



# ALTERNATIVE PERFORMANCE MEASURES

Despite no significant growth in clients' exploration spending, TGS managed to grow free cash flow before dividend by 35% from 2016 to a level of USD 123 million.

# Alternative Performance Measures

## Definitions – Alternative Performance Measures

The European Securities and Markets Authority (ESMA) has published guidelines on Alternative Performance Measures which came into force in 2016.

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

## EBIT (Operating Profit)

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

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

## Prefunding Percentage

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

## EBITDA

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

(All amounts in USD 1,000s)

	2017	2016
Net Income	75,594	27,653
Taxes	24,042	25,022
Net financial items	(2,207)	360
Depreciation, amortization and impairment	9,499	12,046
Amortization and impairment of multi-client library	302,346	297,693
<b>EBITDA</b>	<b>409,275</b>	<b>362,774</b>

## Return on average capital employed

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

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

(All amounts in USD 1,000s)

	31 December 2017	31 December 2016
Equity	1,200,102	1,169,124
Interest bearing debt	2,500	-
Cash	249,917	190,739
Net interest bearing debt	(247,417)	(190,739)
<b>Capital employed</b>	<b>952,685</b>	<b>978,385</b>
<b>Average capital employed</b>	<b>965,535</b>	<b>1,006,870</b>
Operating profit	97,429	53,035
<b>ROACE</b>	<b>10%</b>	<b>5%</b>

### Free cash flow (after multi-client investments)

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

(All amounts in USD 1,000s)

	2017	2016
Cash flow from operational activities	461,306	324,366
Investments in multi-client library	(337,964)	(233,297)
<b>Free cash flow (after multi-client investments)</b>	<b>123,342</b>	<b>91,069</b>

### Multi-client net revenues/average net book value ratio

The ratio is defined as the net revenues from multi-client revenues divided by the average of the opening and closing balance of the multi-client library.

(All amounts in USD 1,000s)

	2017	2016
Multi-client net revenues	485,188	438,555
Opening balance multi-client library	812,399	838,915
Closing balance multi-client library	799,015	812,399
Average net book value	805,707	825,657
<b>Multi-client net revenues/average net book value ratio</b>	<b>0.60</b>	<b>0.53</b>

### Backlog

Backlog is defined as the total value of future revenue from signed customer contracts.

### Yield

Yield is defined as the dividend per share divided by the share price at the time of the dividend announcement. The 2017 dividend yield is annualized based on the weighted yield at the time of announcement of quarterly dividends.