | 334 | – | 4,045 |
| **Total** | **21,066** | **153,980** | **2,013** | **57,406** |

# 11 Other Short Term Liabilities

| | 2011 | 2010 |
|---|---|---|
| Deferred revenues | 10,564 | 8,000 |
| Accrued project costs | 5,804 | 13,208 |
| Other accrued expenses | 1,949 | 2,774 |
| **Total other current liabilities** | **18,317** | **23,982** |

# 12 Interest Bearing Loans and Borrowing

Loan agreements and terms as per 31 December 2011:

## Multi-Currency Bank Overdraft Facility

Limit USD 10.0 million. Terms: US Fed Funds Daily Effective Rate + 0.75% per annum on drawn currency amounts. Facility fee: 0.1% per annum on the total facility amount. Both parties have a mutual right to terminate the agreement on 14 days notice. Per 31 December 2011 the Company had not drawn on this facility.

| **Book value of assets used as collateral:** | 2011 | 2010 |
|---|---|---|
| Accounts receivable | 77,390 | 53,982 |
| Multi-client library | 404,399 | 408,271 |
| Machinery, equipment | 1,436 | 1,790 |
| **Total** | **483,226** | **464,044** |

## Bank Guarantees

Per 31 December 2011, the Company's bank has issued a bank guarantee on behalf of the Company of USD 205 in conjunction with the Company's lease contract for the premises in Asker, Norway. The bank has also issued a bank guarantee on behalf of the Company of USD 500 for a subsidiary's customer. The bank has also issued a bank guarantee on behalf to the Company of USD 186 related to a seismic project.

# 13 Commitments and Contingencies

## Operating leases - Company as lessee

The Company has an operating lease commitment relating to premises. The commitment expires 31 March 2012. The Company has entered into a new operating lease commitment relating to premises. The new commitment expires 31 January 2022. Rental expense for operating leases was USD 683 for the year ended 31 December 2011.

Future minimum payments for operating leases at 31 December 2011 are as follows:

| | 2011 | 2010 |
|---|---|---|
| Within one year | 403 | 315 |
| After one year but not more than five years | 2,272 | – |
| More than five years | 2,888 | – |
| | **5,562** | **315** |

The Company does not have any financial leases.

The Company has entered into commitments for current charter hire of seven 3D seismic acquisition vessels, and three 2D seismic acquisition vessel. All commitments will expire in 2012. The amounts committed total USD 165.15 million for the year 2012. The Company has also an option to hire up to 24 months of un-contracted 3D vessel capacity from Wavefield Inseis within end of 2012. In addition the Company has made a commitment to three land crews for land seismic projects in the US. These commitments amount to USD 41.8 million, and the commitments will expire in 2012.

# 14 Related Parties

No material transactions took place during 2011 and 2010 with related parties, other than operating business transactions between the companies in the TGS Group.

All companies within the TGS Group are 100% owned, directly or indirectly by the Company. No minority interests exist. Business transactions between the entities of the TGS Group were performed at arm's length principles and included data processing, data brokerage, intercompany financing and service assistance.

# 15 Financial Items

| **Financial income/expense:** | **2011** | **2010** |
|---|---|---|
| Interest income | 252 | 546 |
| Interest income subsidiaries | 232 | 82 |
| Exchange gain | 1,706 | 15,562 |
| Other financial income | 1 | 6 |
| **Total financial income** | **2,191** | **16,196** |
| Interest expense | (5) | (1) |
| Interest expense subsidiaries | (612) | (496) |
| Exchange loss | (11,048) | (9,537) |
| Other financial expenses | (3,333) | (1,744) |
| **Total financial expense** | **(14,998)** | **(11,778)** |
| **Net financial items** | **(12,806)** | **4,418** |

# 16 Tax Expense

| Current tax: | 2011 | 2010 |
|---|---|---|
| Profit before taxes | 152,491 | 143,309 |
| Permanent differences[1] | 3,877 | 2,180 |
| Changes in temporary differences | 4,004 | (36,816) |
| Group contribution | (334) | (4,411) |
| Currency exchange effects on base for current tax | (4,293) | 885 |
| **Basis for current tax** | **155,746** | **105,147** |

| Total tax expense for the year: | | |
|---|---|---|
| Deferred tax - changes | (8,676) | 7,430 |
| Taxes payable | 51,229 | 32,319 |
| Adjustment in respect of current income tax of previous year | – | 41 |
| Tax effect group contribution | 93 | 1,235 |
| Tax outside Norway | 311 | – |
| **Total tax expense for the year** | **42,957** | **41,026** |
| | | |
| **Effective average tax rate** | **28%** | **29%** |

| Taxes payable | 2011 | 2010 |
|---|---|---|
| Taxes payable on current year profit | 43,609 | 29,441 |
| Correction tax[2] | 7,620 | 2,878 |
| Deduction in Norwegian tax for taxes paid outside Norway | (89) | (1,442) |
| **Total taxes payable** | **51,140** | **30,877** |

**Specification of basis for deferred taxes:**

| Offsetting differences: | 2011 | 2010 |
|---|---|---|
| Non-current assets and liabilities | (77,702) | (25,926) |
| Intangible non-current assets | 321,740 | 300,950 |
| **Total** | **244,038** | **275,024** |
| | | |
| Deferred tax liability | 68,331 | 77,007 |

**Explanation of total tax expense versus nominal tax rate on pre-tax profit:**

| | 2011 | 2010 |
|---|---|---|
| Tax calculated using nominal tax rate on pre-tax profit | 42,698 | 40,126 |
| Effect of permanent differences[1] | 1,086 | 611 |
| Adjustment in respect of current income tax of previous year | – | 41 |
| Exchange gain/loss reported as tax expense | (826) | 248 |
| **Total tax expense recorded in income statement** | **42,957** | **41,026** |

*1) Permanent differences related to non-tax deductible items. In 2011 the main items relates to write-down of shares in subsidiaries of USD 3,330 and cost of stock options USD 342.*

*2) The so-called "correction income" is an adjustment of the tax base for deferred taxed income that is distributed to shareholders and implies that deferred taxes become payable if the deferred tax base is distributed as dividends. These rules are abolished with effect from 2012 and will be applied for the last time on regular dividend distributions related to the 2011 financial statements that are approved at the Annual General Meeting in June 2012.*

### Letter from the Norwegian Tax Authorities Regarding Taxable Depreciation Rates

In October 2011, TGS received a letter from the Norwegian Tax Authorities who questioned the Company's taxable depreciations of the multi-client library. The Company has responded with documentation of the current taxable depreciation rates and is currently awaiting a decision from the Tax Authorities.

If a decision from the Norwegian Tax Authorities requires any changes to the current taxable depreciation rates, this will not have any impact on the tax expense. Changes in taxable depreciation rates will imply a reclassification between deferred tax liability and taxes payable.

## 17 Gross and Net Revenues

| | 2011 | 2010 |
|---|---|---|
| Gross revenues from sales | 599,972 | 536,957 |
| Revenue sharing | (146,151) | (123,674) |
| **Net revenues** | **453,821** | **413,284** |

## 18 Financial Risk Management

### Currency Risk

Functional currency for the Company is USD. The major portions of the Company's revenues and costs are in US dollars, except of personnel and administrative costs. Due to this, the Company's operational exposure to exchange fluctuation is low. The Company does, however pay income taxes in Norway in NOK, and is thereby exposed to USD/NOK exchange rate fluctuations on these items.

### Liquidity Risk

Liquidity risk arises from lack of correlation between cash flow from operations and financial commitments. Management considers the liquidity risk as low. Per balance sheet date, the Company held current assets of USD 235,516, of which cash and cash equivalents represents USD 54,993, and current liabilities of USD 407,792, of which debt to subsidiaries represents USD 153,980.

### Credit Risk

All placements of excess cash are either bank deposits or in financial instruments that minimum carry rating "investment grade." The Company's clients are oil and gas companies. The Company is exposed to credit risk through sales and use best efforts to manage this risk. As per 31 December 2011, the Company made a provision of USD 3,397 against certain receivables.

The Company from time to time accepts extended payment terms on parts of firm commitments from clients. To the extent these terms do not carry interest compensation to be paid by clients, the revenues recognized by the Company are discounted to reflect this element.

Other non-current assets originally comprised two loans to E&P Holding AS and Skeie Energy AS of USD 21.0 million and USD 21.1 million, gross to the Company, entered into in 2009. The related revenue share agreements amounted to USD 12.7 million. Accordingly, TGS' nominal net exposure was at USD 29.4 million. Following restructuring agreements signed on 23 December 2011, TGS has decided, subject to the raising of new equity in Skeie Energy AS and a restructuring of the E&P Holding Group's indebtedness, to convert its originally outstanding loan to Skeie Energy AS of USD 21.1 million to equity during the first half of 2012. A structured process of raising new cash equity capital in Skeie Energy AS was initiated following the restructuring agreements.

E&P Holding AS will not undertake any future business activities, but will pursue a structured process of collecting outstanding receivables.

Based on the restructuring agreements, the Company has reconsidered the fair value of the loans and the related revenue share agreements. The loss recognized in 2011 amounts to USD 19.9 million. TGS' net exposure to the E&P Holding Group is at USD 9.5 million per 31 December 2011.

### Political Risk

The Company's investments in multi-client surveys are to a certain extent exposed to risk associated with change in political climate or regimes around the world.

### Oil and Gas Prices and World Economy

The activities of the Company's clients, oil and gas companies, change following changes in commodity prices in the market or future expectations of such. This impacts the Company's activity and profitability.

## 19 Environmental Conditions

The Company interacts with the external environment through the collection of seismic data and operation of vessels. The Company continues to work actively to minimize any impact on the environment. Regular monitoring and controls are carried out in order to limit the risk of pollutions. It is the Company`s policy to comply with national and international regulations.

## 20 Contingent Liabilities

In February 2007, the Company entered into an agreement with Terra Energy Services (Terra) related to acquisition of geophysical data in Equatorial Guinea (EG). In the agreement, Terra provided the right to acquire the data through a joint venture with the EG government's national oil company. In February 2009, TGS was informed by the EG government that Terra no longer had the right to market the EG data. TGS entered into separate agreements with the EG government to market the data and sold licenses to the data on 30 September 2010 to two customers. TGS received a request for arbitration from Terra in December 2010 containing a demand for approximately USD 21 million. TGS presented an answer and counterclaim against Terra for approximately USD 3 million. The arbitration proceeding occurred in December 2011. The final decision has not yet been made.

TGS believes it has meritorious claims and is vigorously defending the litigation. No provision is recognized related to Terra's claim.

Brenham Oil filed against TGS, among others, for tortuous interference with prospective relations and participatory liability for aiding and abetting concerning a deepwater concession in the Republic of Togo. Brenham claims that TGS worked with another company to insure that Brenham was not awarded the concession. Brenham has not filed for a quantum of damages. The trial is currently scheduled for July 2012.

TGS is vigorously defending the litigation. No provision is recognized related to Brenham Oil's claim.

## 21 Large Individual Transactions

On 18 April 2011 the Company acquired 100% of the shares in Stingray Geophysical Ltd, a privately held company in United Kingdom. Stingray holds a license to commercialize fiber-optic sensing technology for seismic Permanent Reservoir Monitoring and some other oil and gas applications. The acquisition will provide TGS with a strong position in the growing market of Permanent Reservoir Monitoring. For further information, see Note 2 to the consolidated financial statements.

## 22 Events After the Balance Sheet Date

To the best of the management's and the Directors' knowledge, no other significant subsequent events not described in this Annual Report have occurred since 31 December 2011 that would alter the accounts as presented for 2011.

"Honesty, integrity and fairness form the cornerstones of all relationships both inside and outside of the Company. This focus on strong ethics and respect produces a positive energy and enthusiasm that helps drive TGS' growth."

ERNST & YOUNG

State Authorised Public Accountants
Ernst & Young AS

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Member of the Norwegian Institute of Public Accountants

To the Annual Shareholders' Meeting of
TGS-Nopec Geophysical Company ASA

## AUDITOR'S REPORT

### Report on the financial statements

We have audited the accompanying financial statements of TGS-Nopec Geophysical Company ASA, comprising the financial statements for the Parent Company and the Group. The financial statements of the Parent Company comprise the balance sheet as at 31 December 2011, the statements of income and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information. The financial statements of the Group comprise the consolidated balance sheet as at as at 31 December 2011, the statements of comprehensive income, cash flows and changes in equity for the year then ended as well as a summary of significant accounting policies and other explanatory information.

*The Board of Directors' and Chief Executive Officer's responsibility for the financial statements*

The Board of Directors and Chief Executive Officer are responsible for the preparation and fair presentation of these financial statements in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway for the financial statements of the Parent Company and the International Financial Reporting Standards as adopted by the EU for the Group, and for such internal control as the Board of Directors and Chief Executive Officer determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

*Auditor's responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the financial statements for the Parent Company and the Group.

*Opinion on the financial statements of the Parent Company*

In our opinion, the financial statements of TGS-Nopec Geophysical Company ASA have been prepared in accordance with laws and regulations and present fairly, in all material respects, the financial position of the Company as of 31 December 2011 and its financial performance and cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway.

*Opinion on the financial statements of the Group*

In our opinion, the financial statements of the Group have been prepared in accordance with laws and regulations and present fairly, in all material respects, the financial position of the Group as of 31 December 2011 and its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the EU.

**Report on other legal and regulatory requirements**

*Opinion on the Board of Directors' report and the statement on corporate governance*

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Directors' report and the statement on corporate governance concerning the financial statements, the going concern assumption and the proposal for the allocation of the result is consistent with the financial statements and complies with the law and regulations.

*Opinion on registration and documentation*

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the international standard on assurance engagements (ISAE) 3000, «Assurance Engagements Other than Audits or Reviews of Historical Financial Information», it is our opinion that the Board of Directors and Chief Executive Officer have fulfilled their duty to ensure that the Company's accounting information is properly recorded and documented as required by law and generally accepted bookkeeping practice in Norway.

Oslo, 22 March 2012
ERNST & YOUNG AS

Finn Ole Edstrøm

Finn Ole Edstrøm
State Authorised Public Accountant (Norway)

# REPORT ON CORPORATE GOVERNANCE

## 1. IMPLEMENTATION AND REPORTING ON CORPORATE GOVERNANCE

TGS actively promotes a culture designed to build confidence and trust among its stakeholders. Key elements of this culture include open and honest communication, a well-developed system of controls and policies and a compliance program. It is the opinion of the Board of Directors that TGS in general complies with the Norwegian Code of Practice of Corporate Governance published 21 October 2010 and amended 20 October 2011. In accordance with the Norwegian Accounting Act section 3-3b, TGS is required to report annually to give an account of the principles and practices related to corporate governance in the Directors' report or a document referred to in the Directors' report. TGS refers to this document in the Board of Directors' Report.

The Company emphasizes independence and integrity in all matters between its Board of Directors, management and shareholders. These same principles of independence and integrity also apply in business relations with all interest groups, including customers, suppliers and other business partners. As guidelines for its Board members and employees, TGS has developed a Statement of Values and a Code of Conduct, both available for viewing at http://www.tgs.com. TGS has developed and implemented a compliance program that is managed by a Board-appointed Compliance Officer. The Compliance Officer provides quarterly reports to the Board.

Following is the Company's statement regarding corporate social responsibility:

TGS believes that corporate social responsibility is a fully compatible and integrated part of conducting business successfully. TGS' long-standing Statement of Values clearly recognizes that the Company is responsible to a number of stakeholder groups. The principles the Company espouses to uphold its responsibilities are also described in that document.

**Customers**

TGS is responsible to its customers. Through quality and service, the Company consistently strives to meet or exceed the expectations of customers, both promptly and profitably.

**Employees**

TGS' single greatest asset is its employee base. The Company considers each employee as an individual, and recognizes and respects the dignity, culture and merit of each employee. TGS provides equal opportunity for employment, development and advancement. The Company's human resources policies are designed to ensure fair and equitable treatment and to encourage personal growth. The TGS health, safety and environmental management system (HSE-MS) is designed to ensure that all Company operations are conducted in the absence of significant risk, by continuously identifying and controlling hazards which may arise through any aspect of the Company's operations.

Honesty, integrity and fairness form the cornerstones of TGS' relationships inside and outside the Company.

**Communities and Environment**

TGS is responsible to the communities in which it operates and works and to the world community as well. The Company has a charitable contributions committee and actively supports reputable charitable programs and organizations that serve people in need by providing ongoing financial donations as well as a program that encourages employees to donate their time and energy to help those in society who are less fortunate. In 2011, TGS made significant contributions to 53 charitable organizations. The largest contributions were to an international relief based organization helping with the New Zealand earthquake and the Japanese tsunami recovery efforts and to charities focused on assisting homeless families in the Houston, Texas area.

TGS' policies on health, safety and environment are regularly reviewed and adapted based on experience gained and best practices learned. TGS supports the United Nations Universal Declaration of Human Rights and strives to apply the declaration's principles throughout business operations.

**Shareholders**

TGS is responsible to its shareholders and expects that they should realize a fair return. The Company understands that its main contribution to society comes from operating and growing a profitable and thriving business that creates value over the long term.

**Code of Conduct**

In addition to TGS' Statement of Values and policies on health, safety, environment and human resources, the Company has developed a Code of Conduct that further defines expectations on ethical behavior. Each employee and director is required to read and acknowledge his or her understanding of its contents. The code requires employees to report any known or suspected ethical irregularities and ensures that no retaliation will be levied against employees who file reports. TGS conducts an active compliance program designed to continually inform and educate employees on ethical issues. The Company employs a full time Board-appointed Compliance Officer who reports quarterly on progress.

**Comprehensive Approach**

The leadership of TGS actively promotes a culture designed to build confidence and trust among its stakeholders. Good corporate governance together with the values, policies and control systems described here provides a comprehensive approach to corporate social responsibility in TGS.

## 2. BUSINESS

The business objective of TGS-NOPEC Geophysical Company ASA is defined in the Company's Articles of Association, which state that the principal business area of the Company is in the provision, procurement and sale of seismic and geophysical data. The Company's Articles of Association are published on the TGS website at http://www.tgs.com.

TGS pursues a long-term strategy of generating substantial value for our shareholders. The Company constantly strives to understand and exceed customer expectations in delivering an on-time quality product. The commitment to quality must be apparent in every product and service that is sold. Service to customers, whether internal or external, must be professional, accurate, timely and friendly. TGS is dedicated to making a profit and delivering a solid return to its shareholders. Growth is fundamental to the success of the Company.

## 3. EQUITY AND DIVIDENDS

### Equity

Shareholders' equity at 31 December 2011 was USD 973.0 million, representing an equity ratio of 73%. The Board considers this to be satisfactory. The Company's capital adequacy is kept under constant review in relation to its objectives, strategy and risk profile.

### Dividend Policy

Because of the highly cyclical nature of the oil services industry, TGS' Board of Directors remains convinced that the Company's unique business model, strong balance sheet and strong cash position are essential to its financial health, risk management and future growth. With this in mind, the Board continues to carefully evaluate investment opportunities for growth.

It is the ambition of TGS to pay an annual cash dividend that is in line with its long-term underlying cash flow. When deciding the annual 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. In addition to paying a cash dividend, TGS may also buy back its own shares as part of its plan to distribute capital to shareholders.

The Annual General Meeting held 7 June 2011 approved the Board of Directors' proposal to distribute dividend for 2010 of NOK 5 per share, of which NOK 2 was non-recurring distribution. Following this approval, dividend payments totaling USD 93.4 million were made. In addition, TGS carried out share buy backs of USD 30.0 million in 2011.

At its quarterly meeting on 8 February 2012, the Board of Directors decided to propose to the shareholders at the June 2012 Annual General Meeting a dividend of NOK 6 per share of outstanding common stock from the Company's 2011 earnings.

At its meeting on 22 March 2012 to approve the annual accounts, the Board of Directors decided to propose 6 June 2012 as the ex-dividend date and 20 June 2012 as the dividend payment date. In addition, The Board of Directors also intends to continue buying back shares during 2012. Further details about share buy backs will be announced separately through the Oslo Stock Exchange announcement system.

### Board Authorizations

The Board of Directors' authorizations to increase share capital is limited to specified purposes. Authorizations to increase share capital and to undertake share buybacks are granted for a period no longer than until the next General Meeting.

Following the Annual General Meeting held on 7 June 2011, the Board has the following shareholder authorizations:

- To issue up to 10,391,356 new shares in the Company
- To acquire, on behalf of the Company, the Company's own shares for an aggregate par value of NOK 5,000,000, provided that the total amount of its own shares at no time exceeds 10% of the Company's share capital. The lowest price to be paid per share shall be NOK 0.25 and the highest price to be paid per share shall be the price as quoted on the stock exchange at the time of the acquisition plus 5%. Acquisition and sale of the Company's own shares can take place in the manner which the Board of Directors considers to be in the Company's best interest, but not through subscription of new shares.

For further information on these shareholder authorizations, please refer to Note 10 to the consolidated financial statements.

## 4. EQUAL TREATMENT OF SHAREHOLDERS AND TRANSACTIONS WITH RELATED PARTIES

### Equal Treatment

The Articles of Association do not impose any restrictions on voting rights. All shares have equal rights. The Company has only one class of shares and each share gives the right to one vote at the General Meeting. The Board puts emphasis on, to the extent possible, disclosing and describing the topics of the agenda and the proposed resolutions in the call for the assembly to allow the shareholders adequate time to prepare for the meeting.

### Transactions in Own Shares

TGS' transactions in its own shares are carried out at market price. In 2011, the Company purchased 1,248,600 of its own shares on the stock exchange and issued 680,250 new shares in connection with stock option programs. At the June 2011 Annual General Meeting, the shareholders voted to cancel 741,701 treasury shares. TGS held 1,816,250 treasury shares at 31 December 2011.

There have been no share capital increases in the Company in recent years except shares issued for the Company's stock option program. Should the Board wish to propose that the Annual General Meeting (AGM) depart from the preemptive right of existing shareholders relating to capital increase, such a proposal will be justified by the common interest of the Company and the shareholders, and the reasons for the proposal will be presented in the notice of the AGM as well as publicly disclosed in a separate stock exchange announcement.

### Transactions with Related Parties

There are no shareholder agreements between the Company's shareholders. None of the Board members represent companies that are significant customers of TGS. There were no material transactions taking place with related parties in 2011, but any transaction with close associates is to be conducted on market terms. Information about transactions with related parties is also disclosed in Note 12 to the consolidated financial statements. The Board has guidelines (Code of Conduct) to ensure that senior executives inform the Board if they have a material interest, directly or indirectly, in any agreement entered into by the Company.

## 5. FREELY NEGOTIABLE SHARES

### Freely Negotiable Shares

All TGS shares carry equal rights and are freely negotiable. No special limitations on transactions have been described in TGS' Articles of Association. Transactions in the TGS share are described in more detail in Note 10 to the consolidated financial statements.

All but one of the independent members of the Board have received shares as a part of their compensation, which must be held for at least two years before they can be traded. In addition there were certain limitations to trading of shares which expired in May 2011 for a small number of employees who are former owners of Centerline Data Corporation and received restricted TGS shares as part of the purchase price for Centerline. There are no other limitations to trading of shares from the Company's side, other than Insider Trading Rules for employees and the Board.

## 6. GENERAL MEETINGS

The Annual General Meeting is the Company's ultimate corporate body. The Board strives to ensure that AGMs are an effective forum for communication between shareholders and the Board.

The next AGM will be held on 5 June 2012. The notice calling the AGM and any Extraordinary General Meeting and all supporting documentation, are made available on the Company's website (http://www.tgs.com) no later than three weeks in advance of the meeting. The notice and documentation will also be mailed to any shareholders who request this service. The notice and supporting documentation include all the necessary information for shareholders to form a view on the matters to be considered. The Annual Report for 2011 is available on the Company's website.

In accordance with the Company's Articles of Association the deadline for shareholders to notify their intention to attend a General Meeting is at the latest three days before the day of the meeting. The Company's financial calendar is notified to the market by issuing a stock exchange announcement and is also published on its website.

Each AGM appoints a chairperson for the meeting, thereby ensuring that the AGM has an independent chairperson in accordance with the recommendations of the Code.

The AGM is open for all shareholders, and any shareholder not in attendance can give proxy to vote on his/her behalf. Forms of Proxy are sent to the shareholders together with the call for the meeting. The Form of Proxy allows separate voting instructions to be given for each matter to be considered by the meeting. The proceedings in the AGM follow the agenda outlined in the call. Shareholders who wish to raise a topic in the AGM have the option to do so, but must notify the Board of Directors of this in writing and in reasonable time before the call for the assembly is dispatched. The AGM cannot decide for a higher dividend than the Board of Directors has proposed for that year. At this time TGS does not allow the attendance or voting of the AGM via the internet. Shareholders are given the opportunity to vote separately either in person or by proxy for each candidate nominated for election to the Company's Board.

The AGM is required to decide on the annual financial statements, the Board of Directors' report and the distribution of dividends. The AGM should also deal with the Board of Directors' declaration relevant to the guidelines for determination of compensation to executive personnel and with the report on corporate governance.

Any other matters to be dealt with in the AGM will follow from the notice.

## 7. NOMINATION COMMITTEE

As required in the Company's Articles of Association, the Nomination Committee is responsible for the nomination of directors to the Board and the remuneration payable to the directors. The AGM stipulates guidelines for the duties of the Nomination Committee.

The Nomination Committee consists of a chairman and two members elected by and amongst the shareholders who also determine the Nomination Committee's own remuneration. The Committee members serve for a period of two years. The members of the Nomination Committee currently are Tor Himberg-Larsen (Chair), Jarl Ulvin and Christina Stray, all independent of the Board of Directors and executive personnel. The terms of the current members expire in June 2013.

The Company posts an invitation to shareholders at http://www.tgs.com prior to the AGM every year to propose candidates as directors and members of the Nomination Committee to the committee.

## 8. BOARD OF DIRECTORS: COMPOSITION AND INDEPENDENCE

The Board of Directors currently consists of six members of which five are independent. The Board members are elected by the shareholders for a term of one year.

The Board of Directors is proposed by the Nomination Committee and elected by the AGM. The Chairman of the Board is elected by the AGM.

The constitution of the Board reflects a strong background that balances specific industry experience with broader industrial, financial and management experience.

The former CEO, Henry H. Hamilton III, is a member of the Board. Following his resignation as CEO in 2009, Mr. Hamilton was elected Chairman by the General Meeting in June 2009. Mr. Hamilton was a large shareholder in TGS prior to the merger between TGS and Nopec in 1998 that created TGS as a listed company. Per 31 December 2011, he is still the 12th largest shareholder, holding approximately 1.6% of the Company's shares. Because he was formerly a member of the Company's executive personnel, Mr. Hamilton accordingly does not serve on the Board's Compensation or Audit committees.

All directors, with the exception of one, are shareholders of TGS. Information on shares in TGS held by members of the Board can be found in Note 7 to the consolidated financial statements.

A brief background description for each Board member is listed below:

**Henry H. Hamilton III, Chairman**

Born 1959. Mr. Hamilton served as CEO of TGS from 1995 through June of 2009. Hank began his career as a Geophysicist with Shell Offshore before he moved to Schlumberger where he ultimately held the position of VP and General Manager for all seismic product lines in North and South America. Hank joined TGS as its CEO in 1995 and remained in the position following the 1998 merger with NOPEC International that created the initial public listing for TGS. Mr. Hamilton serves as a board member for two non-profit organizations: the Society of Exploration Geophysics (SEG) Foundation, and Defy Ventures. He was first elected as a director in 1998 and as Chairman in 2009.

**Mark Leonard, Director (Independent)**

Born 1955. Mr. Leonard is currently the President of Leonard Exploration Inc. and the Executive Director of Indiana University Geologic Field Station. He retired in 2007 from Shell Oil Company after 28 years of service. During his tenure at Shell, Mark held a number of executive positions including Director of New Business Development in Russia/CIS, Director of Shell Deepwater Services, Director of Shell E&P International Ventures and Chief Geophysicist for Gulf of Mexico. He was first elected as a director in 2009.

**Bengt Lie Hansen, Director (Independent)**

Born 1948. Mr. Hansen is currently a Non-Equity Partner at Selmer Law Firm. He is a former President of Statoil Russia and has also served in various executive positions within Norsk Hydro including Vice President Finance and Control, E&P Division, Senior Vice President Mid and Northern Norway (responsible for the Ormen Lange Project), and Senior Vice President International E&P. Prior to joining Norsk Hydro, he was Vice President at Deminex and Head of Division at Norway's Ministry of Petroleum. Mr. Hansen serves as a board member for Agora Oil & Gas AS, Odfjell Drilling Ltd., and Eastern Europe Group AS. In addition Mr. Hansen is on the Board of Norwegians Worldwide (Nordmannsforbundet). He was first elected as a director in 2010.

**Dr. Colette Lewiner, Director (Independent)**

Born 1945. Dr. Lewiner is currently the Vice President and Global Leader of the Energy, Utilities and Chemical sector at Capgemini. Previously she held the positions of assistant professor at Paris University, Executive Vice President at Electricité de France, and Chairperson and CEO of SGN-Eurisys. Dr. Lewiner serves as a board member for Bouygues, Colas, Lafarge, Eurotunnel and Nexans, and is non-executive Chairwoman at TDF. She was first elected as a director in 2006.

**Elisabeth Harstad, Director (Independent)**

Born 1957. Ms. Harstad is an Executive Vice President of DNV Kema in the Netherlands, a subsidiary of Det Norske Veritas (DNV). She has held various positions within DNV since 1981, interrupted by one year as research and industry coordinator at Neste Petroleum AS in 1992. Ms. Harstad serves as a board member for Yara ASA. She was first elected as a director in 2007.

**Vicki Messer (Independent)**

Born 1949. Mrs. Messer is presently an independent consultant. She has 32 years of geophysical industry experience in various executive, management and supervisory positions for CGG Veritas, Veritas DGC, Halliburton Energy Services/ Halliburton Geophysical, and Geophysical Services Inc. She was first elected as a director in 2011.

### Board Meeting Attendance

The Board conducted a total of 12 meetings in 2011; three physical meetings, three by video conference and six by teleconference. All three physical meetings lasted two days. Elisabeth Harstad was unable to attend one physical meeting but attended instead by teleconference. Otherwise all directors attended all meetings.

## 9. THE WORK OF THE BOARD OF DIRECTORS

The Board's tasks include the overall management and supervision of the Company. The Board prepares an annual plan for its work, emphasizing goals, strategies and execution.

The Board operates under specific rules of procedure, which define the duties, tasks and responsibilities of the Board of Directors and individual members of the Board, and also states guidelines for the CEO's work and duties to the Board of Directors. Five out of the six Board members are independent.

The Board normally schedules seven regular meetings each year but typically holds additional meetings as circumstances dictate. Three of the regularly scheduled board meetings deal with strategic Company issues and last for two days. On at least a monthly basis the CEO updates the entire Board on the financial progress of the Company as well as other significant matters. The Board sets specific objectives for the CEO on an annual basis.

### Board Committees

The following committees, composed entirely of the Company's independent directors, are established by the Board to monitor and guide certain activities.

### Audit Committee

The Audit Committee is appointed by the Board and its main responsibility is to supervise the Company's internal control systems and to ensure that the auditor is independent. Further, the responsibility of the committee is to ensure that the annual accounts give a fair picture of the financial results and financial condition in accordance with generally accepted accounting practice. The Audit Committee receives reports on the work of the external auditor and the results of the audit.

The members of the Audit Committee with effect from the 2011 AGM are:

- Bengt Lie Hansen, Chairman
- Colette Lewiner
- Vicki Messer

### Compensation Committee

The Compensation Committee makes proposals to the Board on the employment terms and conditions and total remuneration of the CEO and other executive personnel. These proposals are also relevant for other employees.

The members of the Compensation Committee with effect from the 2011 AGM are:

- Mark Leonard, Chairman
- Elisabeth Harstad
- Vicki Messer

Each committee operates under a defined charter that may be viewed at: http://www.tgs.com/investor-relations/about-tgs/corporate-governance.aspx.

The Board of Directors carries out an annual evaluation of its own performance, working arrangements and competence. The assessment is made available to the Nomination Committee. The Board also carries out a similar evaluation of the CEO.

## 10. RISK MANAGEMENT AND INTERNAL CONTROL

The Board monitors TGS' risk exposure and the Company constantly strives to maintain and improve its internal control processes.

Executive management carries out an annual risk evaluation process to assess total enterprise risk in the Company. Through several risk-workshops a number of strategic and operational risk factors are evaluated and prioritized in a risk-matrix. Action plans are made to manage any significant risk factors and the process is made continuous with annual workshops. The key risk factors and action plans are part of the annual Board presentation on risk management and internal control by the CEO and CFO. The Board also considers the need for any further measures in relation to the risk factors identified.

The Company's Audit Committee reviews the Company's routines for financial risk management and internal control in detail. As part of this review, the Company has over the last few years completed a significant update on its financial procedures manual, which provides extensive documentation for internal control and financial reporting procedures. Neither TGS' executive management nor its Audit Committee reported any material weaknesses in the related internal control systems at 31 December 2011.

TGS has implemented a regime with a Corporate Authorization Matrix and guidelines to specify the level of authority granted to management. The matrix is part of the Financial Manual which is approved by the Board, and the CEO has operational responsibility for ensuring that it is enforced.

TGS has a separate legal department, managed by corporate General Counsel who reports directly to the CEO. Procedures and guidelines are in place to ensure that the legal department is involved in all activity that might represent legal risk for the Company, including entering into material agreements. The Company has standard policies for contract terms and conditions.

The Company also has a compliance program that provides procedures for reporting illegal or unethical conduct in the Company directly to the Board. The Board has endorsed and fully supports the continued implementation of the compliance program. The compliance program is administered by the Compliance Officer of the Company who reports directly to the Audit Committee of the Board and the CEO. All compliance reports are maintained as confidential to the extent possible and no retaliation is allowed against reporting persons. The Compliance Officer provides an annual report to the Board.

All agents, officers and key employees working for the Company must sign an annual anti-corruption compliance certification. Each employee of the Company has read and acknowledged the Company's Code of Conduct.

## 11. REMUNERATION OF BOARD OF DIRECTORS

TGS believes that remuneration to the Board of Directors should be designed to attract and retain an optimal Board structure in a competitive environment. Procedurally, the directors' fee is recommended by the Nomination Committee and determined by the shareholders at the Annual General Meeting each year.

In recent years, the directors' compensation has been composed of both a fixed fee and a number of restricted TGS shares. The remuneration is not related to the Company's financial result. Note 7 to the consolidated financial statements details the remuneration for 2011. TGS believes the remuneration reflects the Board's responsibility, expertise, time commitment and the complexity of the Company's activities.

No Board member has taken on specific assignments for the Company in addition to their appointment as a member of the Board.

## 12. REMUNERATION OF EXECUTIVE PERSONNEL

It is critical to the continued success of TGS to attract and retain highly engaged executives with great vision, global experience and a strong drive for results. A robust, competitive compensation package is a primary tool to attract and retain the highly qualified individuals needed for TGS to succeed in today's competitive world economy.

The Company's compensation programs are designed to motivate and retain executive officers by rewarding individuals for advancing business strategies that are designed to deliver value to the shareholders and maintain a positive business environment. The cash and incentive compensation elements of the packages for the executive officers are determined based on the recommendation of the Compensation Committee, composed entirely of independent directors, to the Board of Directors.

The compensation program for executive officers consists of industry competitive benefit programs and base salaries, an annual performance cash bonus directly linked to the TGS Group's operating profit and to lesser degree, long-term stock option incentives and share appreciation rights (SARs). The various compensation elements are balanced in a way that recognizes the individual's responsibilities and his or her abilities to influence the short and long-term profitable growth of the Company. As executives rise in the Company, an increasing percentage of their cash compensation is contingent on the achievement of Company targets thereby returning value to the shareholders and ensuring executives have a personal stake in TGS' performance.

Approximately 7% of the TGS Group's operating profit each year is designated as the pool for employee cash bonuses. Based on the annual budget, each employee is assigned a target bonus at the beginning of the year. The factors that influence each individual's target bonus are base salary, level of responsibility in the organization and individual contribution and performance in the previous year. The actual bonus amounts are paid quarterly and are directly proportional to the actual operating profit. The actual annual bonus paid to any employee is capped at two times the target bonus. For executive team members, TGS reserves the right to demand the repayment of any performance related remuneration that has been paid on the basis of facts that were self-evidently incorrect, or as the result of misleading information supplied by the individual in question. The CEO's target bonus is specifically set by the Board of Directors and is directly linked to results achieved on measurable key performance indicators in the previous year.

The CEO has a three year termination clause in his employment agreement. The contract is based on what is considered to be market practice in the US as this is where the CEO is based.

The Board of Directors believes that the issuance of share-based payments is a valuable tool to aid in the retention of key employees and serves to reinforce the importance of maintaining a longer-term focus towards shareholder value creation. A limited amount of share options are usually issued each year upon the approval of an authority by the AGM and subsequently a detailed plan by the Board of Directors. Due to the limited size and scope of the program, the Board does not find it necessary to set a maximum limit for the amounts which may be earned by exercising options.

For existing stock option programs the Compensation Committee has made a recommendation to the Board of Directors for the amount of share options to be issued to the executives. The number of options offered in the stock option grants has been directly linked to Company and individual performance. As a general policy, stock options have been issued at market price when granted, vested over a four-year period starting on the third anniversary of the grant and expired five years after the approval by shareholders at the Annual General Meeting of the warrants that secure the rights to option shares. Under Norwegian law, five years is the maximum lifetime of a warrant to secure a stock option. In general, employees have not been eligible to receive option grants in consecutive years.

At the Annual General Meeting on 7 June 2011 the proposed stock option plan, limited to 750,000 options and including a revised vesting schedule compared to previous years, obtained the required two thirds majority and was approved.

The Company implemented a stock appreciation rights program (SARs) for certain key personnel in 2010. The SARs plan is a cash-settled plan measured at the end of each reporting period and has no dilution effect for shareholders. Fifty percent of the SARs vest three years after grant, and 100% vest four years after grant. The SARs expire five years after grant if not exercised. The program is further described in Note 8 to the consolidated financial statements. The 2010 SARs program was not continued in 2011.

The Board believes executive compensation should be reasonable and fair according to prevailing industry standards in the geographical markets where the TGS Group operates, and understandable relative to scale, complexity and performance. The Board ensures that executive compensation is administered consistently according to the compensation philosophy. The Company results are reviewed by external auditors to ensure appropriate controls are in place related to Company results. In accordance with the Norwegian Public Limited Liabilities Act § S6-16a, the Board will present a statement regarding the Company's policies for management compensation to the Annual General Meeting on 5 June 2012.

## 13. INFORMATION AND COMMUNICATIONS

TGS' investor relations policy is designed to inform the stock market and all shareholders of the Company's activities and status in a timely and accurate manner. The Company submits quarterly and annual financial reports to the Oslo Stock Exchange. In addition, any interim information of significance for assessing the Company's value is distributed as stock exchange announcements through Hugin, a commercial publisher of financial information. This information is also available via the Company's web site at http://www.tgs.com.

The Company places great emphasis on complying with Stock Exchange regulations by providing the same information to all investors, national and international. All press releases and news are published in English only and from 2011, the Company has been granted exemption from the Norwegian Tax Authority to publish its Annual Report in English only.

The Company's quarterly earnings presentations are recorded and made available as webcasts or slide presentations in real time. The Company also makes national and international presentations and conducts road shows throughout the year to inform existing and potential investors about TGS.

The financial calendar displaying the dates for the coming years' interim reports and General Meetings for shareholders is posted at: http://www.tgs.com/investor-relations/shareholder/financial-calendar.aspx.

## 14. TAKE-OVERS

The Board of Directors has established guiding principles for how it will act in the event of a take-over bid received:

During the course of a take-over process, the Board of Directors and management of both the party making the offer and the target company are responsible to help ensure that shareholders in the target company are treated equally and that the target company's business activities are not disrupted unnecessarily. The Board is particularly responsible to ensure that shareholders are given sufficient information and time to form a view of the offer. The Board of Directors will not seek to hinder or obstruct take-over bids for the Company's activities or shares unless there are particular reasons for this.

In the event of a take-over bid for the company's shares, the company's Board of Directors will not exercise mandates or pass any resolutions with the intention of obstructing the take-over bid unless this is approved by the General Meeting following announcement of the bid.

If an offer is made for TGS' shares, the Board of Directors will issue a statement evaluating the offer and making a recommendation as to whether shareholders should or should not accept the offer. If the Board finds itself unable to give a recommendation to shareholders on whether or not to accept the offer, it will explain the background for not making such a recommendation. The Board's statement on a bid will make it clear whether the views expressed are unanimous, and if this is not the case, the Board will explain the basis on which specific members of the Board have excluded themselves from the Board's statement. The Board will arrange for a valuation of TGS from an independent expert and the valuation will be made public no later than at the time of the public disclosure of the Board's statement. If any member of the Board or executive management, or close associates of such individuals, or anyone who has recently held such a position, is either the bidder or has a particular personal interest in the bid, the Board will arrange an independent valuation in any case. This will also apply if the bidder is a major shareholder. Any such valuation will be either appended to the Board's statement, be reproduced in the statement or be referred to in the statement.

Any transaction that is in effect a disposal of the Company's total activities shall be decided by a General Meeting.

## 15. AUDITOR

The Board has determined the procedure for the external auditor's regular reporting to the Board. The auditor attends at least one meeting each year with the Audit Committee of the Board at which the Company's management is not represented. In addition, the auditor participates at meetings of the Board that approves the annual accounts. In 2011, the auditor has participated in all meetings of the Audit Committee relating to the unaudited quarterly Financial Statements.

The auditor presents to the Board any internal control weaknesses and improvement opportunities.

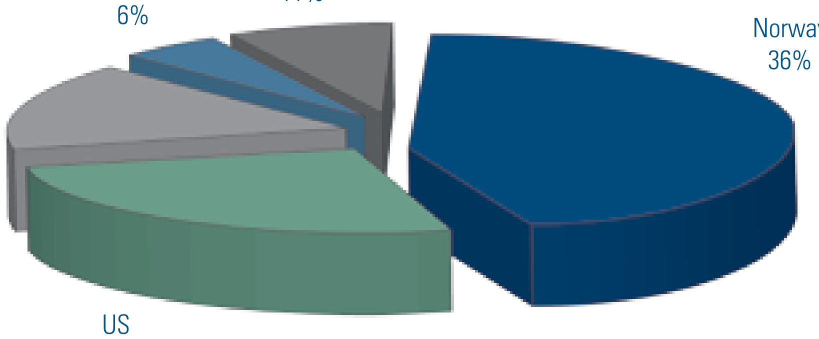
TGS has established guidelines for the right of the management to use the external auditor for services other than auditing. The audit committee receives an annual summary from the external auditor of services other than auditing that have been provided to TGS.

The auditor's fee is determined at the Annual General Meeting (see Note 7 to the consolidated financial statements for auditor's compensation for 2011).

# INVESTOR RELATIONS

## TGS SHAREHOLDER FACTS

| | |
|---|---|
| Symbol: | TGS |
| Listing: | Oslo Stock Exchange (member of the OBX index) |
| Shares Outstanding 31 December 2011: | 103,424,374, (1,816,250 were held treasury shares) |
| Volume traded on the OSE during 2011: | 260,925,000 shares |
| Average daily trading volume in 2011: | 699,101 shares |
| Analyst coverage: | 20 firms; for list see http://www.tgs.com/investor-relations/shareholder/analysts.aspx |
| Share price (high, low) during 2011: | NOK 164.1 (22 July 2011), NOK 97.00 (4 October 2011) |
| Market Value as of 30 December 2011: | NOK 13,703,729,560 (NOK 132.50 per share) |
| Distribution of share holdings: | |




TGS places great emphasis on providing accurate and timely information to the market and shareholders. The earnings reports and press releases are issued in English to ensure simultaneous and consistent information to all shareholders.

The full year financial reporting calendar is published and posted on the TGS website. This calendar is updated annually following the second quarter earnings release. The quarterly earnings results are either presented and webcast live in Oslo, Norway or they are pre-recorded and published prior to the market open and the date of the release. TGS entertains questions at the live presentations and the executive team hosts a conference call allowing questions and answers on the day of the release.

All presentation material, including the question and answer sessions, are published on the TGS website in near real time. In addition to the quarterly and annual financial reports, TGS also provides interim information of significance through press releases to aid in the assessment of the Company's value.

The general shareholders meetings for TGS are held in Oslo, Norway. All shareholders are invited to attend. Shareholders who want to attend a shareholders' meeting must notify the Company about their attendance at the latest two business days before the day of the meeting. Shareholders who have not given notice of attendance can be denied the right to meet and vote at a shareholders' meeting. Documents concerning matters to be considered at the general shareholders' meetings are made available on the Company's website prior to the event. To vote at an annual or extraordinary general meeting, a shareholder must be registered as a holder of title to the shares to be voted in the share register maintained at the VPS, in due time before the shareholders meeting.

TGS continues to be diligent at creating long-term return for its shareholders. The Company is constantly evaluating the best use of profits for continued shareholder growth. The Company uses excess cash for organic investments in the multi-client library, historically providing an excellent return. In addition, the company from time to time uses cash for the acquisition of companies that add value to the TGS offering or a technology that can benefit the ongoing library growth.

The Company provides shareholder return through a dividend and share buy-back plan. During 2011 TGS paid a 5 NOK per share dividend and bought over USD 30 million worth of TGS shares. In 2012 the Board has indicated intent for a 6 NOK per share dividend and also anticipates continuing additional share purchase. TGS management maintains a quiet period on discussing significant business during intervals spanning the last weeks of a financial quarter and the announcement of the results of that financial period.

TGS executive management is available for direct contact with investors, potential investors and analysts on an ongoing basis and regularly participates in road shows and investor conferences each year in both Europe and North America.

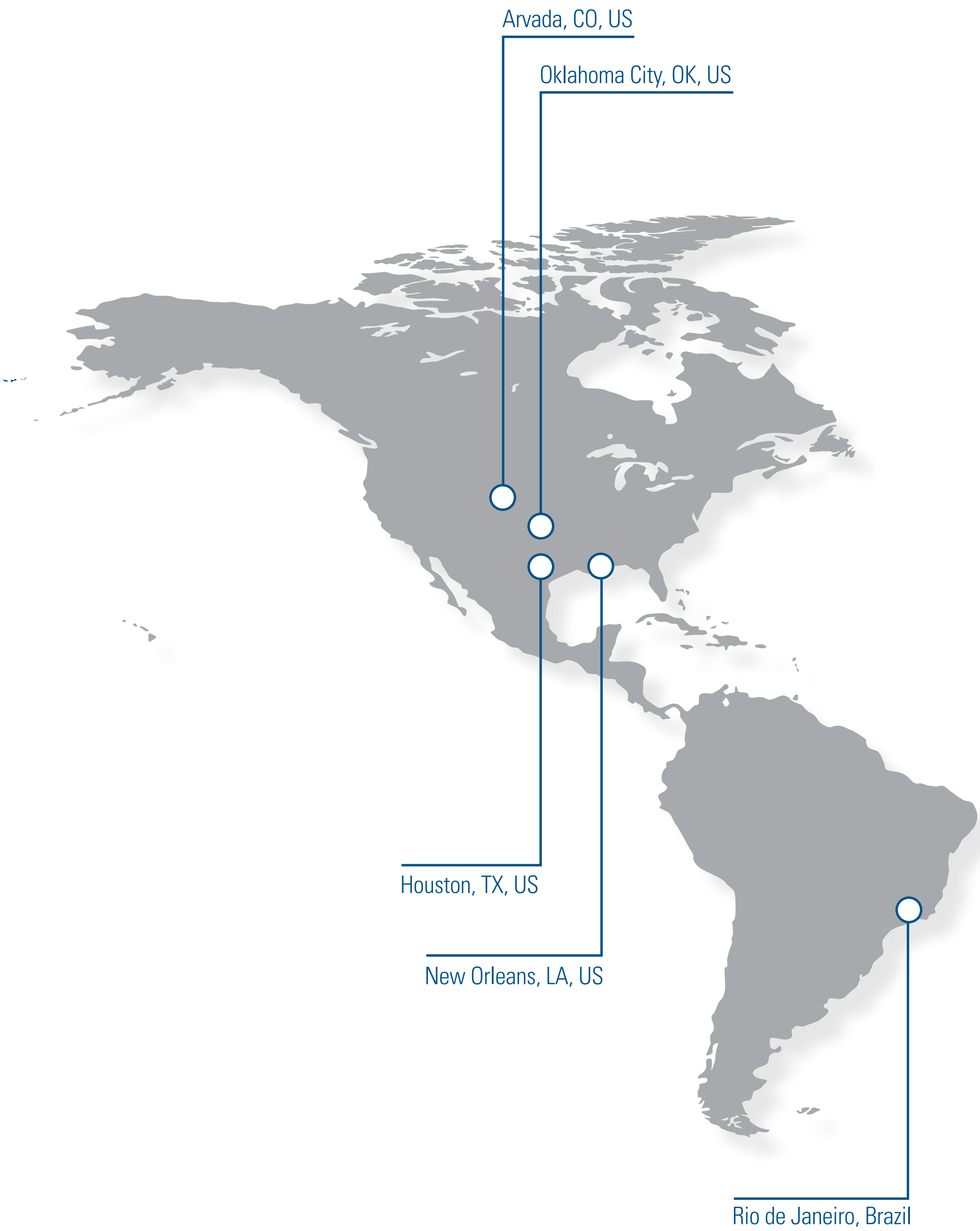
All of the financial reports can be found on the TGS website at http://www.tgs.com/investor-relations.aspx.

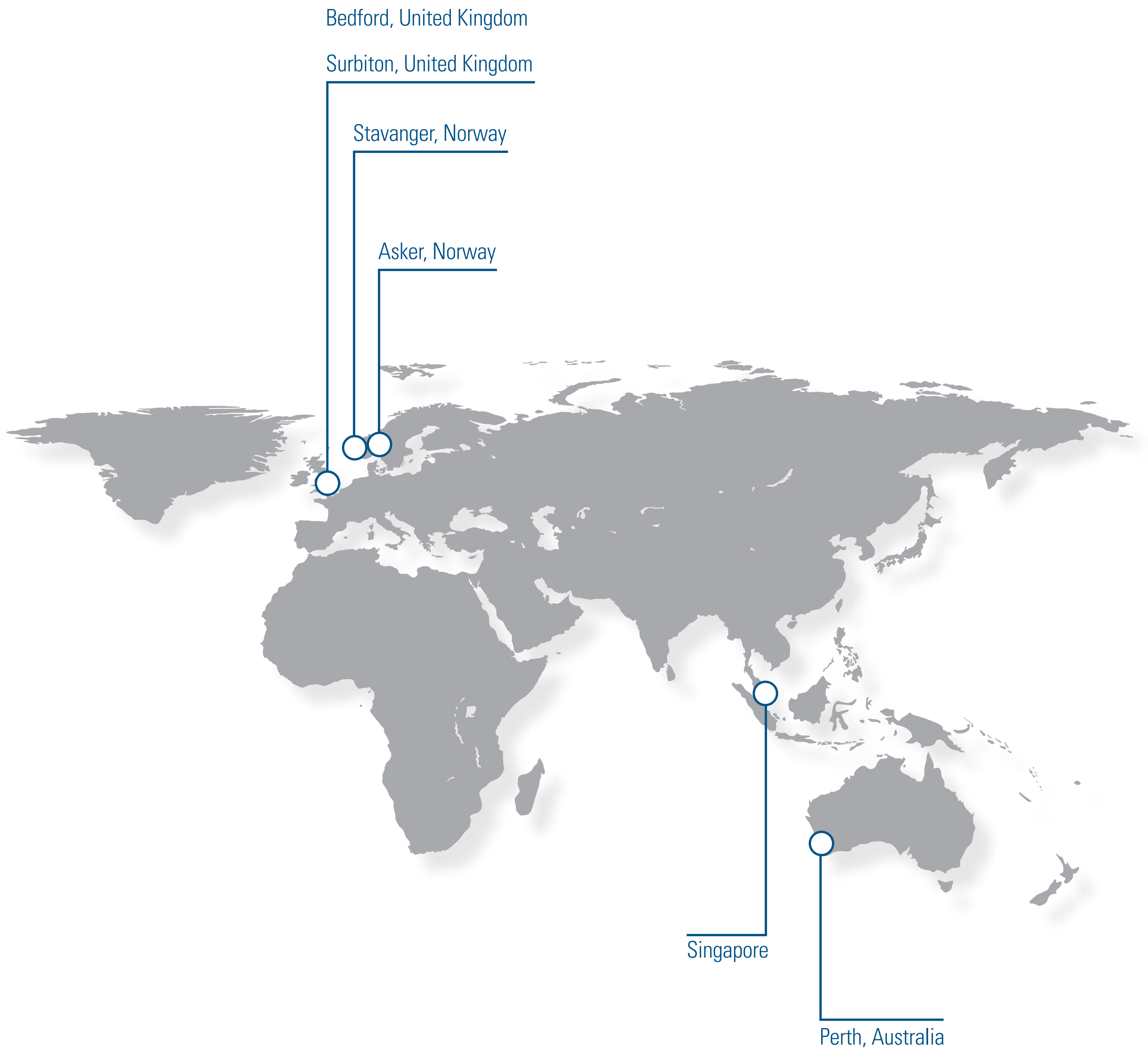
For more information regarding TGS, contact Kristian Johansen or Karen El-Tawil.

**Kristian Johansen**
*CFO*
*Asker, Norway*

**Karen El-Tawil**
*Vice President Business Development*
*Houston, TX US*

# Western Hemisphere






# Eastern Hemisphere

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