PARENT COMPANY FINANCIALS

In 2017, TGS converted as much as 22% of net revenues to free cash flow, ranking TGS among the very best in the industry.

Income Statement

(All amounts in USD 1,000s)

Parent Company

	Note	2017	2016
Net revenues	17	309,859	222,122
Net revenues		**309,859**	**222,122**
Cost of goods sold - proprietary and other		449	5,675
Amortization and impairment of the multi-client library	3	207,127	181,548
Personnel costs	4	9,511	7,199
Cost of stock options	4	36	80
Other operating expenses	13, 18	50,177	30,716
Depreciation, amortization and impairment	2, 3	476	635
Total operating expenses		**267,776**	**225,853**
Operating profit/(loss)		**42,083**	**(3,731)**
Interest income	15	1,969	568
Financial income	15	831	23,851
Exchange gains	15	1,161	1,674
Interest expenses	15	(6,971)	(4,164)
Financial expenses	15	(7,434)	(13,287)
Net financial items		**(10,445)**	**8,643**
Profit before taxes		**31,638**	**4,911**
Taxes	16	16,830	2,740
Net income		**14,808**	**2,171**

Profit/(loss) for the year is proposed allocated as follows:

	Note	2017	2016
To/(from) other equity	6	14,808	2,171
Total allocated		**14,808**	**2,171**

Balance Sheet

Parent Company

As of 31 December.

(All amounts in USD 1,000s)

	Note	2017	2016
Assets			
Non-current assets			
Intangible non-current assets			
Multi-client library	3	497,720	514,057
Deferred tax asset	16	1,890	5,321
Total intangible non-current assets		**499,611**	**519,377**
Tangible non-current assets			
Machinery and equipment	2	1,048	1,466
Total tangible non-current assets		**1,048**	**1,466**
Financial non-current assets			
Investments in subsidiaries	7	119,395	128,969
Other non-current assets	19	-	7,690
Total financial non-current assets		**119,395**	**136,659**
Total non-current assets		**620,053**	**657,503**
Current assets			
Receivables			
Accounts receivable	9	164,440	186,591
Current receivables group companies	10	63,200	118,924
Other receivables	9	6,206	5,012
Total receivables		**233,846**	**310,527**
Cash and cash equivalents	8	69,974	50,859
Total current assets		**303,820**	**361,386**
Total assets		**923,873**	**1,018,889**

Balance Sheet

Parent Company

As of 31 December.

(All amounts in USD 1,000s)

	Note	2017	2016
Equity and Liabilities			
Equity			
Paid-in capital			
Share capital	5, 6	3,663	3,656
Treasury shares held	5, 6	(4)	(19)
Share premium	6	62,771	58,107
Other paid-in capital	6	6,992	6,011
Total paid-in capital		**73,422**	**67,756**
Retained earnings			
Other equity	6	111,260	154,098
Total retained earnings		**111,260**	**154,098**
Total equity		**184,682**	**221,854**
Liabilities			
Non-current liabilities			
Other non-current liabilities	19	-	2,483
Deferred tax	16	9,111	-
Total non-current liabilities		**9,111**	**2,483**
Current liabilities			
Accounts payable and debt to partners		46,306	60,130
Current liabilities group companies	10	630,592	635,069
Taxes payable	16	3,753	-
Social security, VAT and other duties		662	493
Provisions for dividends	6	20,446	15,240
Other current liabilities	11	28,322	83,619
Total current liabilities		**730,080**	**794,552**
Total liabilities		**739,191**	**797,034**
Total equity and liabilities		**923,873**	**1,018,889**

Asker, 22 March 2018

Henry H. Hamilton III
Chairman

Mark S. Leonard
Director

Wenche Agerup
Director

Elisabeth Grieg
Director

Nils Peter Dyvik
Director

Vicki Messer
Director

Tor Magne Lønnum
Director

Torstein Sanness
Director

Kristian Johansen
Chief Executive Officer

Statement of Cash Flow

(All amounts in USD 1,000s)

Parent Company

	Note	2017	2016
Cash flow from operating activities			
Profit before taxes	16	31,638	4,911
Depreciation/amortization/impairment	2, 3	207,603	182,183
Impairment shares in subsidiaries and receivables	7, 10	7,139	(33,260)
Unrealized currency gain/(loss)		(527)	(1,698)
Changes in accounts receivables and accrued revenue		32,291	56,496
Changes in other receivables		(2,382)	10,216
Changes in other balance sheet items		46,100	(94,498)
Received taxes		-	405
Net cash flow from operating activities		**321,861**	**124,755**
Cash flow from investing activities			
Investment in tangible assets	2	(57)	(22)
Investments in multi-client library	3	(248,587)	(59,640)
Investments in subsidiaries	7	-	-
Interest received	15	1,969	568
Net cash flow from investing activities		**(246,675)**	**(59,094)**
Cash flow from financing activities			
Interest paid	15	(6,971)	(4,164)
Dividend payments	6	(62,767)	(59,458)
Purchase of treasury shares	6	-	-
Proceeds from share offerings	6	13,141	1,798
Net cash flow from financing activities		**(56,598)**	**(61,823)**
Net change in cash and cash equivalents		**18,588**	**3,837**
Cash and cash equivalents at the beginning of the period	8	50,859	45,323
Exchange rate effects		527	1,698
Cash and cash equivalents at the end of the period		**69,974**	**50,859**

Notes to Parent Company Financials

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

1. General Accounting Policies

General Information

TGS-NOPEC Geophysical Company ASA (TGS or the Company) is a public limited company incorporated in Norway on 21 August 1996. The address of its registered office is Lensmannslia 4, 1386 Asker, Norway. The Company is listed on the Oslo Stock Exchange ("TGS").

The Company's financial statements were authorized by the Board of Directors on 22 March 2018.

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 USD, 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.

Impairment Evaluation of Multi-client Data Libraries

TGS performed impairment reviews and determined the value in use of the multi-client library during 2017. The Company estimated value in use based on discounted estimated future sales forecasts. The underlying estimates that form the basis for the sales forecast depend on variables such as the number of oil and gas exploration and production (E&P) companies operating in the area that would be interested in the data, the overall E&P spending, expectations regarding hydrocarbons in the sector, whether licenses to perform exploration in the sectors exist or will be given in the future, expected farm-ins to licenses, relinquishments, etc. Changes in these estimates may potentially affect the estimated amount of future materially. The revenue estimates are evaluated regularly and impairments are recognized in the period they occur.

For details about the book value, amortization and impairment of the multi-client library, see Note 3.

Provision for Impairment of Losses of Accounts Receivables

The Company has made provisions for impairment losses of specific accounts receivables deemed uncollectible. When assessing the need for provisions, the Company 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 Company measures the cost of stock options and other share-based payment plans granted to 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 values are dependent on the terms and conditions of the granted share-based instruments. This also requires determining the appropriate assumptions in the valuation models including the expected life of the instruments, volatility and dividend yield.

Contingent Liabilities

The preparation of the financial statements has required TGS to make judgment, estimates and assumptions that affect the reported amounts of liabilities and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount in future periods.

Summary of Significant Accounting Policies

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)

Sales in the form of prefunding commitments from customers under binding contracts are recognized as revenue on a percentage of completion (POC) basis 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 commencement of acquisition for each project are recognized on a POC basis and presented as pre-funding revenues. Sales after the commencement, but while projects are in progress are also recognized on a POC basis and presented as late sales revenues. The amount of revenues for in progress projects not yet invoiced, is presented as accrued revenues in the balance sheet.

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.

Volume Sales Agreements

In certain situations TGS grants licenses to the customer for access to a specified number of blocks of multi-client library within an area. These licenses typically enable the customer to select and access the specific blocks over a period of time. Revenue recognition for volume sales agreements is based on a proportion of the total volume sales agreement revenue, measured as the customer gains access to the data.

Revenue Sharing Arrangements

TGS shares certain multi-client revenues with other companies and governments. Revenues are recognized on a net basis in accordance with applicable recognition principles.

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 Contracts 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. Costs directly attributable to data acquisition and processing includes mainly vessel costs, payroll and hardware/software costs. Directly attributable costs do also include mobilization costs when relocating a vessel to the survey area. 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 of Seismic Data

TGS has changed its amortization policy for seismic data in 2016. The change was made due to an amendment of the relevant IFRSs. These amendments have also been implemented in the Parent company financials. The following amortization policy for the multi-client library has been implemented prospectively from 1 January 2016:

- During the work in progress phase, amortization is based on total cost versus forecasted total revenues of the project. Amortization is recorded in line with how revenues are recognized for each project during this phase.
- After a project is completed, a straight-line amortization is applied. The straight-line amortization is assigned over a remaining useful life, which for most marine projects is considered to be 4 years. For most onshore projects, the remaining useful life after completion of a project is considered to be 7 years.

Impairment Test Multi-client Library

When there are indicators that the net book value may not be recoverable, the library is tested for impairment individually per project. Any impairment of the multi-client library is recognized immediately and presented as "Amortization and impairment of the multi-client library" in the statement of profit or loss.

TGS assesses, at each reporting date, whether there is an indication that a project may be impaired. If any indication exists, TGS estimates the project's recoverable amount. A project's recoverable amount is the higher of a project's fair value less costs of disposal and its value in use. When the carrying amount of a project exceeds its recoverable amount, the project is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the project.

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. 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.

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.

Research and Development Costs

Research costs are expensed as incurred. Development expenditures on an individual project are recognized as an intangible asset when the Company can demonstrate:

- It is technically feasible to complete the product so that it will be available for use;
- Management intends to complete the product and use it;
- There is an ability to use the software product;
- It can be demonstrated how the product will generate future economic benefits;
- Adequate technical, financial or other resources to complete the development and to use the product are available; and
- The expenditure attributable to the product during its development can be reliably measured

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of expected future benefit.

Provisions

Provisions are made when the Company has a present 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.

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. When discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

Contingent liabilities are possible obligations as a result of a past event where the existence of the liability depends on the occurrence, or not, of a future event. An existing obligation, in which it is not likely that the entity will have to dispose economic benefits, or where the obligation cannot be measured with sufficient reliability, is also considered a contingent liability. Contingent liabilities are not recognized in the financial statements, but if material, disclosed in the accompanying notes. A contingent asset is not recognized in the financial statement, but disclosed if there is a certain degree of probability that it will be an advantage of the Company.

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 at the reporting 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 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.

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 are classified as tax expense.

Share-based Payments

Key employees of the Company receive remuneration in the form of share-based payment, whereby employees render services as consideration for stock options and, Performance Share Units (PSUs) and Restricted Share Units (RSUs).

The cost of equity-settled transactions (stock options, PSUs and the 2015-2017 2016 plans of RSUs) 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 expense 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.

The fair value of the RSUs 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. These fair values are expensed over the period until the vesting date with recognition of a corresponding liability. 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 values of the vested part of the RSUs are recognized as personnel costs.

Pensions

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

Leases – TGS as Lessee

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. Sales with deferred payments due to be settled more than twelve months or later are presented as non-current receivables.

Investments in Subsidiaries and Associated Companies

Investments in subsidiaries and investments in associates are valued at cost in the Company's financial statements. 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 the 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

TGS' equity instruments that are reacquired (treasury shares) are recognized at cost and deducted from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of TGS' own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognized in the share premium.

Cash Flow Statement

The cash flow statement is compiled using the indirect method.

2. Tangible Non-Current Assets

2017

Acquisition cost and depreciation:	Machinery and Equipment
Cost as of 1 January 2017	**4,834**
Additions	57
Disposals [1]	(86)
Cost as of 31 December 2017	**4,804**
Accumulated depreciation as of 1 January 2017	**3,368**
Depreciation for the year	476
Accumulated depreciation on disposals [1]	(86)
Accumulated depreciation as of 31 December 2017	**3,757**
Net book value as of 31 December 2017	**1,048**
Straight-line depreciation percentage	14% - 33.3%
Useful life	3 - 7 years

[1] Profit on disposals during the year was USD 0.

2016

Acquisition cost and depreciation:	Machinery and Equipment
Cost as of 1 January 2016	**4,812**
Additions	22
Disposals [1]	-
Cost as of 31 December 2016	**4,834**
Accumulated depreciation as of 1 January 2016	**2,732**
Depreciation for the year	635
Accumulated depreciation on disposals [1]	-
Accumulated depreciation as of 31 December 2016	**3,368**
Net book value as of 31 December 2016	**1,466**
Straight-line depreciation percentage	14% - 33.3%
Useful life	3 - 7 years

[1] Profit on disposals during the year was USD 0.

3. Intangible Non-Current Assets

2017

Acquisition cost and depreciation:	Goodwill	Multi-client Library	Total
Cost as of 1 January 2017	**3,073**	**3,079,781**	**3,082,854**
Additions	-	190,791	190,791
Cost as of 31 December 2017	**3,073**	**3,270,571**	**3,273,645**
Accumulated amortization as of 1 January 2017	**3,073**	**2,565,724**	**2,568,797**
Amortization for the year	-	207,127	207,127
Accumulated amortization as of 31 December 2017	**3,073**	**2,772,851**	**2,775,924**
Net book value as of 31 December 2017	**-**	**497,720**	**497,720**
Straight-line amortization percentage	10%		
Useful life	10 years [2]	4 to 7 years [1]	

[1] Multi-client Library: See the "General Accounting Policies", for the policies on amortization of this asset.
[2] Goodwill paid for in acquisitions of companies is amortized over the first ten years after the date of the acquisition.

Amortization for the year includes impairments of USD 4.6 million.

2016

Acquisition cost and depreciation:	Goodwill	Multi-client Library	Total
Cost as of 1 January 2016	**3,073**	**2,968,806**	**2,971,879**
Additions	-	110,975	110,975
Cost as of 31 December 2016	**3,073**	**3,079,781**	**3,082,854**
Accumulated amortization as of 1 January 2016	**3,073**	**2,384,176**	**2,387,250**
Amortization for the year	-	181,548	181,548
Accumulated amortization as of 31 December 2016	**3,073**	**2,565,724**	**2,568,797**
Net book value as of 31 December 2016	**-**	**514,057**	**514,057**
Straight-line amortization percentage	10%		
Useful life	10 years [2]	4 to 7 years [1]	

[1] Multi-client Library: See the "General Accounting Policies", for the policies on amortization of this asset.
[2] Goodwill paid for in acquisitions of companies is amortized over the first ten years after the date of the acquisition.

Amortization for the year includes impairments of USD 7.9 million.

4. Salaries/Number of Employees/Benefits/ Employee Loans/Pensions

	2017	2016
Payroll	7,946	5,915
Social security costs	1,068	860
Pension costs	295	257
Other employee related costs	201	168
Salaries capitalized	-	-
Personnel costs	**9,511**	**7,199**
Cost of stock options	36	80
Payroll and cost of stock options	**9,547**	**7,279**
Number of employees at 31 December	41	43
Average number of employees	42	40

As of 31 December 2017, the Company had 41 employees: 25 male employees and 16 female employees.

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

Auditor Fees	2017	2016
Statutory audit	327	231
Other attestation services	-	-
Tax advisory services	5	7
Other services outside the audit scope	-	-
Total fees	**333**	**238**

All amounts are exclusive VAT.

Information about remuneration of the Board of Directors and the executive management is included in Note 7 to the consolidated financial statements.

For information about share-based payment plans, see Note 8 to the consolidated financial statements.

5. Share Capital and Shareholder Information

The share capital of TGS-NOPEC Geophysical Company ASA as of 31 December 2017 was NOK 25,586,472.50 consisting of 102,345,890 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.

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6. Equity Reconciliation

Equity Reconciliation	Share Capital	Treasury shares	Share premium	Other Reserves	Retained Earnings	Total Equity
Balance 1 January 2017	**3,656**	**(19)**	**58,107**	**6,011**	**154,098**	**221,854**
Capital increase during 2017	6	-	4,664	-	-	4,670
Treasury shares distributed	-	15	-	-	8,706	8,720
Cost of stock options, RSU/PSU	-	-	-	981	-	981
Quarterly dividends resolved and paid	-	-	-	-	(45,906)	(45,906)
Provisions for quarterly dividends (USD 0.20 per share) *)	-	-	-	-	(20,446)	(20,446)
Profit/(loss) for the year	-	-	-	-	14,808	14,808
Balance 31 December 2017	**3,663**	**(4)**	**62,771**	**6,992**	**111,260**	**184,682**

Balance 1 January 2016	**3,656**	**(24)**	**58,107**	**5,361**	**210,940**	**278,040**
Treasury shares distributed	-	5	-	-	1,949	1,954
Cost of stock options, RSU/PSU	-	-	-	650	-	650
Quarterly dividends resolved and paid	-	-	-	-	(45,721)	(45,721)
Provisions for quarterly dividends (USD 0.15 per share) *)	-	-	-	-	(15,240)	(15,240)
Profit/(loss) for the year	-	-	-	-	2,171	2,171
Balance 31 December 2016	**3,656**	**(19)**	**58,107**	**6,011**	**154,098**	**221,854**

*) The Annual General Meeting held 9 May 2017 authorized the Board of Directors to distribute quarterly dividends on the basis of the 2016 statements. The authorization shall be valid until the Company's next Annual General Meeting.

On 7 February 2018, the Board of Directors resolved to pay quarterly dividend of the NOK equivalent of USD 0.20 per shares (NOK 1.57) to the shareholders.

On 22 February 2018, a total of 73,600 stock options were exercised. All the options were secured by warrants. The share capital increase of NOK 18,400 was registered on 27 February 2018.

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7. Investments in Subsidiaries

As of 31 December 2017, the Parent Company had the following investments in subsidiaries:

Included in the Balance Sheet as:	Registered Office	Share Capital of Company	Number of Shares	Book Value	Net Income	Total Equity	Shareholder and Voting Power
Maglight AS	Asker, Norway	NOK 100,000	100,000	180	1	23	100%
TGS AP Investments AS	Asker, Norway	NOK 200,000	1,000	35,214	3,954	79,946	100%
Marine Exploration Partners AS	Asker, Norway	NOK 800,000	800,000	-	(1,194)	(483)	100%
TGS Contracting AS	Asker, Norway	NOK 100,000	1,000	147	6	120	100%
TGS-NOPEC Geophysical Company	Houston, U.S.A.	USD 1,000	1,000	1,483	21,278	758,398	100%
TGS-NOPEC Geophysical Company (UK) Ltd.	Bedford, UK	GBP 50,100	50,100	-	-	(24)	100%
Aceca Ltd.	Surbiton, UK	GBP 50,762	507,620	-	-	(72)	100%
TGS Geophysical Investments Ltd.	Surbiton, UK	USD 100,000	100,000	-	-	-	100%
TGS Geophysical Company (UK) Ltd.	Surbiton, UK	GBP 166,035.34	16,603,534	-	6,853	(15,748)	100%
TGS-NOPEC Geophysical Company Pty Ltd	Perth, Australia	AUD 1	1	0	6,830	15,285	100%
TGS-NOPEC Geophysical Company Pte Ltd	Singapore	SGD 0	0	-	111	338	100%
TGS do Brasil Ltda.	Rio de Janeiro, Brazil	BRL 43,400,200	39,060,180	9,900	(1,788)	11,002	90%
Arcis Seismic Solutions Corp.	Calgary, Canada	CAD 73,945	100,000	72,471	2,374	104,934	100%
TGS-NOPEC Geophysical Company Moscow Ltd	Moscow, Russia	RUB 300,000	1	-	(97)	(3,104)	100%
Nopec Geophysical Company, S. de R.L. de C.V.	Mexico City, Mexico	MXN 1,000	1	-	-	-	90%
Balance sheet value				**119,395**			

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

In 2017 the shares in TGS do Brasil Ltda, TGS-NOPEC Geophysical Company (UK) Ltd and Aceca Ltd has been impaired by USD 9.6 million. The impairment has been recognized through net financial items, see note 15.

8. Restrictions on Bank Accounts

As of 31 December 2017, USD 0.4 million of cash and cash equivalents are restricted to meet the liability arising from payroll taxes withheld. (2016: USD 0.3 million).

9. Accounts Receivable and Other Receivables

Accounts receivable, including accrued revenues, is stated in the balance sheet at net realizable value and totaled USD 164.4 million as of 31 December 2017 (2016: USD 186.6 million). The Company has made a bad debt provision of USD 0 million in 2017 (2016: USD 2.5 million). The Company expects to collect the stated balance of receivables as of 31 December 2017. Realized losses on trade receivables in 2017 amounted to USD 0.8 million (2016: USD 27.5 million), and reversal of prior years' bad debt provisions amounted to USD 2.5 million (2016: 5.9 million). Prepayments to suppliers and other short-term receivables totaled USD 6.2 million as of 31 December 2017 (2016: USD 5.0 million).

10. Current Receivables and Liabilities Group Companies

	2017		2016	
Company	Receivables	Liabilities	Receivables	Liabilities
Maglight AS	-	14	-	14
TGS AP Investments AS	63,002	-	93,065	-
Aceca Norge AS	-	4,422	-	4,103
TGS-NOPEC Geophysical Company	-	617,138	-	630,952
A2D Technologies Inc.	-	9	65	-
TGS Geophysical Company (UK) Ltd.	-	8,417	14,787	-
TGS-NOPEC Geophysical Company PTY Ltd	-	62	1,784	-
TGS-NOPEC Geophysical Company Pte	5	-	5	-
Arcis Seismic Solutions Corp.	-	529	9,029	-
TGS do Brasil Ltda.	193	-	189	-
Total	**63,200**	**630,592**	**118,924**	**635,069**

The Company has entered into an intercompany credit revolving facility with TGS-NOPEC Geophysical Company (USA) which matures at 31 December 2018. Per the agreement, the lender may require the borrower to repay all or any portion of the outstanding facility within 30 days. Accordingly, the facility has been classified as a current liabilities, but the timing of the repayment is controlled by the Company. The interest is equal to the monthly short-term Applicable US Federal Rate.

Realized losses on intercompany receivables in 2017 amounted to USD 0.1 million (2016: USD 0 million)

11. Other Current Liabilities

	2017	2016
Deferred revenues	6,288	3,465
Accrued project costs	17,267	74,491
Other accrued expenses	3,866	5,663
Total other current liabilities	**27,421**	**83,619**

12. Guarantees

Parent Company Guarantee

In 2017, subsidiaries of the Company, together with subsidiaries of Petroleum Geo-Services ASA (PGS), concluded the joint acquisition of a majority of the multi-client library of Dolphin UK Ltd. The total acquisition price paid by the TGS entities for the 50% interest acquired amounted to USD 5.8 million, USD 3.3 million of which was paid in cash at closing, with the balance of USD 2.5 million payable in January 2021 under a promissory note guaranteed by the TGS Geophysical Company (UK) Ltd and TGS-NOPEC Geophysical Company Pty Ltd. The principal amount of USD 2.5 million bears interest at a fixed rate of 3.5% per annum.

Bank Guarantees

As of 31 December 2017, one bank guarantee has been issued on behalf of the Company of USD 0.2 million for one country's authorities related to seismic work program.

The Company has, together with other TGS companies, guaranteed for a three-year term secured revolving credit facility of USD 75.0 million which has been guaranteed by the Company together with other TGS companies.

Under section 479A of the UK Companies Act 2006; five of TGS' subsidiaries, TGS Geophysical Company (UK) Limited (Registration number: 05731700), TGS Geophysical Investments Limited (Registration number: 09281097), Aceca Limited (Registration number: 03672833), TGS-NOPEC Geophysical Company Limited (Registration number: 02896729) and Magsurvey Limited (Registration number: 04568744) have availed exemption for audit of their statutory financial statements pursuant to guarantees issued by TGS to indemnify the subsidiaries of any losses towards third parties that may arise in the financial year ended 31 December 2017 in these subsidiaries. TGS can make an annual election to support such guarantees for each financial year.

13. Commitments and Contingencies

Operating Leases - Company as Lessee

At the end of 2017, TGS has entered into commitment for two 3D vessels. All these commitments will expire in 2018, and the amount committed, including contractual lease agreements, totaled USD 27.6 million (2016: USD 46 million).

The Company has an operating lease commitment relating to premises. The commitment expires 31 January 2022 with no termination before expiry date.

Rental expense for operating leases was at USD 0.5 million for the year ended 31 December 2017 (2016: USD 0.5 million). Future minimum payments for operating leases as of 31 December are as follows:

	2017	2016
Within one year	508	477
After one year but not more than five years	1,566	1,909
More than five years	-	40
	2,074	**2,426**

The Company does not have any financial leases.

Contingent rent agreements

At 31 December 2017, the deferred part of contingent rent agreements which is contingent of future sales, totaled USD 9.8 million (2016: USD 22.7 million).

14. Related Parties

No material transactions took place during 2017 with related parties, other than operating business transactions between the companies in the TGS Group. All companies within TGS are 100% owned, directly or indirectly by the Company, except for Calibre Seismic Company which is owned 50% by one of the subsidiaries. Business transactions between the entities of TGS were performed at arm's length principles. The main business transactions can be aggregated as follows:

	2017	2016
Data processing costs	27,133	21,724
Brokerage fees	29,757	13,286
Management fees	16,121	11,134

For information about intercompany interest income and expense, see Note 15.

The Company has no liabilities in the form of mortgages, other collateral or guarantees in favour of entities within the TGS Group.

For a specification of intercompany receivables and liabilities, see Note 10.

15. Financial Items

Financial income/expense:	2017	2016
Interest income	434	88
Interest income subsidiaries	1,535	480
Exchange gain	2,263	1,674
Other financial income	831	23,851
Total financial income	**5,063**	**26,093**
Interest expense	(125)	(28)
Interest expense subsidiaries	(6,846)	(4,135)
Exchange loss	(1,103)	0
Other financial expenses	(7,434)	(13,287)
Total financial expense	**(15,508)**	**(17,451)**
Net financial items	**(10,445)**	**8,643**

Other financial income in 2017 does mainly consist of dividends from the subsidiaries Aceca Ltd and TGS NOPEC Geophysical Company (UK) Ltd, and has been reduced by a corresponding impairment of the shares in these companies. Other financial expenses in 2017 does mainly consist of impairment of shares in TGS do Brasil Ltda.

16. Tax Expense

Current tax:	2017	2016
Profit/(loss) before taxes	31,638	4,911
Permanent differences [1]	6,655	(9,925)
Changes in temporary differences	18,905	(45,145)
Tax loss carried forward	(78,734)	34,240
Currency exchange effects on base for current tax	37,173	15,918
Basis for current tax	**15,638**	**-**

Total tax expense for the year:		
Deferred tax - changes	13,076	2,521
Taxes payable	3,753	-
Adjustment in respect of current income tax of previous year	**-**	**219**
Tax outside Norway	-	-
Total tax expense for the year	**16,830**	**2,740**
Effective average tax rate	**53%**	**56%**

Taxes payable	**2017**	**2016**
Taxes payable on current year profit	3,753	-
Total taxes payable	3,753	-

Specification of basis for deferred taxes:

Temporary differences:	**2017**	**2016**
Multi-client library	(52,035)	(76,085)
Revenues on seismic projects in the work in progress phase	105,301	151,535
Accounts receivable	(1,733)	(4,168)
Accruals	(11,056)	(11,914)
Interest deduction carried forward	-	(4,269)
Tax loss carried forward	-	(70,772)
Other	(866)	(852)
Total	**39,611**	**(16,525)**

Deferred tax liability/(asset) based on temporary differences	9,111	(3,966)
Withholding taxes carried forward [3]	(1,890)	(1,355)
Deferred tax liability/(asset) recognized	**7,220**	**(5,321)**

Explanation of total tax expense versus nominal tax rate on pre-tax profit:	**2017**	**2016**
Tax calculated using nominal tax rate on pre-tax profit	7,593	1,228
Effect of permanent differences [1]	1,597	(2,481)
Effect of change in tax rate [2]	(396)	165
Exchange gain/loss reported as tax expense	8,035	3,828
Total tax expense recorded in income statement	**16,830**	**2,740**

[1] Permanent differences related to non-tax deductible items. In 2017 the main items relate to write-down of shares in subsidiaries of USD 9.6 million (2016: 12.8 million) and dividend from subsidiaries of USD -3.2 million (2016: USD –22.8 million).

[2] From the income year 2018, the Norwegian nominal tax rate on ordinary income has been reduced to 23%. The basis for deferred taxes per 31 December 2017, was calculated with the new tax rate.

[3] Withholding taxes carried forward have to be utilized no later than 2020.

17. Gross and Net Revenues

TGS shares certain multi-client revenue with other companies and the government in certain countries. Operating revenue is presented net of portion shared. The table below provides the breakdown of gross revenue for 2016 and 2017.

	2017	2016
Gross revenues from sales	351,673	281,779
Revenue sharing	(41,814)	(59,658)
Net revenues	**309,859**	**222,122**

18. Financial Risk Management

Currency Risk
Functional currency for the Company is USD. Major portions of the Company's revenues and costs are in US dollars, except for personnel and administrative costs. Due to this, the Company's operational exposure to exchange fluctuations is low. However, as the Company pays taxes in Norwegian kroner to Norwegian Tax Authorities and dividends to shareholders in Norwegian kroner, fluctuations between the NOK and the USD impact currency exchange gains or losses on tax expense and financial 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. As of balance sheet date, the Company held current assets of USD 303.8 million, of which cash and cash equivalents represents USD 70.0 million, and current liabilities of USD 730.1 million, of which debt to subsidiaries represents USD 630.6 million. As of 31 December 2017, TGS considers the liquidity risk to be low.

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. The Company is exposed to credit risk through sales and use best efforts to manage this risk. The maximum exposure to credit risk at the reporting date is the carrying value of the financial assets, the carrying value of the accounts receivables and other short-term receivables. TGS evaluates the concentration of risk with respect to trade receivables as low due to the Company's credit rating policies and as the clients are mainly large oil and gas companies considered to be financially sound.

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 an interest compensation to be paid by clients, the revenues recognized by the Company are discounted to reflect this element.

19. Other Non-current Assets and Liabilities

Other non-current assets comprise account receivables with extended payment terms and loans. Any revenue share associated with these receivables is presented as "Other non-current liabilities".

None of the non-current receivables are due as per 31 December 2017.

TGS has interest bearing loans to E&P Holding AS and Skeie Energy AS. The two loans with a total value of gross USD 42.1 million (net to TGS of USD 29.4 million) are recognized at USD 0 million as of 31 December 2017 (31 December 2016: USD 0 million). One of the loans was written off as uncollectible in 2016.

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20. Contingent Liabilities

Økokrim Charges and Related Civil Matters
On 6 May 2014, TGS was notified that Økokrim, the Norwegian National Authority for Investigation and Prosecution of Economic and Environmental Crime, charged TGS for violations of the Norwegian Tax Assessment Act and the Norwegian Securities Trading Act related to a transaction entered into in May 2009 with Skeie Energy AS, later known as E&P Holding AS (Skeie). The charge claims that TGS contributed to unwarranted tax refunds received by Skeie under the Norwegian Petroleum Tax Act through licenses of seismic data to Skeie, which included licenses to existing TGS multi-client data primarily in the North Sea and the Barents Sea and prefunding of a large 3D survey in the Hoop area of the Barents Sea. The surveys licensed by Skeie have since been licensed to multiple customers and are located in a very prospective area. Skeie paid for the licenses partially in cash, with the remaining amount of USD 42.1 million (net to TGS of USD 29.4 million) payable at the end of 2010. Due to Skeie's failed attempt to raise new capital, the loan was not repaid at the maturity date, and the loan was restructured into two loans from Skeie and an affiliated company during 2011. TGS has actively pursued collection of the loans, but despite these efforts, the loans were not repaid and the Company has written off as uncollectible one of the loans and has taken a reserve for the full amount of the other loan.

On 2 March 2017, Økokrim issued a corporate fine of NOK 85 million (approximately USD 11 million) against TGS based on the alleged violations of the Norwegian Tax Assessment Act. Økokrim dismissed the charges against TGS for market manipulation in violation of the Securities Trading Act due to insufficient evidence. The Company rejected the fine, and a trial regarding the alleged violations commenced 22 January 2018. The trial is expected to conclude in April 2018. If TGS is convicted, the fine would increase to NOK 90 million.

Based upon the Company's assessment of the evidence in the case to date, the Company believes the claims by Økokrim lack merit and the trial will confirm that TGS acted diligently in connection with the transactions with Skeie and no wrongdoing by the Company occurred. Given the early stage of the trial process, it is impracticable to render an accurate assessment of the outcome. However, based upon the Company's rejection of the fine and its assessment of the case at this point, it does not consider it probable that an outflow of resources embodying economic benefits will be required in connection with criminal charges and, accordingly, no provisions have been made.

TGS has also been notified of various claims or potential claims, asserting liability on TGS' part in relation to the 2009 transaction with Skeie. The claims are generally predicated on whether the parties making the claims are ultimately held responsible for all or any part of the unwarranted tax refunds and suffer damages that can be attributed to TGS. The following summarizes the claims and potential claims:

- Skeie and two affiliated parties have notified TGS of potential claims of joint responsibility for losses arising from the tax refunds received by Skeie.
- In May 2016, the Norwegian Government notified TGS of a claim of compensation in connection with the Government's alleged losses arising from tax benefits received by Skeie under the Petroleum Tax Act for the purchase of seismic data from TGS. The Government alleges TGS aided and abetted Skeie in obtaining unwarranted tax refunds, and claims the amount of the unwarranted tax refunds plus interest, which totaled approximately NOK 326 million at the time of the notice. TGS has granted the Government a three-year extension of the statute of limitations for legal actions relating to the claim. Similar claims were made by the Government against other parties involved with Skeie.
- In October 2016, Skeie Technology, one of the Skeie affiliates and a guarantor of certain of Skeie's obligations, filed a writ of summons against TGS and certain other parties, seeking a declaratory judgment of joint liability for losses that, through its parent company guarantee, may be suffered by Skeie Technology as a result of the acquisition of seismic data by Skeie from TGS in 2009. The court in this case has stayed the proceedings pending the resolution of the Økokrim matter. No specific damages have been asserted in the writ. Skeie Technology was successful in a court proceeding during 2017 by the Norwegian Government that sought to enforce the parent company guaranty for repayment of the tax refunds. The ruling has been appealed by the Government.
- On 26 March 2017, TGS received notice from DNB that it will hold TGS responsible for any amounts payable by DNB to the Norwegian Government. DNB received notice from the Norwegian Government in December 2016, claiming liability for repayment of the tax refunds under a provision in the Tax Payment Act due to DNB's status as a pledgee of the tax refunds. In April 2017, the parties entered into a mutual standstill agreement to stop the tolling of the statute of limitations for three years. In November 2017, TGS received notification that, notwithstanding the standstill, DNB had filed a claim against TGS and various other parties for responsibility for any amounts that DNB may owe in relation to this matter. This claim initially arose out of the claims against Skeie Technology by the Norwegian Government in connection with Skeie Technology's parental guarantee, but the DNB claim has now been severed as a separate case. TGS has requested a stay in the proceedings of this case.

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

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21. Events after the Balance Sheet Date

On 7 February 2018, the Board of Directors resolved to pay a quarterly dividend of the NOK equivalent of USD 0.20 per shares (NOK 1.57) to the shareholders. The dividend payments of USD 18.5 million, were made on 1 March 2018.

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 2017 that would impact the financial statements as presented for 2017.

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INDEPENDENT AUDITOR'S REPORT

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

Report on the audit of the financial statements

Opinion

We have audited the financial statements of TGS-NOPEC Geophysical Company ASA comprising the financial statements of the parent company and the Group. The financial statements of the parent company comprise the balance sheet as at 31 December 2017, the income statement and statement of cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies. The consolidated financial statements comprise the balance sheet as at 31 December 2017, the statements of comprehensive income, cash flows and changes in equity for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion,

- the financial statements are prepared in accordance with the law and regulations;
- the financial statements present fairly, in all material respects, the financial position of the parent company as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway;
- the consolidated financial statements present fairly, in all material respects the financial position of the Group as at 31 December 2017 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Basis for opinion

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Company and the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in Norway, and we have fulfilled our ethical responsibilities as required by law and regulations. We have also complied with our other ethical obligations in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for 2017. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the financial statements.

Revenue recognition

The Company recognises revenues when it is probable that the economic benefits from a transaction will flow to the Company and can be reliably measured. Prefunding agreements are recognized based on percentage of completion and requires judgement in terms of measuring progress based on costs incurred compared to total cost. Revenues from sale of finished data are recognized when the customer has gained access to the data under a binding agreement and payment is probable. Revenue recognition was a key audit matter due to the inherent risk of revenues being recognised in the wrong period.

We tested controls related to revenue recognition including among others controls related to credit risk evaluation and providing access to finished data. For the prefunding agreements we agreed a sample of revenues to contracts and progress reporting from the vessels and data processing. We also agreed a sample of cost incurred to vessel contracts and internal allocations of data processing expenses and considered the estimated costs to complete. For the sales of finished data we also tested a sample of revenue transactions recognised before and after year-end against contracts, invoices and proof of delivery.

We refer to note 1 of the financial statements for the Company's accounting policies.

Impairment evaluation of multi-client data libraries

Multi-client library accounts for approximately 56 % and 57% of total assets of the Group and the parent company respectively. The Company performed an impairment evaluation and determined the value in use. The Company estimated value in use based on estimated future sales forecasts. These forecasts are based on next year's budget and assumptions about future market demand and spending on exploration and production by oil companies, including licensing activities, farm-ins and exploration activities. These forecasts require considerable insight and judgment from management about the future market conditions. The impairment evaluation of the multi-client data libraries was a key audit matter based on the continued uncertain market conditions and the significant judgement involved. In 2017 impairment losses of USD 7.5 million were recorded in the consolidated financial statements and USD 4.6 million in the parent company's financial statements.

We evaluated management's assessment of impairment indicators and management's estimates related to sales forecast. We performed test of controls and tested supporting documentation related to the budgets and sales forecasts. As part of our procedures, we discussed the forecasted sales with management including senior sales personnel and controllers. Our audit procedures also included analyses and evaluation of historical accuracy of prior years' forecasts, the current market situation and expectations about the future oil prices, licensing rounds, farm-ins and exploration activities. Furthermore, we evaluated the valuation methodology, and the discount rate applied in the value in use model. We also tested the mathematical accuracy of the value in use calculation and performed sensitivity analysis of the critical assumptions. We used a valuation specialist to assist us in evaluating the discount rate applied. We also assessed the Company's disclosures regarding those assumptions and the impairment losses of multi-client data libraries recorded.

We refer to note 5 in the consolidated financial statements and note 3 in the parent company financial statements.

Økokrim Charges and Related Civil Matters

In 2014 Økokrim, the Norwegian National Authority for Investigation and Prosecution of Economic and Environmental Crime, charged the Company for violations of the Norwegian Tax Assessment Act related to a transaction entered into in 2009 with Skeie Energy AS. The charge claims that the Company contributed to unwarranted tax refunds received by Skeie Energy AS under the Norwegian Petroleum Tax Act. In 2017, Økokrim issued a corporate fine of NOK 85 million (approximately USD 10 million) which was rejected by the Company. A trial regarding the alleged violations commenced in January 2018 and is expected to conclude in April 2018 with a decision from the court later in 2018. If the Company is convicted, the fine would increase to NOK 90 million.

The Company has also been notified of other claims and potential claims from Skeie, affiliates of Skeie, the Norwegian authorities and DNB in relation to the 2009 transaction with Skeie, alleging the Company has responsibility for losses suffered or that may be suffered by the party making the claim.

The Company does not consider it probable that an outflow of resources embodying economic benefits will be required to resolve the Økokrim charges or related civil matters and no provisions were made as of 31 December 2017. Due to the inherent uncertainties related to the outcome of these matters and judgement involved in the evaluation of the probability under IAS 37 this was a key audit matter.

We discussed the Økokrim charges and the evidence presented during the court case and the related civil matters with the Company's internal legal counsel. We also evaluated the external legal assessments obtained by management and compared them with management's evaluation. Our audit procedures also included an assessment of the Company's disclosures.

We refer to note 21 in the consolidated financial statements and note 20 in the parent company financial statements.

Other information

Other information consists of the information included in the Company's annual report other than the financial statements and our auditor's report thereon. The Board of Directors and Chief Executive Officer (management) are responsible for the other information. Our opinion on the financial statements does not cover the other information, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information, and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management for the financial statements

Management is 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 International Financial Reporting Standards as adopted by the EU for the financial statements of the Group, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with law, regulations and generally accepted auditing principles in Norway, including ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit 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 Company's internal control
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.|
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Opinion on the Board of Directors' report and on the statements on corporate governance and corporate social responsibility

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

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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 management has fulfilled its duty to ensure that the Company's accounting information is properly recorded and documented as required by law and bookkeeping standards and practices accepted in Norway.

Oslo, 22 March 2018
ERNST & YOUNG AS

Nina Rafen
State Authorised Public Accountant (Norway)