# 2014

Annual Report

TGS

# SEE ENERGY DEFINED

To make the right exploration decisions, energy companies must see the energy they seek in its truest form. TGS gives them this vision. With exceptionally precise geoscience data, sharp definition. So our clients can pursue it with confidence and achieve their deepest ambitions.

# Table of Contents

# FINANCIAL HIGHLIGHTS

# 2014 Financial Highlights

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

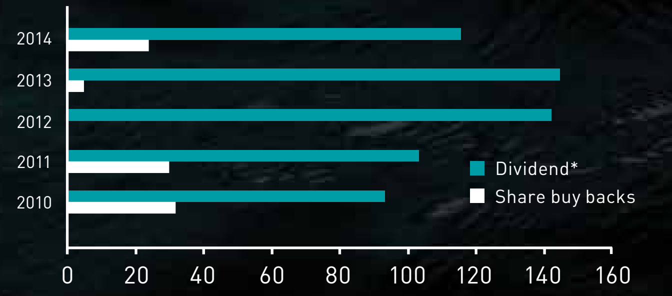
| | **2014** | 2013 | 2012 | 2011 | 2010 |
|---|---|---|---|---|---|
| Net operating revenues | **914,785** | 883,444 | 932,239 | 608,568 | 568,263 |
| EBIT | **294,516** | 386,976 | 402,304 | 240,402 | 227,108 |
| Pre-tax profit | **288,327** | 381,460 | 407,550 | 241,146 | 227,745 |
| Net income | **216,074** | 269,106 | 284,533 | 170,688 | 155,783 |
| EBIT margin | **32%** | 44% | 43% | 40% | 40% |
| Net income margin | **24%** | 30% | 31% | 28% | 27% |
| Return on average capital employed* | **28%** | 42% | 55% | 38% | 37% |
| Earnings per share | **2.12** | 2.63 | 2.79 | 1.67 | 1.52 |
| Earnings per share fully diluted | **2.09** | 2.59 | 2.76 | 1.65 | 1.49 |
| Total assets | **1,767,618** | 1,736,257 | 1,660,721 | 1,333,182 | 1,216,916 |
| Shareholders equity | **1,339,201** | 1,292,979 | 1,168,360 | 973,021 | 908,771 |
| Equity ratio | **76%** | 74% | 70% | 73% | 75% |
| Share buy back | **24.6** | 5.0 | - | 30.0 | 31.9 |
| Dividend payout | **115.6 (NOK 8.5)**** | 144.8 (NOK 8.5) | 142.2 (NOK 8) | 103.3 (NOK 6) | 93.4 (NOK 5) |

** Return on average capital employed = EBIT/Average capital employed. Capital employed = Equity + Net interest bearing debt*
*** 2014 reflects proposed dividend to the May 2015 Annual General Meeting*

## Multi-Client Library

| | 2014 | 2013 | 2012 | 2011 | 2010 |
|---|---|---|---|---|---|
| Multi-client data purchased from third parties | - | - | 31,100 | - | 4,000 |
| Investments in new projects | 462,318 | 438,869 | 496,240 | 276,942 | 295,300 |
| Ending net book value | 818,132 | 758,093 | 651,165 | 511,131 | 475,698 |
| Pre-funding % on operational investments | 53% | 42% | 68% | 53% | 55% |

## Cash distribution to shareholders

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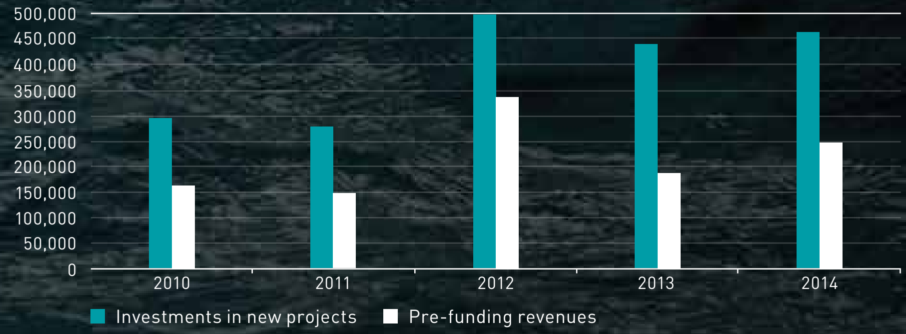
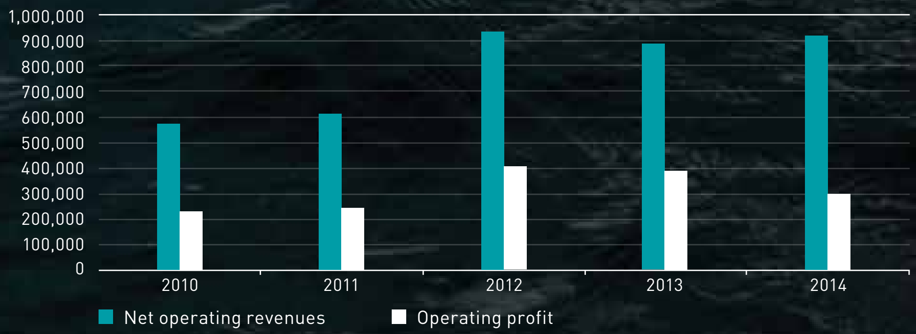
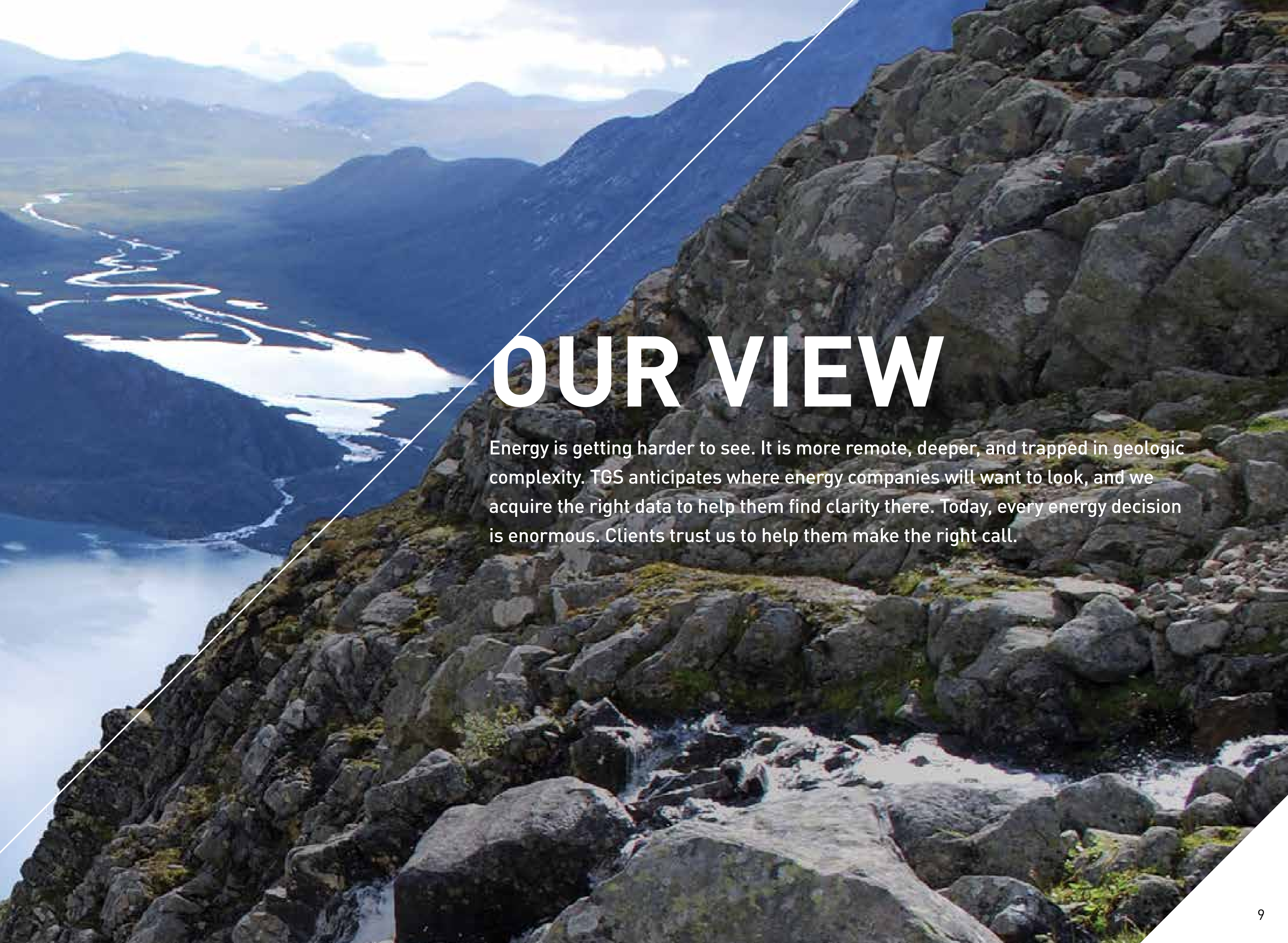


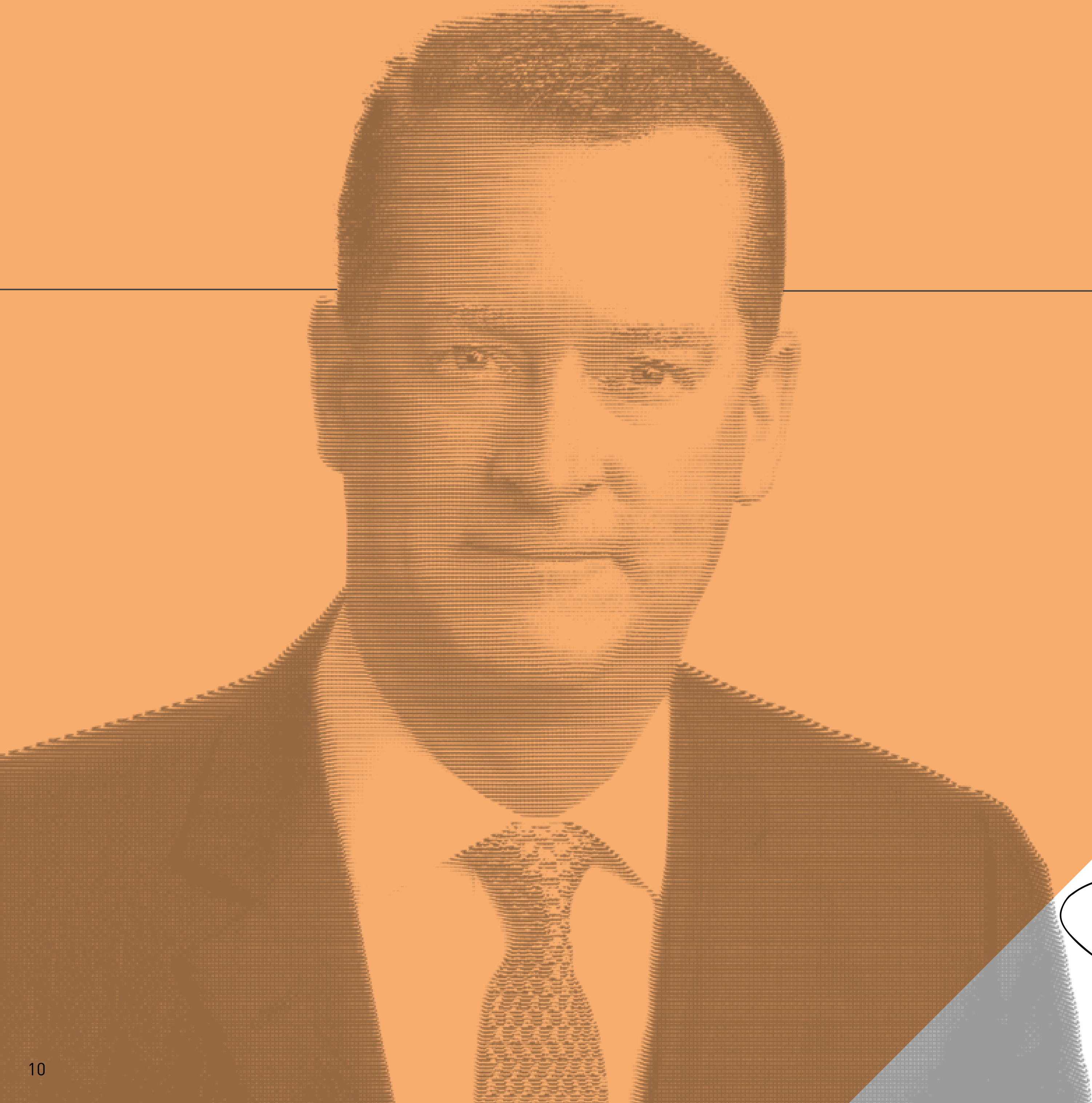




# OUR VIEW

Energy is getting harder to see. It is more remote, deeper, and trapped in geologic complexity. TGS anticipates where energy companies will want to look, and we acquire the right data to help them find clarity there. Today, every energy decision is enormous. Clients trust us to help them make the right call.



Robert Hobbs, CEO

# Dear Fellow Shareholders

*I am pleased to report that TGS is well positioned to weather the current storm of uncertain oil prices. Despite the challenging environment, in 2014 we achieved revenues of USD 915 million, an increase of 4% over 2013. This performance is impressive given that Brent oil prices declined almost 50% in the second half of the year. TGS had record revenues and late sales in the last quarter, confirming that customers continue to rely on our data products to carry out their exploration and production plans, even in a difficult market.*

Shareholder equity continued its long-term growth trend. The TGS Board of Directors has proposed to the AGM that the 2014 dividend be maintained at NOK 8.5/share. This will continue our track record of providing industry-leading yield to our shareholders. In addition, TGS bought back approximately USD 25 million in shares during the year.

Our scalable, asset-light business model continues to set us apart from the competition. Instead of carrying the high operating costs of vessels and crews, TGS excelled in its role of focusing on what counts most — high-quality data. We use uncertain markets as opportunities to invest in our data library counter-cyclically, taking advantage of lower acquisition costs to build our assets faster and less expensively. We have seen down cycles like this one in the past, and these cycles have provided us with opportunities to grow our business.

Over the past year, TGS continued to use its industry-leading geoscience expertise to develop and acquire projects in some of the most attractive basins in the world. We grew our library in prolific plays such as the deep water Gulf of Mexico and the North Sea, and in frontier basins such as Eastern Greenland, the Barents Sea, the Canadian offshore of Newfoundland and Labrador, and the Great Australian Bight.

Customers rely on TGS to source the right data acquisition technology to solve their specific subsurface imaging problems. Our ability to access all available technologies provides real value that competitors cannot offer.

Not only does TGS assure that data is collected in the right locations to meet industry demands, we guarantee our data of superior quality is the best on the market by applying our state-of-the-art geophysical processing technologies. Over the years, TGS has become one of the premier data processors in the industry. This reputation continues to encourage customers to prefund TGS multi-client projects.

We can see that 2015 will be a very challenging year for our industry. Competition in the multi-client market will continue to be fierce as vessel operators seek to fully utilize their assets. TGS, as always, will approach this market differently than the competition. Our data is built on a foundation of sound geoscience and sound investment principles based on the merits of targeted data alone.

Given the uncertain commodity market, energy companies will look to reduce their exploration expenditures. However, they must continue to search for new hydrocarbon reserves. Our multi-client products give them the most cost-effective solution to access the data they need while also controlling exploration expenditures. As long as TGS has data available in the most attractive locations at the right time, there is value for our customers.

TGS is focused on conducting business in a sustainable manner, which we cover in more detail later in this report. Sustainability is a core TGS value. It is key to meeting our responsibilities to customers, employees, the environment, the communities where we operate, and our shareholders.

While the current market looks uncertain, the path is clear for TGS. Regardless of commodity prices, the energy industry must clearly define the hydrocarbon reserves that are so critical to satisfying global energy needs. This is why customers will continue to look to TGS — both its outstanding employees and its exceptional data — to See Energy Defined.

**Robert Hobbs**
Chief Executive Officer / TGS

# 2014 Highlights

## Offshore Marine Library

- Began the Declaration survey, an expansion of current WAZ 3D projects which will cover over 9,000 km² in the Mississippi Canyon and Viosca Knoll protraction areas in the Gulf of Mexico
- Commenced a multi-year 2D acquisition program offshore of Greenland. When finished, the total database in the region will cover more than 36,000 km
- Announcement of the first two ocean-bottom projects on the U.S. Gulf of Mexico shelf in collaboration with FairfieldNodal
- Continuation of the Explorer Series acquisition program in the deep water Gulf of Mexico, with the completion of the 6,700 km² Francisco survey and commencement of 11,500 km² Panfilo survey
- Completed 5000 km² Olho de Boi survey, TGS' first 3D survey in Brazil, acquired in partnership with Dolphin Geophysical and targeting future licensing rounds in this region
- Very active season in Barents Sea with acquisition of 9,300 km 2D data, 3,100 km² 3D data, 500 km² high resolution P-Cable data in partnership with WGP, 18 blocks CSEM data in partnership with EMGS and reprocessing of over 18,000 km of 2D data, all targeting 23rd Norwegian licensing round
- Completed 4,200 km² of new 3D acquisition in the West of Shetland region tying into the existing library and bringing total volume in the area to more than 19,000 km²
- Commencement of Snipe Phase 52, a new 12,000 km long-offset 2D multi-client survey in the ultra-deepwater Gulf of Mexico, which will supplement the library in the region and provide critical well ties to a number of recent discoveries
- Large expansion of the Eastern Canada 2D data set in partnership with PGS, stretching from Labrador through Newfoundland to the Southern Grand Banks
- Delivered the Chukchi Sea 2D PSTM dataset, resulting in further licensing to prepare for the 2015 drilling season and 2016 BOEM lease sale
- Continued expansion of 2D coverage offshore Madagascar, adding approximately 9,000 km of data and bringing the total library in the area to more than 51,000 km
- New 3D multi-client survey over large deepwater prospects in Sierra Leone adding 1,000 km² to the existing 6,000 km² 3D library
- Completed a 2,100 km² 3D survey covering the Barrow sub-basin in Northwest Australia
- Completed Nerites Phase I, a 3D multi-client survey covering 8,300 km² in the Great Australian Bight and Commenced Nerites Phase II, our largest 3D survey to date in the region covering 13,000 km². When completed, the total 3D multi-client coverage offshore Australia will exceed 43,000 km²
- Began a new 17,000 km 2D multi-client survey in Northwest New Zealand

## Onshore Seismic Library

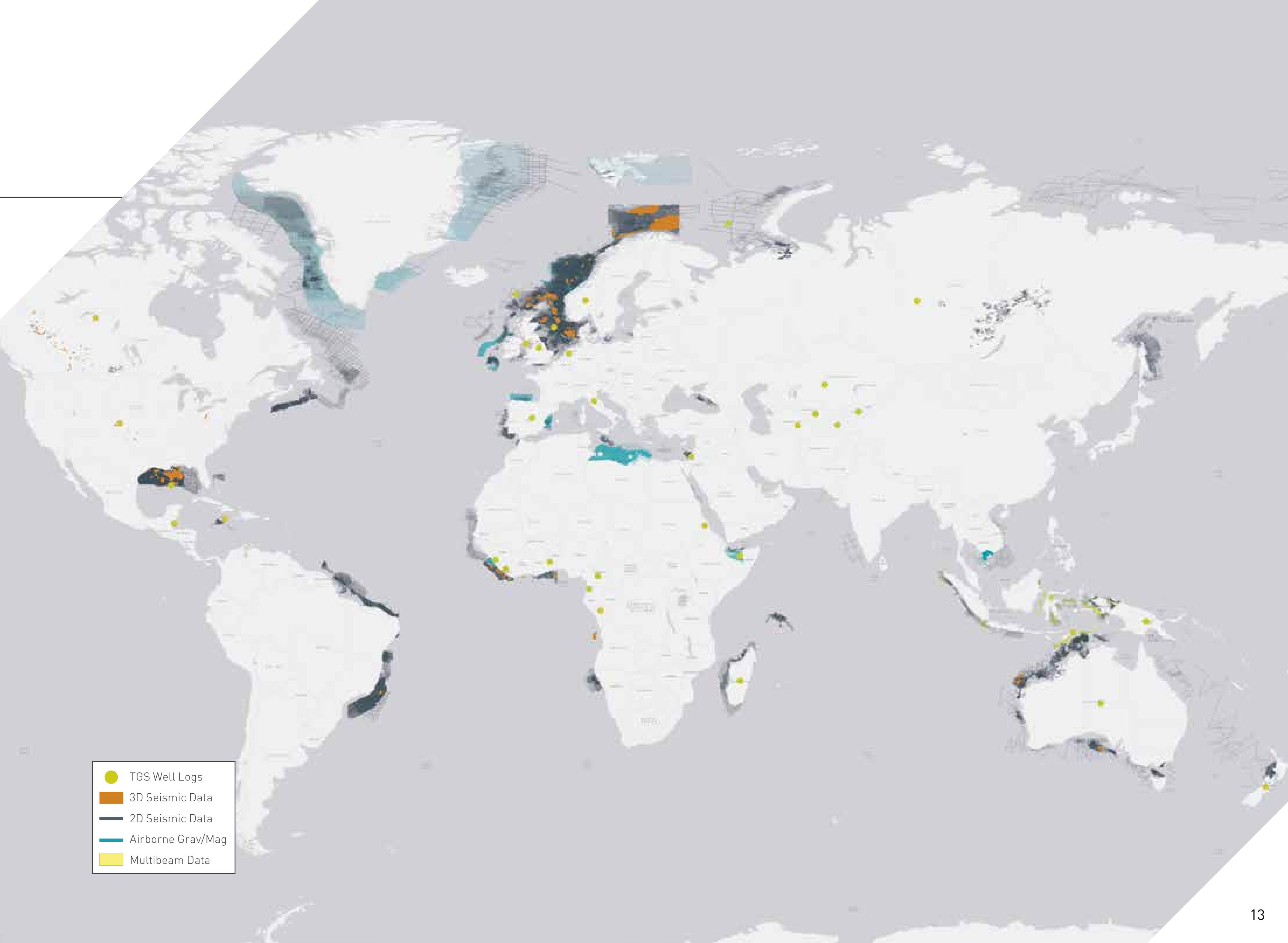
- Acquired more than 1,000 km² of new multi-client 3D surveys in the high-potential Duvernay trend in Western Canada
- Continued growth in U.S onshore seismic library with the acquisitions of two multi-client 3D surveys in Ohio's Appalachian Basin and two multi-client 3D surveys in Oklahoma's Anadarko Basin

## Geological Data Library

- Added over 148,000 new Log ASCII Standard (LAS) wells, 358,000 validated well headers, 238,000 raster logs, 17,000 LAS+ wells, and 15,000 DS+ directional surveys
- Completed 12 new multi-client interpretation studies globally and initiated another six studies
- Developed eight integrated products in North America including multi-client seismic, well data and interpretive studies

## Technology

- Funded our first land multi-component 3C3D 589 mi² Woodford Shale survey in Oklahoma. Processing was completed by Arcis
- Acquired data products using latest acquisition techniques such as Full Azimuth Nodal, P-Wave seismic, Controlled Source Electromagnetics and geochemical seafloor sampling and seep studies to complement seismic and well data
- Expanded Houston data center to accommodate computational requirements of latest seismic algorithms. This super computer is now among the top 20 clustered capacity centers in the world
- Continued to advance TGS' seismic processing algorithms and imaging technologies including Clari-Fi™ broadband, image guided tomography, depth imaging and multi-component processing


TGS Well Logs
3D Seismic Data
2D Seismic Data
Airborne Grav/Mag
Multibeam Data

# THIS IS TGS

## The Business of Better Decisions

TGS provides clients with the right data, at the right time, in the right place. We can do this because our business is driven by geoscience, which allows us to focus purely on anticipating and meeting the needs of our clients. In short, we make very strategic, unencumbered business decisions, so our clients can do the same. We're the only dominant player in the industry that operates this way.

# This is TGS

TGS is headquartered in Oslo, Norway, and publicly traded on the Oslo Stock Exchange. Our other main offices are in Calgary, Houston, London and Perth, and we have employees in cities around the globe. Our primary business is to provide geoscience data to energy companies worldwide. We offer extensive global libraries that include seismic data, magnetic and gravity data, digital well logs, production data and directional surveys. Additionally, we offer advanced processing and imaging services, interpretation products and data integration solutions.

## A Brief History

TGS was founded in Houston in 1981 and over time built the dominant 2D multi-client data library in the Gulf of Mexico. The company expanded further into North America and West Africa and added a substantial 3D portfolio in the Gulf of Mexico. Also in 1981, NOPEC was founded in Oslo and began building an industry-leading multi-client 2D database in the North Sea, with additional operations in Australia and the Far East. In 1997, NOPEC went public on the Oslo Stock Exchange.

In 1998, the companies merged to form TGS-NOPEC Geophysical Company (TGS), creating a winning combination for investors, customers and employees. Since then, TGS has set the standard for geoscientific data around the world. Clients have come to trust us because we push beyond conventional thinking to help them pursue their greatest aspirations.

## Multi-Client: Our Distinct Approach

Deepwater offshore wells cost hundreds of millions of dollars to drill. Before taking on this risk, energy companies often look for assurance in the form of seismic and other geophysical data. These data types are becoming even more valuable as exploration moves into more geologically, environmentally and operationally challenging areas.

Typically, seismic data is either proprietary or multi-client. For proprietary, the energy company contracts a seismic service company to acquire and process data on its behalf. By contrast, TGS works in the multi-client realm. We retain ownership and control of the data and can license it to multiple parties.

Energy companies often prefer multi-client over proprietary because the cost is substantially lower. Typically, one or more clients will commit to licensing the data before acquisition begins, which is called "pre-funding". Licenses sold after data acquisition has commenced are called "late sales".

TGS applies a firm definition to pre-funding, so our stakeholders can assess the level of risk in our business by seeing how much of our new project investments are covered by client commitments. TGS capitalizes its seismic investments to the balance sheet and amortizes each project as a function of sales. We apply strict criteria so each project is fully amortized within four years of completion. Geological data investments are also booked to the balance sheet and amortized on a straight-line basis over seven years.

## Our Competitive Advantages

### Focus

Last year, 96% of our revenues came from multi-client data sales. This is our lifeblood, and our entire company is intensely focused on developing the best multi-client projects to maximize returns and achieve long-term profitable growth. Our culture drives achievement because all employees have common goals and share in our success through profit-related bonuses.

### Asset-Light

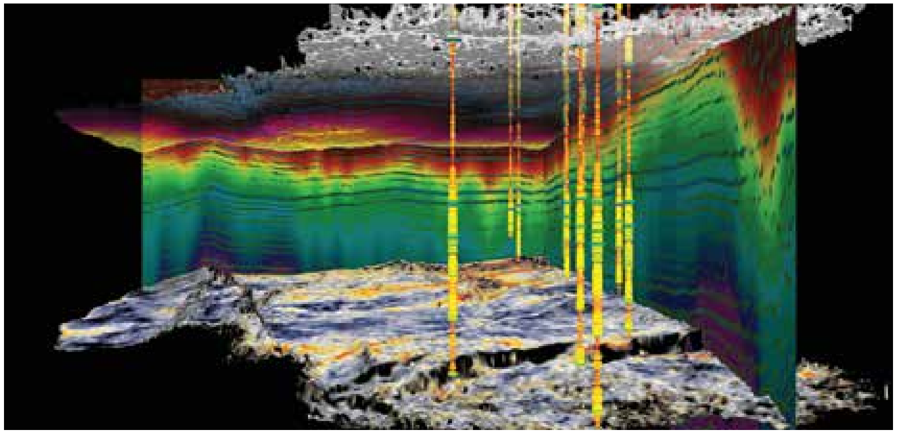
TGS does not own acquisition equipment. Nor do we have seismic crews on the payroll. All data acquisition is outsourced, which gives us flexibility to execute only those projects that meet our investment criteria and align with client goals. We are not influenced by vessel or crew utilization targets. Instead, we only access these resources when needed, and we're free to use the most appropriate vendors and technologies to tackle specific imaging challenges. TGS is asset-light, which means low overhead and high stability regardless of industry cycles.

### Quality Processing

While acquisition is outsourced, TGS processes the data in-house. This is how we ensure our customers are getting the highest quality. Energy companies often consider processing capabilities when assessing whether to commit pre-funding to a project. As one of the industry's leading processing companies, we give them confidence to move forward. We also maintain our competitive edge by continuously investing in new computer capacity and R&D. Plus we use custom developed algorithms to re-process old data sets at low cost to attract additional sales from our library.

### ROI Discipline

TGS typically targets projects that will earn sales returns between 2 and 2.5 times the investment. On projects with lower targeted returns we require high levels of pre-funding to keep the investment attractive. An example of this is a project on acreage that has already been largely awarded to energy companies, meaning that late sales opportunities are later in the cycle when farm-ins, relinquishments and M&A create new activity. Conversely, we may accept lower pre-funding on projects where our confidence in rapid late sales is much higher, such as when we make an investment in a region with frequent license rounds and high customer interest.



### Renowned Library

TGS has one of the largest and best performing multi-client data libraries in the world. This provides an ongoing revenue stream and re-processing opportunities. Exploring our own library also helps our project developers and interpretation teams to identify high-profile prospects for new surveys. In fact, most of our 3D seismic investments are in areas where we previously acquired 2D data.

### Active Portfolio Management

The multi-client business is a portfolio business. Some projects may underperform and others exceed expectations. A 3D project is a significant financial undertaking, and TGS has the means to invest in a broad portfolio of projects to balance risks and rewards.

### Geographic Diversity

TGS has a truly global data library. We strive to build and maintain leadership positions in both mature and frontier basins around the world. Our library covers a wide variety of exploration plays including deep water, pre-salt geologies, the Arctic and North America onshore. This diversity gives us significant stability and business continuity in the face of shifting markets, regional economic strain, and catastrophic events such as Macondo.

### Superior Team

Our most important competitive advantage is our people. The outstanding work of our project developers, geologists, geoscientists, data processors, sales and support people has made TGS the leading multi-client player. They're the reason TGS delivers superior project quality and financial performance year after year.

## Strategic Acquisitions

While most of our growth has been organic, TGS has also expanded its business through acquisitions. These opportunities allow us to add data processing capabilities and new geoscience data types to our library. TGS will also purchase other multi-client libraries when the price is attractive and we see strong potential returns.

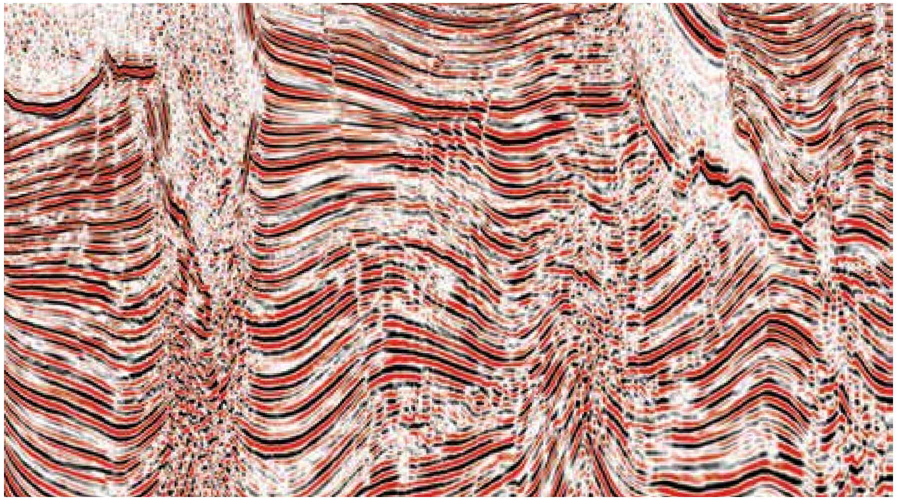
# Core Product Lines

## Geophysical Multi-Client Data

For more than 30 years, TGS has provided multi-client seismic data to energy companies globally. Over that time we have built experience in exploration areas worldwide, established a vast global database, and become the leading multi-client data provider. We offer the most current data, acquired and imaged with the latest technologies.

In addition to seismic data, our geophysical library includes gravity, magnetics, seep, geothermal, controlled-source electromagnetic and multi-beam data. This library generates over 90% of our revenues and is organized by region: North and South America, Europe and Russia, Africa, Middle East and Asia Pacific.

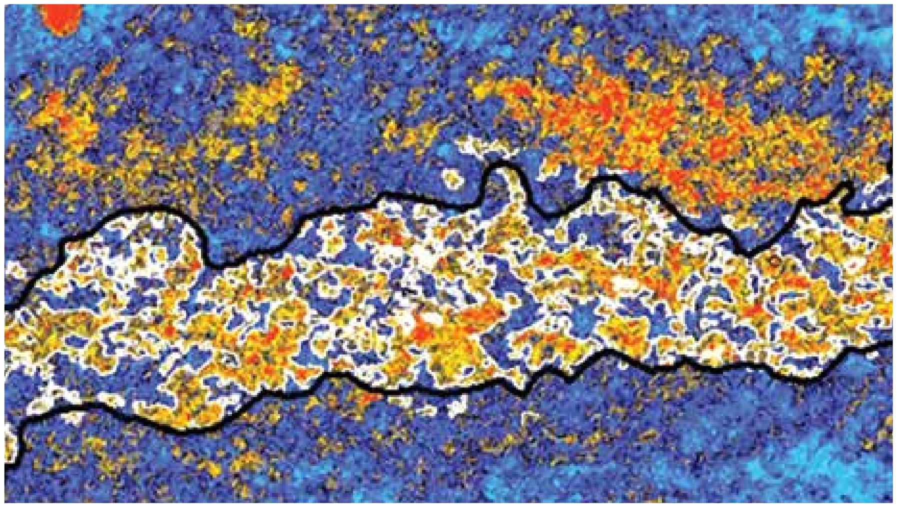
Our multi-client success begins with excellent project development. When planning new seismic surveys, our first priority is to gain thorough geological and geophysical understanding. Our experienced geoscientists evaluate all available seismic, gravity and magnetic data to set the project objectives and optimize the survey design. We also work closely with energy companies, local governments and geoscience specialists to address each survey's specific challenges. Our process ensures we acquire the right data to meet our clients' needs.



## Geological Multi-Client Data

TGS also offers well data products, interpretive studies and services to help energy companies find hydrocarbons. We have the industry's largest global collection of digital well logs, and our U.S. library has expanded to include nationwide production data, directional surveys and a custom well file database. Additionally, we offer clients robust data-application integration, with advanced platforms, interfaces and adapters.

In 2014, we added more than 148,000 new Log ASCII Standard (LAS) wells, 358,000 validated well headers, 238,000 raster logs, 17,000 LAS+ wells, 15,000 DS+ directional surveys, and production data for 114,305 wells. This solidifies our position as one of the largest providers of well data in North America and in over 30 countries worldwide.



## Imaging Services

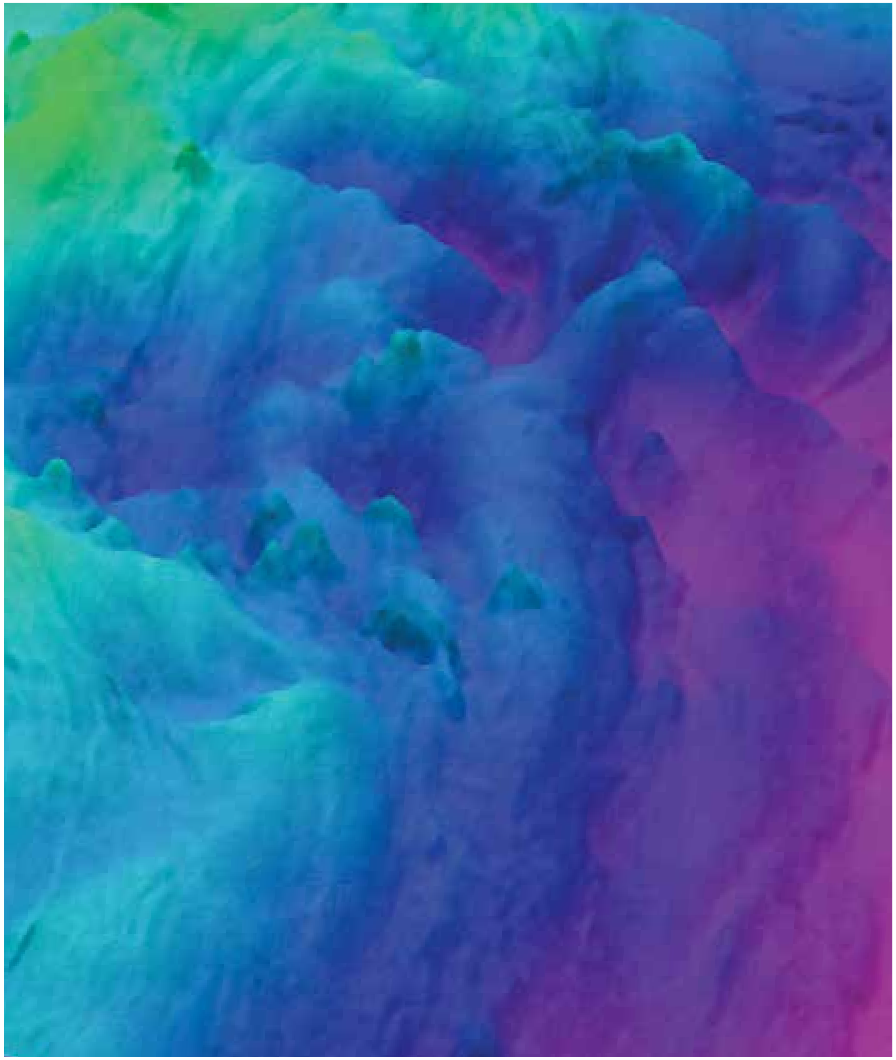
TGS employs the latest processing technologies to deliver the imaging products energy companies demand. We invest substantially in developing new proprietary technologies and workflows, which we use to provide imaging solutions directly to clients and to process our own global multi-client database.

TGS has offerings for both 2D and 3D, including depth and time imaging, marine, land, ocean bottom cable and nodes, anisotropic imaging, transition zone, multi-component, shear wave, 4D time-lapse and wide azimuth (WAZ) data processing. Our imaging teams have direct access to our well log database to calibrate seismic and well data.

In 2014, we processed over 375,000 km of 2D and 170,000 km² of 3D data from basins around the world. Most of the projects focused on WAZ and broadband processing and anisotropic depth imaging. During 2014 TGS continued to add computer resources and hire the industry's best imaging experts to grow our processing centers in Houston, London, Calgary and Perth.

Recent TGS imaging advances include:

- Clari-Fi™: a new processing technique that allows broadband seismic to be generated from narrow or wide azimuth data acquired with either conventional flat towed, slanted, or shaped streamers
- IG Tomo: an image-guided approach to tomography that produces a higher resolution velocity model and better conforms to the structural geology
- Least Squares RTM (LSRTM), Orthorhombic Kirchhoff, Beam and RTM, and Full Waveform Inversion: the latest depth-imaging technologies
- Shear wave splitting analysis, fracture detection and converted wave imaging: for multi-component data processing
- Shallow Water and Interbed Multiple Elimination, and simultaneous source data processing routines



# Executive Management

### Robert Hobbs
CEO

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, including as President of the Europe/Africa/Middle-East Division. Robert also worked 10 years in geoscience positions with ARCO, Exxon and Union Texas Petroleum. Robert received a B.S. degree in Geology from Baylor University and an M.S. degree in Geology from University of Southern California.

### Kristian Johansen
COO
Interim CFO

Kristian joined TGS in 2010 as Chief Financial Officer and became Chief Operating Officer in early 2015. Prior to joining TGS, Kristian was the Executive Vice President and CFO of EDB Business Partner in Oslo (now Evry). Mr. Johansen also has experience from executive positions 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
Sr. VP GPS

John joined TGS in 1986 and has served the company in a variety of capacities. Most recently, he served as Vice President, Business Development before being appointed Senior Vice President Geological Products & Services in 2008. John holds a B.S. degree in Geology from Texas A&M University, an M.S. degree in Geology from Stephen F. Austin, and an Executive M.B.A. from Harvard University.

### Katja Akentieva
Sr. VP Western Hemisphere

Katja joined TGS in 2012 with the acquisition of Arcis and was appointed Managing Director Arcis and North American Arctic. Prior to joining Arcis in 2008, Katja spent 11 years with Schlumberger where she held various positions within geophysics, sales and business development based in the UK, Norway and Canada. Katja received her Master's degree in geology and geophysics from Moscow State University in 1996, she also holds a Bachelor's degree in Foreign Languages from Moscow State University and an MBA from the Erasmus University in the Netherlands.

### Stein Ove Isaksen
Sr. 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 Vice President Eastern Hemisphere. Stein Ove has more than 27 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**
Sr. VP Data Processing & Research and Development

Zhiming joined TGS in 2007 as Senior VP of Data Processing, Research & Development. He has 32 years' experience in energy companies, geophysical companies and academia. In 2003, he became one of the partners of Parallel Data Systems, a premier depth imaging company acquired by TGS in 2007. 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.

**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 30 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.

**Genie Erneta**
VP Human Resources

Genie joined TGS in 2008 as VP of Human Resources. Genie has over 20 years of international Human Resources experience predominantly in the Oil & Gas industry. Previous to TGS, she spent four years in a senior HR role at Marathon Oil Company following six years at Veritas DGC, Inc. in a number of progressive HR management roles. Genie has a B.S. degree in Psychology from the University of Houston and holds an M.B.A. from Texas A&M University.

**Tana Pool**
VP General Counsel and Corporate Secretary

Tana joined TGS in 2013 as VP General Counsel and Corporate Secretary. She has over 23 years of legal experience, with significant knowledge of the energy and construction industries. Tana's previous experience includes over nine years of private practice in corporate and transactional law with several global law firms, including most recently Akin Gump Strauss Hauer & Feld LLP. Tana received her BBA degree in Accounting from Texas Tech University and her JD degree from the University of Houston Law Center.

**Scott Schneider**
VP Information Technology, Information Systems

Scott joined TGS in 2012 through the acquisition of Volant Solutions, a software company founded by Mr. Schneider in 2003 that offered a commercial integration solution focused in the Upstream Energy market. Scott has over 30 years of experience in the Oil & Gas industry, having held numerous technology positions at Sierra Geophysics, Landmark Graphics, IBS / Tobin and Novoforum. Mr. Schneider holds a B.S. degree in Electrical Engineering from Bucknell University and a Master's degree in Computer Science from George Mason University.

# Board of Directors

**Henry H. Hamilton III**
Chairman

Born 1959. Mr. Hamilton served as CEO of TGS from 1995 through June 2009. He started his career as a Geophysicist with Shell Offshore (1981-1987) before he became employed by Schlumberger (1987-1995), where he ultimately held the position of VP and General Manager for all seismic product lines in North and South America. Mr. Hamilton joined TGS as its CEO in 1995 and remained in the position following the 1998 merger with NOPEC International. He also serves on the Board of Odfjell Drilling. Mr. Hamilton was first elected as a director in 1998 and as Chairman in 2009.

**Bengt Lie Hansen**
Director

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 from 1983–2006, 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 (1980–1983) and Head of Division at Norway's Ministry of Petroleum (1975–1980). Mr. Hansen serves as a board member of Odfjell Drilling. He was first elected as a director in 2010.

**Elisabeth Harstad**
Director

Born 1957. Ms. Harstad is currently an Executive Director/Advisory of DNV GL Energy in the Netherlands, a subsidiary of Det Norske Veritas (DNV). She has held various positions within DNV since 1981, including Corporate Director for Research and Innovation from 2006-2011 and COO for the Oil and gas business area from 2002-2006.

**Mark Leonard**
Director

Born 1955. Mr. Leonard is currently the President of Leonard Exploration, Inc. He retired in 2007 from Shell Oil Company after 28 years of service. During his tenure at Shell, Mr. Leonard 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.

**Dr. Colette Lewiner**

Director

Born 1945. Dr. Lewiner is currently an independent consultant, advising the Capgemini chairman on energy matters. Previously she held the positions of Assistant Professor at Paris University, Executive Vice President at Electricité de France, Chairperson and CEO of SGN-Eurisys and Corporate Vice President & Global Leader of the Energy, Utilities and Chemical sector at Capgemini. Dr. Lewiner serves as a board member for Bouygues Group, Electricité de France, Eurotunnel, Nexans, and Crompton Greaves. She was first elected as a director in 2006.

**Tor Magne Lønnum**

Director

Born 1967, Mr. Lønnum is currently Group CFO in Tryg AS and Tryg Forsikring AS. Previously he held the positions of CFO in Skipper Electronics AS, Accountant in Samarbeidende Revisorer AS, Manager in KPMG, Group CFO and Group Director in Gjensidige NOR Insurance, Deputy CEO and Group CFO in Gjensidige Forsikring ASA. Mr. Lønnum serves as a board member for Bakkafrost. He was first elected as a director in 2013.

**Vicki Messer**

Director

Born 1949. Mrs. Messer is currently 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.

# 2014 BOARD OF DIRECTORS REPORT

# 2014 Board of Directors' Report

TGS-NOPEC Geophysical Company ASA (the Parent Company, and together with its subsidiaries, TGS or the Company) is a leading 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. In addition to extensive global geophysical and geological data libraries that include multi-client seismic data, magnetic and gravity data, digital well logs, production data and directional surveys, TGS also offers advanced processing and imaging services, interpretation products, and data integration solutions. TGS is a global operator and is presently active in North and South America, Europe, Russia, Africa, Asia and Australia.

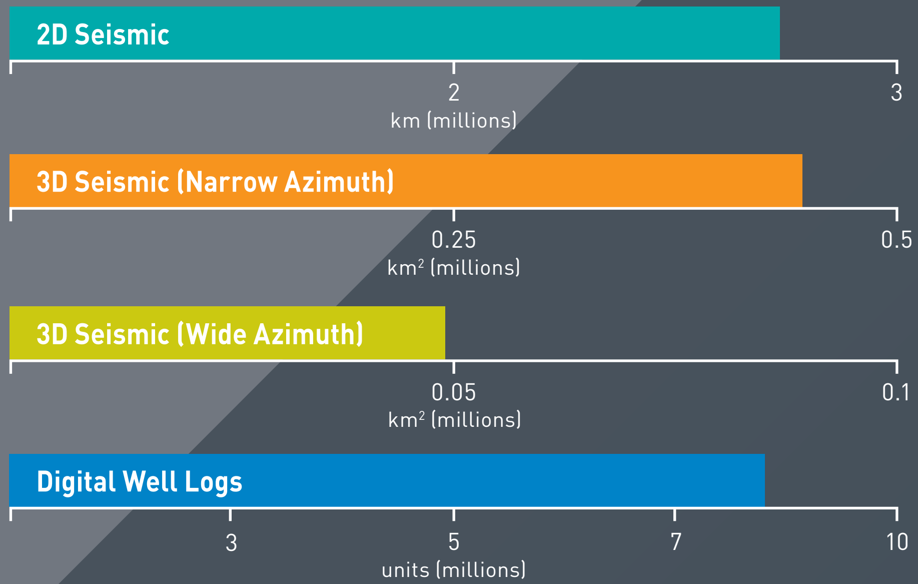
The Parent Company and TGS' corporate headquarters are located in Oslo, Norway. Its primary subsidiary, TGS-NOPEC Geophysical Company, is based in Houston, Texas, U.S.A. TGS also has regional offices in the United Kingdom, Canada, Australia, Brazil, Singapore and elsewhere in the U.S.A. All financial 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 that would impact the accounts as presented for 2014 have occurred since 31 December 2014.

## Operations

After a few years of growth in E&P spending, energy companies experienced pressure to reduce capital expenditures in 2014. While the cost pressure started as a reaction to cost inflation, this was further strengthened by a significant drop in the prices of Brent oil which experienced a decline of 47% during 2014 and continued to drop during the first months of 2015.

Despite the challenging market conditions, TGS managed to increase revenues by 4% in 2014 and reach the annual guidance for the year. Continued strong late sales from the multi-client library confirmed the quality of the Company's historical investments and the strong market position in several product and market areas.

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 following table summarizes the data inventory at year-end.

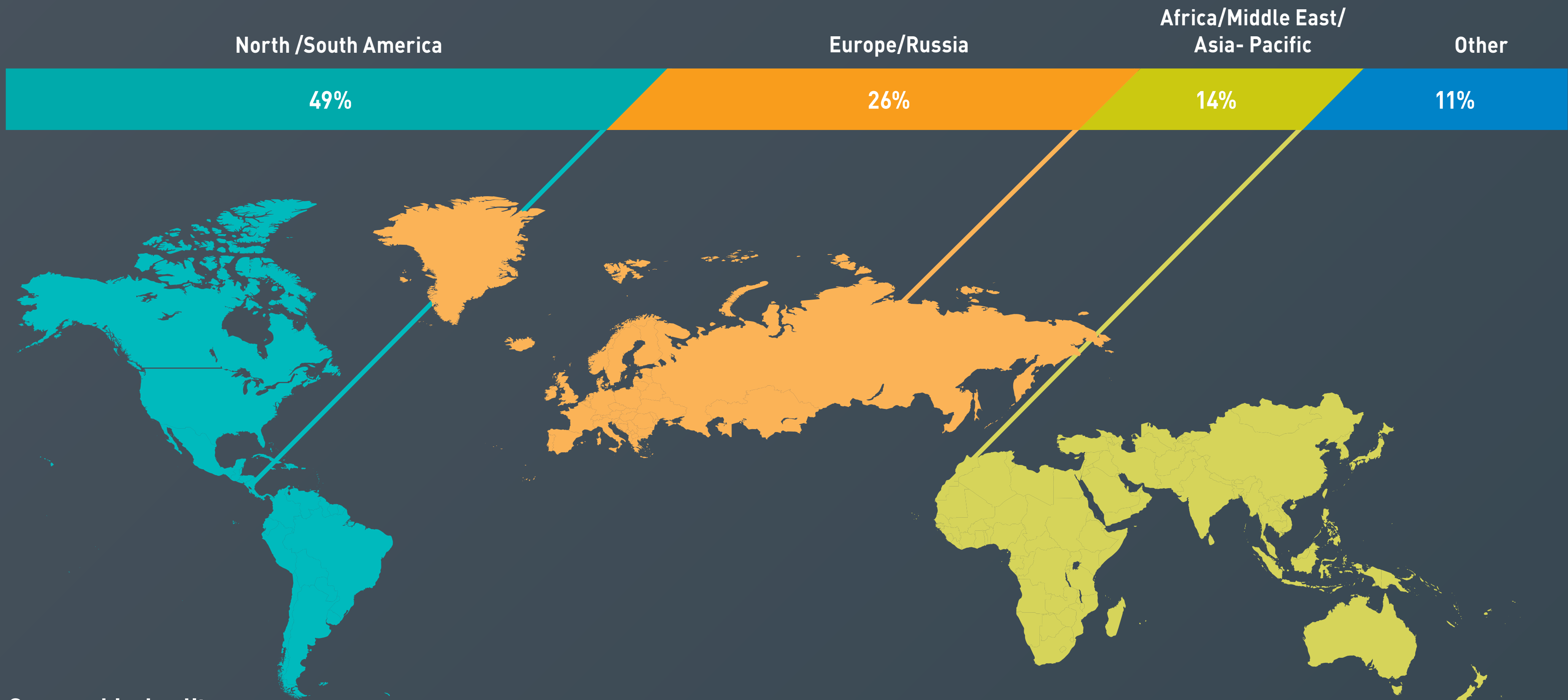



TGS' primary focus is developing, managing and selling licenses of the Company's multi-client geoscientific data, which accounted for over 96% of revenues in 2014. Customer pre-funding of new multi-client projects reduces the Company's investment exposure, while late sales from its library of data products usually provide the bulk of the revenue stream. Gross late sales decreased 3% from 2013 to USD 822.7 million, and net late sales after partner share decreased 1% to USD 630.7 million. Pre-funding revenues on new projects of USD 246.9 million, an increase of 33% from USD 185.7 million in 2013, funded 53% of the operational investments in multi-client data for 2014, compared to 42% in 2013. Proprietary contract revenues decreased by 38% due to lower proprietary acquisition activity, and represented 4% of total net revenues in 2014.

## Revenue split



TGS continues to generate multi-client revenues from a well-balanced mix of products. Comparing 2014 to 2013, multi-client 2D seismic revenues increased 25%, multi-client 3D seismic revenues increased 1%, and multi-client revenues from geological products increased 9%.



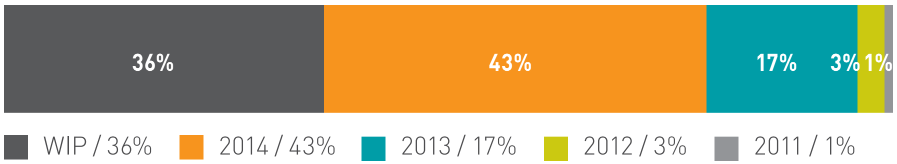

## Geographical split

TGS has a geographically diversified portfolio. In 2014, revenues from North and South America (NSA) grew 3% from 2013, representing record annual revenues for this region. Revenues from Africa, Middle East and Asia Pacific (AMEAP) had a significant increase (67%) as compared to 2013, primarily due to significantly higher investment activity in 2014.  Revenues from Europe and Russia (EUR) decreased 14% from 2013.

## Multi-Client Geoscientific Data Library

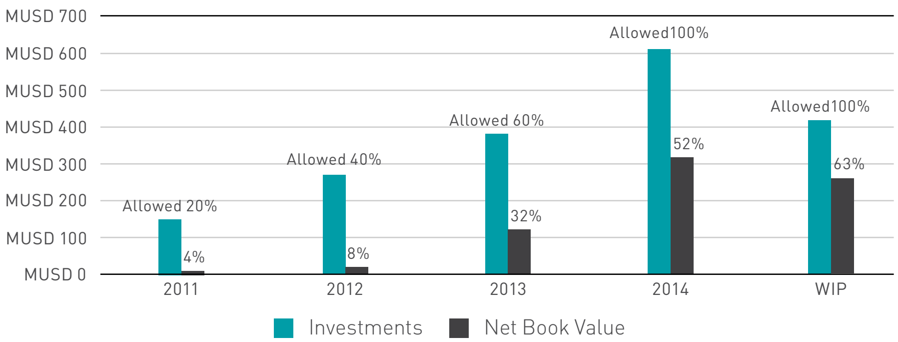
TGS' library of multi-client seismic data, well data and integrated products is its largest single asset, with a net book value representing 46% of the total assets as of 31 December 2014 (44% in 2013). Seismic data, representing 91% of the library's net book value at year-end, is amortized on a project-by-project basis as a function of sales. Minimum amortization criteria are applied if sales do not match expectations so that each project is fully amortized within a four-year period following its completion. Historically, the Company has delivered sales in excess of internal forecasts. As a result, vintages of the library have generally been amortized more quickly than as required by the Company's minimum amortization policy. Consequently, the library's current net book value is heavily weighted toward the most recent and most modern projects. The well data library is amortized on a straight-line basis over seven years, while data purchased from third-parties follow a straight-line amortization profile over the remaining useful life. The multi-client data library acquired through the acquisition of Arcis is being amortized over five years.

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

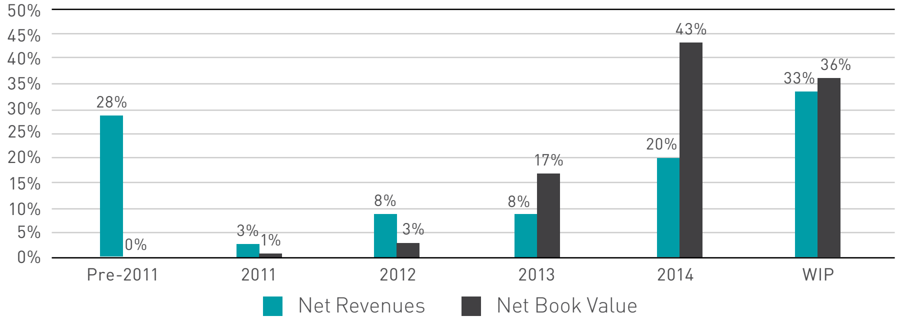



### Net Book Value vs. Investments per Vintage

In relation to allowed net book value at year-end 2014 (in accordance with minimum amortization policy)




### 2014 Annual Net Revenues vs. Net Book Value per Vintage




## Commitments to Seismic Acquisition Capacity

TGS secures all seismic acquisition capacity from external suppliers, for both offshore and onshore projects. At year-end 2014, the Company had entered into commitments for five 3D seismic acquisition vessels, five 2D seismic acquisition vessels, three source vessels, two node crews and one electromagnetic crew. All these commitments will expire in 2015, and the amounts committed total USD 240.0 million for the year 2015. In addition, TGS has made commitments for four land crews for three land seismic projects. These commitments total USD 43.6 million, and the commitments will expire in 2015.

## Results from Operations, Operating Cash flows and Financial Position

Net revenues in 2014 were USD 914.8 million, an increase of 4% compared to 2013 (USD 883.4 million). Operating profit (EBIT) for 2014 was USD 294.5 million, which is 24% lower than 2013 (USD 387.0 million).

Due to negative market developments, the uncertain market conditions for the Permanent Reservoir Solutions market, and the decision to focus on its core business, TGS decided in Q4 to exit the Reservoir Solutions business. As a result, TGS recorded an impairment in 2014 of USD 54.4 million. Also, an impairment of USD 9.5 million was recognized related to a fair value assessment of other non-current assets. The 2014 EBIT margin was 32% compared to 44% in 2013. Pre-tax profit in 2014 was USD 288.3 million, a decrease of 24% from 2013 (USD 381.5 million). Net income in 2014 was USD 216.1 million, which represents a decrease of 20% compared to 2013 (USD 269.1 million).

TGS' operating cash flow in 2014 was USD 605.0 million, an increase of 11% from USD 542.9 million in 2013. Operating cash flow is significantly higher than the operating profit as amortization of the multi-client library, a non-cash expense, is the Company's largest expense item. In addition, the impairments discussed above are also non-cash items that do not impact the operating cash flow.

At year-end 2014, TGS had cash and cash equivalents of USD 256.4 million compared to USD 280.7 million at the end of 2013. TGS held current assets of USD 777.7 million at 31 December 2014 and current liabilities of USD 392.5 million. In addition, TGS had USD 51.6 million in undrawn credit facilities by year-end 2014.

As of 31 December 2014, total equity amounted to USD 1,339.2 million, corresponding to an equity ratio of 76% (2013: 74%).

TGS believes that it has sufficient liquidity and financial position to finance planned operations and fund payment of the proposed 2014 dividend and other known potential liabilities.

| Shareholders value metrics | 2014 | 2013 |
|---|---|---|
| Net revenues | 914,785 | 883,444 |
| Operating profit (EBIT) margin | 32% | 44% |
| Multi-client net revenues / average netbook value ratio | 1.11 | 1.17 |
| Pre-tax return on average capital employed (ROCE) | 28% | 40% |
| Cash flow from operations after multi-client investments | 168,471 | 120,622 |
| Shareholders equity as % of total assets | 76% | 74% |

## Mergers and Acquisitions

TGS did not make any merger or acquisition transactions in 2014 or in 2013.

## Investments, Capital, Financing and Dividends

TGS is listed on the Oslo Stock Exchange with a market capitalization of NOK 16.7 billion on 31 December 2014. As of year-end, TGS is the 10th largest company on the Oslo Stock Exchange and is part of the OBX List consisting of the 25 most liquid stocks in Norway. TGS did not issue any new equity during 2014, other than shares issued as part of employee stock option programs. The Board does not anticipate issuing any new shares during 2015, apart from exercises of stock options to employees, unless necessary to finance the acquisition of a company or a major business opportunity.

During 2014, TGS invested USD 462.3 million (compared to USD 438.9 million during 2013) in organic growth of its multi-client library, bringing the net book value of the multi-client library to USD 818.1 million at 31 December 2014 as compared to USD 758.1 million at 31 December 2013.

In addition, the Company initiated a buy-back program of USD 30 million in 2014. The shares are purchased from the open market and in accordance with the Safe Harbour provisions of the EU Commission Regulations for buy-back programs. The buy-back program started 7 February 2014, and the authorization expires at the 2015 Annual General Meeting on 6 May 2015. As of 31 December 2014, TGS had purchased 938,548 shares as part of this program for a total value of USD 24.6 million. At the same general meeting, TGS will seek approval for cancellation of the repurchased shares.

In respect of the accounting year 2014, the Board has assessed that the Company has a sound equity and liquidity position, and has proposed to the May 2015 Annual General Meeting a dividend of NOK 8.5 per share.

## Risk Management and Internal Control

The activities of TGS' clients, which are exploration and production companies within the oil and gas industry, are typically impacted by fluctuations in oil and gas commodity prices or perceived expectations of change. This in turn impacts TGS' activities, opportunities and profitability. Under TGS' business model, discretionary investments in new multi-client projects are by far the largest use of cash. Since the Company outsources mostly short-term vessel and land crew contracts for the vast majority of these discretionary investments and the prices of such contracts are becoming more favourable, TGS is able to actively manage the cash flow risks associated with fluctuations in market conditions. Additionally, TGS is exposed to financial risks such as currency, liquidity and credit risk.

TGS' operational exposure to currency risk is low as significant portions of its revenues earned and costs incurred are in US dollars. However, as the Parent Company pays taxes in Norwegian kroner to Norwegian tax authorities and dividends in Norwegian kroner to shareholders, fluctuations between the NOK and the USD result in 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 of 31 December 2014, TGS held current assets of USD 777.7 million, of which cash and cash equivalents represented USD 256.4 million, while current liabilities were USD 392.5 million. TGS also has unused credit facilities of USD 51.6 million. As a result, the Company considers its liquidity risk to be low.

TGS is exposed to credit risk through sales and receivables and uses its best efforts to manage this risk by monitoring receivables and implementing credit checks and other actions as deemed appropriate. In addition, excess cash is placed in either bank deposits or financial instruments that have a minimum rating of "investment grade". The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets, 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 energy companies considered to be financially sound.

TGS is highly focused on maintaining adequate internal controls. The Company's primary business activity is building its multi-client geoscientific data library, which represents its largest financial asset, through multiple investments in new data for licensing 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 Note 13 to the financial statements and the more detailed information on risk management and internal control in the Corporate Governance section of the Annual Report.

## Organization, Working Environment and Equal Opportunity

The Parent Company had 50 employees as of 31 December 2014 (2013: 51). At year-end, TGS had a total of 943 employees (2013: 912) in the following locations: 574 employees in the United States, 50 employees in Norway, 182 employees in the United Kingdom, 92 employees in Canada, 40 employees in Australia and 5 employees in other countries. The average number of employees during 2014 was 926.

The Board considers the working environment in the Company to be good. 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 have not considered it necessary to take special measures to correct any discrimination.

At the end of 2014, women comprised 41% of the total workforce in the Company versus 42% at the end of 2013. The corresponding figure for managers is 28% at the end of 2014 compared to 32% in the previous year.

## 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, land crews and aircraft. TGS is dedicated to safeguarding and maintaining the environment in which the Company works and providing a safe and healthy workplace for employees and contractors through the active implementation of a comprehensive HSE Management System that includes appropriate policies and procedures. Not only does TGS comply with mandated legislation and local regulations, the Company also works closely with industry associations in an effort to investigate ways to mitigate the impact of seismic operations on the environment.

In 2014, TGS employees worked 1,661,000 man-hours without incurring a single lost time injury. The sickness absence frequency for TGS in 2014 was 0.57% as compared to 0.68 % in 2013.

As part of the continuous improvement strategy, HSE training and objectives have been added to all employees' annual performance evaluations for 2014.

TGS continues to work with its external suppliers and contractors to ensure the correlation of the TGS HSE Management System with their respective HSE management systems. TGS also utilizes TGS-managed field observers to monitor the HSE activity of suppliers and contractors.

## Corporate Social Responsibility Report

TGS has prepared a Corporate Social Responsibility Report in accordance with the Norwegian Accounting Act, section 3-3c. It is the opinion of the Board of Directors that the Company complies with the requirements. TGS' Corporate Social Responsibility Policy is included as a separate section of the Annual Report and on TGS' website at www.tgs.com.

## Board Structure and Corporate Governance

The Board of Directors consists of seven directors, each serving a one-year term. The Board's Audit and Compensation Committees are composed exclusively of independent directors. No material transactions other than the remuneration disclosed in Note 7 have occurred in 2014 between the Company and its management, Directors or shareholders.

The independent Nomination Committee, elected by the shareholders consists of the following members:

Tor Himberg-Larsen (Chairman), Christina Stray, and Jarle Sjo.

Himberg-Larsen and Stray were elected for a two-year term at the Annual General Meeting on 4 June 2013, while Sjo was elected for a two-year term on 3 June 2014.

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 on compliance activities and objectives.

TGS has based its corporate governance policies and practices on the Norwegian Code of Practice for Corporate Governance published on 30 October 2014. It is the opinion of the Board of Directors that the Company complies in all areas with the Code of Practice and any subsequent amendments. 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 at  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 the Company's performance and in certain cases stock options plans, stock appreciation rights, or other long-term cash incentive programs. For further details please refer to item 12 in the Report on Corporate Governance.

The members of the Board of Directors do not participate in any bonus plan, profit-sharing plan or stock option plan.  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 for details on the remuneration for 2014

## Outlook

Near-term uncertainty in exploration spending has increased further with the Brent oil price dropping 47% during 2014. Recently published 2015 E&P spending forecasts by equity research analysts have a wide range indicating declines of 10-30%, and the Company believes this trend will translate into significantly lower seismic spending.

Despite these near-term market challenges, TGS believes the long-term future of its business, and particularly the Company's focused asset light multi-client model, is strong. Energy companies continue to demand higher resolution subsurface images in mature basins as well as new regional data in frontier basins to guide their exploration efforts. Companies exploring and producing unconventional shale plays continue to seek high quality wellbore-based information to guide their petro-physical analysis. TGS' customers see multi-client data as being more cost effective and therefore can be more attractive in challenging markets.

TGS has a strong financial position to support its activities, and has currently no interest bearing debt. For 2015, the Company has secured adequate land and marine crew capacity at very favorable arrangements. This has encouraged TGS to continue investments in prolific areas with proven returns. This countercyclical approach has historically proven successful and TGS will continue to take advantage of the asset light business model combined with a strong balance sheet.

These forward-looking statements reflect current views about future events and are, by their nature, subject to significant risks, uncertainties and assumptions that are difficult to predict because they relate to events, and depend on circumstances, that will occur in the future.

## Annual result of the Parent Company and Allocation of Profit

The Board proposes that the Parent Company's net income of USD 157.6 million shall be allocated as follows:

| | |
|---|---|
| Dividends | USD 115.6 million |
| Allocated to Other Equity | USD 42.0 million |
| **Total** | **USD 157.6 million** |

24 March 2015

Henry H. Hamilton III
Chairman

Mark S. Leonard
Director

Colette Lewiner
Director

Elisabeth Harstad
Director

Bengt Lie Hansen
Director

Vicki Messer
Director

Tor Magne Lønnum
Director

Robert Hobbs
Chief Executive Officer

## 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 2014 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 TGS, together with a description of the principal risks and uncertainties facing the Company.

24 March 2015

Henry H. Hamilton III
Chairman

Mark S. Leonard
Director

Colette Lewiner
Director

Elisabeth Harstad
Director

Bengt Lie Hansen
Director

Vicki Messer
Director

Tor Magne Lønnum
Director

Robert Hobbs
Chief Executive Officer

# GROUP FINANCIALS

TGS is not encumbered with owning boats, planes and seismic equipment. We invest our capital in exceptional people who spend their days strategically building one of the largest and most sought-after seismic data libraries in the world. We utilize precisely the right technologies for each survey. Thus, our goals are directly aligned with our clients.

# Consolidated Statement of Comprehensive Income

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

| | Note | 2014 | 2013 |
|---|---|---|---|
| **Net revenues** | 15,22 | **914,785** | 883,444 |
| Cost of goods sold - proprietary and other | | **4,021** | 19,949 |
| Amortization of the multi-client library | 5,15 | **396,666** | 329,829 |
| Personnel costs | 7 | **88,003** | 80,835 |
| Cost of stock options | 7,8 | **5,003** | 4,445 |
| Other operating expenses | 14 | **55,753** | 45,036 |
| Impairment of Reservoir Solutions | 6 | **54,427** | - |
| Depreciation, amortization and impairment | 4,5 | **16,395** | 16,374 |
| **Total operating expenses** | | **620,268** | 496,467 |
| **Operating profit** | | **294,516** | 386,976 |
| Financial income | 23 | **5,828** | 7,411 |
| Financial expenses | 23 | **(1,147)** | (3,654) |
| Net exchange losses | 23 | **(12,381)** | (9,273) |
| Gains on financial investments | 23 | **1,511** | - |
| **Net financial items** | | **(6,189)** | (5,516) |
| **Profit before taxes** | | **288,327** | 381,460 |
| Taxes | 24 | **72,253** | 112,354 |
| **Net income** | | **216,074** | 269,106 |
| ***Other comprehensive income:*** | | | |
| Exchange differences on translation of foreign operations | | **(8,648)** | (5,984) |
| Net (loss)/gain on available for sale financial assets | | **(328)** | 116 |
| **Other comprehensive income/(loss), net of tax** | | **(8,977)** | (5,868) |
| **Total comprehensive income for the period** | | **207,097** | 263,238 |
| Net income attributable to the owners of the parent | | **215,676** | 269,178 |
| Net income attributable to non-controlling interests | | **398** | (72) |
| | | **216,074** | 269,106 |
| Total comprehensive income attributable to the owners of the parent | | **206,699** | 263,310 |
| Total comprehensive income attributable to non-controlling interests | | **398** | (72) |
| | | **207,097** | 263,238 |
| Earnings per share (USD) | 9 | **2.12** | 2.63 |
| Earnings per share, diluted (USD) | 9 | **2.09** | 2.59 |

# Consolidated Balance Sheet

As of 31 December (All amounts in USD 1,000s unless noted otherwise)

| | Note | 2014 | 2013 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Goodwill | 5,6 | **67,361** | 84,764 |
| Multi-client library | 5 | **818,132** | 758,093 |
| Other intangible non-current assets | 5,6 | **9,349** | 46,751 |
| Deferred tax asset | 24 | **7,992** | 6,645 |
| Buildings | 4 | **9,568** | 9,924 |
| Machinery and equipment | 4 | **33,608** | 42,877 |
| Other non-current assets | 14 | **43,882** | 56,018 |
| **Total non-current assets** | | **989,892** | 1,005,072 |
| **Current assets** | | | |
| Financial investments available for sale | 13 | - | 3,868 |
| Accounts receivable | 16 | **241,519** | 234,339 |
| Accrued revenues | 16 | **235,781** | 172,493 |
| Other receivables | 16 | **44,010** | 39,798 |
| Cash and cash equivalents | 11 | **256,416** | 280,688 |
| **Total current assets** | | **777,726** | 731,186 |
| **Total assets** | | **1,767,618** | 1,736,257 |

# Consolidated Balance Sheet

As of 31 December (All amounts in USD 1,000s unless noted otherwise)

| | Note | 2014 | 2013 |
|---|---|---|---|
| **Equity and liabilities** | | | |
| **Equity** | | | |
| **Paid-in capital** | | | |
| Share capital | 10 | **3,702** | 3,716 |
| Treasury shares | 10 | **(76)** | (62) |
| Share premium | | **58,107** | 57,206 |
| Other paid-in equity | | **32,915** | 27,924 |
| **Total paid-in capital** | | **94,648** | 88,784 |
| Other equity | | **1,244,014** | 1,204,054 |
| **Equity attributable to owners of the parent** | | **1,338,662** | 1,292,838 |
| Non controlling interests | | **539** | 141 |
| **Total equity** | | **1,339,201** | 1,292,979 |
| **Liabilities** | | | |
| **Non-current liabilities** | | | |
| Other non-current liabilities | 14 | **7,149** | 16,698 |
| Deferred tax | 24 | **28,752** | 85,052 |
| **Total non-current liabilities** | | **35,901** | 101,751 |
| **Current liabilities** | | | |
| Accounts payable and debt to partners | 17 | **163,282** | 160,795 |
| Taxes payable, withheld payroll tax, social security | 24 | **98,696** | 80,651 |
| Other current liabilities | 17 | **130,538** | 100,081 |
| **Total current liabilities** | | **392,516** | 341,527 |
| **Total liabilities** | | **428,417** | 443,278 |
| **Total equity and liabilities** | | **1,767,618** | 1,736,257 |

24 March 2015

Henry H. Hamilton III
Chairman

Mark S. Leonard
Director

Colette Lewiner
Director

Bengt Lie Hansen
Director

Elisabeth Harstad
Director

Vicki Messer
Director

Tor Magne Lønnum
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 | Share Premium | Other Paid-in Capital* | Available for Sale Reserve | Foreign Currency Translation Reserve | Retained Earnings | Total | Non-controlling Interest | Total Equity |
| **Balance 1 January 2014** | **3,716** | **(62)** | **57,206** | **27,924** | **328** | **(12,475)** | **1,216,200** | **1,292,839** | **141** | **1,292,979** |
| **Net income** | - | - | - | - | - | - | 215,676 | 215,676 | 398 | **216,074** |
| **Other comprehensive income** | - | - | - | - | (328) | (8,648) | - | (8,977) | - | **(8,977)** |
| **Total comprehensive income** | - | - | - | - | (328) | (8,648) | 215,676 | 206,699 | 398 | **207,097** |
| **Paid-in equity through exercise of stock options** | 3 | - | 901 | - | - | - | - | 904 | - | **904** |
| **Distribution of treasury shares** | - | 5 | - | - | - | - | 2,009 | 2,014 | - | **2,014** |
| **Cancellation of treasury shares** | (17) | 17 | - | - | - | - | | 0 | - | **-** |
| **Purchase of treasury shares** | - | (35) | - | - | - | - | (23,963) | (23,999) | - | **(23,999)** |
| **Cost of stock options** | - | - | - | 4,991 | - | - | - | 4,991 | - | **4,991** |
| **Dividends** | - | - | - | - | - | - | (144,786) | (144,786) | - | **(144,786)** |
| **Balance 31 December 2014** | **3,702** | **(76)** | **58,107** | **32,915** | **-** | **(21,123)** | **1,265,136** | **1,338,662** | **539** | **1,339,201** |

| | Attributable to the owners of the parent | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Share Capital | Treasury Shares | Share Premium | Other Paid-in Capital* | Available for Sale Reserve | Foreign Currency Translation Reserve | Retained Earnings | Total | Non-controlling Interest | Total Equity |
| **Balance 1 January 2013** | **3,712** | **(57)** | **56,008** | **23,595** | **212** | **(6,491)** | **1,091,167** | **1,168,148** | **213** | **1,168,360** |
| **Net income** | - | - | - | - | - | - | 269,178 | 269,178 | (72) | **269,106** |
| **Other comprehensive income** | - | - | - | - | 116 | (5,984) | - | (5,868) | - | **(5,868)** |
| **Total comprehensive income** | - | - | - | - | 116 | (5,984) | 269,178 | 263,310 | (72) | **263,238** |
| **Paid-in equity through exercise of stock options** | 4 | - | 1,198 | - | - | - | - | 1,202 | - | **1,202** |
| **Distribution of treasury shares** | - | 3 | - | - | - | - | 1,351 | 1,354 | - | **1,354** |
| **Purchase of treasury shares** | - | (8) | - | - | - | - | (4,951) | (4,959) | - | **(4,959)** |
| **Cost of stock options** | - | - | - | 4,329 | - | - | - | 4,329 | - | **4,329** |
| **Dividends** | - | - | - | - | - | - | (140,029) | (140,029) | - | **(140,029)** |
| **Deferred tax asset related to stock options** | - | - | - | - | - | - | (516) | (516) | - | **(516)** |
| **Balance 31 December 2013** | **3,716** | **(62)** | **57,206** | **27,924** | **328** | **(12,475)** | **1,216,200** | **1,292,839** | **141** | **1,292,979** |

* Other Paid-in Capital consists of costs related to stock options.

# Consolidated Statement of Cash Flow

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

| | Note | 2014 | 2013 |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| Received payments from customers | | **859,135** | 811,918 |
| Payments for salaries, pensions, social security tax | | **(90,027)** | (83,628) |
| Payments of other operational costs | | **(49,961)** | (61,735) |
| Paid taxes | 24 | **(114,136)** | (123,616) |
| **Net cash flow from operating activities [1)]** | | **605,011** | 542,940 |
| **Cash flow from investing activities** | | | |
| Received payments from sale of tangible assets | | **-** | 961 |
| Investments in tangible and intangible assets | | **(27,004)** | (38,958) |
| Investments in multi-client library | | **(436,540)** | (422,318) |
| Proceeds from sale of short-term investments | | **4,875** | - |
| Interest received | | **5,728** | 6,758 |
| **Net cash flow from investing activities** | | **(452,941)** | (453,557) |
| **Cash flow from financing activities** | | | |
| Interest paid | | **(777)** | (3,342) |
| Dividend payments | 10 | **(144,786)** | (142,164) |
| Purchase of treasury shares | | **(23,999)** | (4,958) |
| Proceeds from share issuances | | **2,918** | 2,556 |
| **Net cash flow from financing activities** | | **(166,644)** | (147,908) |
| Net change in cash and cash equivalents | | **(14,575)** | (58,525) |
| Cash and cash equivalents at the beginning of the period | 11 | **280,688** | 338,673 |
| Net unrealized currency gains/(losses) | | **(9,697)** | 540 |
| **Cash and cash equivalents at the end of the period** | 11 | **256,416** | 280,688 |
| **1) Reconciliation** | | | |
| Profit before taxes | | **288,327** | 381,459 |
| Depreciation/amortization/impairment | 4,5,6 | **467,488** | 346,203 |
| Net impairment of long-term receivable | 14 | **9,513** | - |
| Changes in accounts receivables and accrued revenues | | **(73,739)** | 4,311 |
| Unrealized currency gain/(loss) | | **15,910** | (993) |
| Changes in other receivables | | **6,837** | (41,263) |
| Changes in other balance sheet items | | **4,811** | (23,162) |
| Paid taxes | 24 | **(114,136)** | (123,616) |
| **Net cash flow from operating activities** | | **605,011** | 542,940 |

# Notes to Consolidated Financial Statements

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

## 1. General Accounting Policies

### General Information

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

TGS-NOPEC Geophysical Company ASA and its subsidiaries (TGS or the Company) provide multi-client geoscience data to oil and gas exploration and production companies worldwide. In addition to extensive global geophysical and geological data libraries that include multi-client seismic data, magnetic and gravity data, digital well logs, production data and directional surveys, TGS also offers advanced processing and imaging services, interpretation products and data integration solutions.

The consolidated financial statements of TGS were authorized by the Board of Directors on 24 March 2015.

### Basis of Preparation

The consolidated financial statements of TGS have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) in effect as of 31 December 2014 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 consolidated financial statements.

The consolidated financial statements have been prepared on a historical cost basis, except financial investments available for sale and financial investments through profit and loss 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 comprise the financial statements of the Parent Company and its subsidiaries as at 31 December 2014. Control is achieved when TGS is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, TGS controls an investee if and only if TGS has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns

Consolidation of a subsidiary begins when TGS obtains control over the subsidiary and ceases when TGS loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date TGS gains control until the date TGS ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the Parent Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with TGS' accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of TGS are eliminated in full on consolidation.

If TGS loses control over a subsidiary, the Company derecognizes the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognized in profit or loss. Any investment retained is recognized at fair value.

### *Presentation Currency*

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

For presentation in consolidated accounts, the assets and liabilities of subsidiaries with functional currency other than USD are translated into USD at the rate of exchange prevailing at the reporting date and their statements of profit or loss are translated at exchange rates prevailing at the dates of the transactions. Exchange rate differences arising from the translation to presentation currency are recognized in OCI.

### *Foreign Currency*

Non-functional currency transactions are recorded in 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 TGS' 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.

### *Multi-Client Library Amortization and Impairment*

TGS 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 and gas exploration and production 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 rates used materially. The future sales forecasts are also the basis for the impairment evaluations. The revenue estimates are evaluated regularly and changes in amortization rate and impairments are recognized in the period they occur. Due to the oil price decrease experienced during 2014, TGS put additional focus on the sales forecasting to make sure that the updated expectations were properly reflected in impairment evaluations.

For details about the book value, amortization and impairment of the multi-client library, see Note 5.

For a detailed description of the accounting policies for the multi-client library see Summary of Significant Accounting Policies below.

### *Impairment of Goodwill*

TGS 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 the 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. Variables such as estimated future revenues, margins and estimated long-term growth are the key drivers for the basis of the value in use calculations. Future cash flows also depend on general development in E&P spending, the number of market participants and technological developments.

For details about the goodwill, see Note 6.

### *Deferred Tax Assets*

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded.

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. 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.

For details about the deferred tax assets, see Note 24.

### *Provision for Impairment of Accounts Receivables*

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

For details about the provision of impairment of accounts receivables, see Note 16.

### *Share–Based Payments*

TGS measures the cost of stock options and stock appreciation rights 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). 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 assumptions in the valuation models including the expected life of the instruments, volatility and dividend yield.

For details about the share-based payments, see Note 8.

### *Revenue Recognition*

TGS recognizes revenues from multi-client surveys in progress 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 TGS at that date. Any unearned components of the payments received from customers are deferred where the revenue recognition criteria have not been met.

For a detailed description of the accounting policies for revenue recognition see Summary of Significant Accounting Policies below.

## Summary of Significant Accounting Policies

### *Revenue Recognition*

Revenue is recognized when it is probable that the economic benefits from a transaction will flow to TGS 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 projects 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 commencement of acquisition for each project are recognized on 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 progress and presented as POC 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*

TGS shares certain multi-client revenues with other companies (see joint arrangements below) and governments. Revenues are recognized as described elsewhere and 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.

#### *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 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 companies.
The costs directly attributable to data acquisition and processing are capitalized and included in the library value. Costs directly attributable to data acquisition and processing includes mainly vessel costs, payroll and hardware/software costs. Data acquisition costs include mobilization costs incurred when relocating vessels to the survey areas. 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 and impairment.

*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 regularly updated and fully reviewed quarterly. 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 an individual survey one year after completion is 60% of original cost. Thereafter, the maximum net book value is reduced by 20% of the original cost each year, 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 Seismic Data Purchased from Third Parties*

When purchasing seismic data from third parties, a straight-line amortization over the remaining useful life is recognized. The straight-line amortization is based on the fair value of the seismic data recognized on the date of the purchase.

*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 Multi-Client Library*

When there are indicators that the net 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. Any impairment of the multi-client library is recognized immediately and presented as "Amortization of the multi-client library" in the statement of profit or loss.

For further information about impairment testing, see "Impairment of Non-Financial Assets" below.

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

*Joint Arrangements*

A joint arrangement is a contractual arrangement whereby the TGS and other parties undertake an economic activity that is subject to joint control. That is when the strategic financial and operating policy decisions relating to the activities of the joint arrangement require the unanimous consent of the parties sharing control. Joint arrangements are classified as joint operations or joint ventures, depending on the rights to the assets and obligations for the liabilities of the parties to the arrangements. If the parties to the joint arrangement have rights to the net assets of the arrangement, the arrangement is a joint venture. If the parties have rights to the assets and obligations for the liabilities relating to the arrangement, the arrangement is a joint operation. Interests in joint ventures are accounted for using the equity method.

For certain multi-client library projects, TGS invests in the project with other parties and has cooperation agreements whereby revenues will be shared with other companies. These agreements are initiated and agreed as joint operations where both parties have rights to the assets and share in the liabilities. TGS recognizes its share of the investment in multi-client library, its share of revenues from the sale of the multi-client library, related amortization, and expenses. When TGS has a license to market and sell the seismic project, TGS enters into the license contracts with customers and invoices and collects payments from the customer. The related account receivable is presented gross, while the portion due to the partner upon collection from the customer is presented as debt to partners. Similarly, when a partner holds the license and invoices and collects from the customer, TGS recognizes its share of related accounts receivables.

*Other 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.

Internally generated intangibles, excluding capitalized development costs, are not capitalized and the related expenditure is reflected in the profit or loss in the period in which the expenditure is incurred.

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 at the end of each reporting period. The straight-line amortization method is used for most intangible assets as this best reflects the consumption of the assets.

### *Research and Development Costs*

Research costs are expensed as incurred. Development expenditures on an individual project are recognized as an intangible asset when TGS 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.

### *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 TGS 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 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. 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 OCI. 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 TGS' cash generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of TGS are assigned to those units. Each unit, or group of units to which the goodwill is allocated, represents the lowest level within TGS at which the goodwill is monitored for internal management purposes.

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 determined measured based on the relative values of the operation disposed of and the portion of the cash generating unit retained.

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*

Tangible non-current assets are presented at historical cost less accumulated depreciation and accumulated impairment losses. 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.

### *Impairment of Non-Financial Assets*

Disclosures relating to impairment of non-financial assets are also provided in the following notes:

- Significant Accounting Judgments, Estimates and Assumptions - Note 1
- Tangible Non-Current Assets - Note 4
- Impairment Testing of Goodwill - Note 6

TGS assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, TGS estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset 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 asset.

TGS bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of TGS' CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses are recognized in the statement of profit or loss in expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognized impairment losses no longer exist or have decreased. If such indication exists, TGS estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, or the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of profit or loss.

For further information about impairment testing of the multi-client library, see "Impairment Test Multi-Client Library" above and Note 5.

### *Provisions and Contingencies*

Provisions are made when TGS has a current obligation (legal or constructive) as result of a past event, it is probable that an outflow of resources embodying economic benefits 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 current 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 TGS.

### *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 in the countries where TGS operates and generates taxable income.

#### *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 at the reporting date.

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.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

Unrecognized deferred tax assets are re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

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 OCI 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. TGS' legal entities 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 TGS receive remuneration in the form of share-based payments whereby employees render services as consideration for stock options, Stock Appreciation Rights (SARs) and Restricted Stock Units (RSUs).

The cost of equity-settled transactions (stock options) 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 TGS' best estimate of the number of equity instruments that will ultimately vest. The statement of profit or loss 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 dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share (further details are given in Note 9).

In some tax jurisdictions, TGS 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.

SARs and RSUs are cash settled share-based payments. The fair value of the SARs and RSUs 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. 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 TGS, which will be the fair value at settlement date. The fair values of the vested part of the SARs and RSUs are recognized as personnel costs.

*Financial Investments and Other Financial Instruments*

TGS 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 characteristics of the instruments and the purpose for which the investments were acquired. Management determines the classification at initial recognition. 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.

TGS does not apply hedge accounting.

*Financial Assets at Fair Value Through Profit or Loss*

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value presented as finance costs (negative net changes in fair value) or finance income (positive net changes in fair value) in the statement of profit or loss.

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. At 31 December 2014, TGS has no derivatives embedded in host contracts that are not closely related to the host contract.

### 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 rate method (EIR), less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR.

The losses arising from impairment are recognized in the statement of profit or loss in finance costs for loans and in other operating expenses for receivables. This category generally applies to trade and other receivables. For more information on receivables, refer to Note 16.

### 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 OCI in the available-for-sale reserve, until the investment is derecognized or considered impaired at which time the cumulative loss is recognized in the income statement in finance cost and removed from the available-for-sale reserve. The investment is determined to be impaired when a negative development is considered significant or prolonged.

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.

### *Derecognition of Financial Assets and Liabilities*

A financial asset is derecognized when:

- The rights to receive cash flows from the asset have expired, or
- TGS 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.

A financial liability is derecognized 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 derecognition 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*

TGS 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 TGS 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*

TGS operates defined-contribution plans in Norway, UK, USA (401k) and Australia where the Company covers the superannuation. 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.

### *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 reserve.

### *Dividends*

A dividend approved by TGS' shareholders is recognized as a liability in TGS' financial statements. A corresponding amount is recognized directly in equity.

### *Cash Flow Statement*

The cash flow statement is compiled using the direct method.

### *Changes in Accounting Policy and Disclosures*

TGS has adopted the following new and amended standards that are effective.

- IFRS 10 Consolidated Financial Statements
  The standard builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. IFRS 10 has no significant impact on the financial statements.

- IFRS 11 Joint Arrangements
  IFRS 11 focuses on the rights and obligations of the parties to the arrangement rather than its legal form. There are two types of joint arrangements: Joint operations and joint ventures. Joint operations arise where the investors have rights to the assets and obligations for the liabilities of an arrangement. A joint operator accounts for its share of the assets, liabilities, revenue and expenses. Joint ventures arise where the investors have rights to the net assets of the arrangement. Joint ventures are accounted for under the equity method. Proportional consolidation of joint arrangements is no longer permitted. Implementation of IFRS 11 has no effect on the presentation of the financial statements.

- IFRS 12 Disclosure of Involvement with Other Entities
  IFRS 12 includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, structured entities and other off balance sheet vehicles. Disclosures in accordance with IFRS 12 are presented in Note 15.

- IAS 28 Investments in Associates and Joint Ventures
  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 had no significant impact on the financial statements.

### *New Standards and Interpretations Issued, but not Yet Effective*

The standards and interpretations that are issued, but not yet effective, up to the date of the issuance of TGS' financial statements are disclosed below. TGS intends to adopt these standards, if applicable, when they become effective.

- IFRS 9 Financial Instruments
  In July 2014 the IASB issued the final version of IFRS 9. IFRS 9 will replace IAS 39 Financial Instruments: Recognition and Measurement and previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. IFRS 9 is not yet approved by EU. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before 1 February 2015. The amendments are not expected to impact TGS' financial position or performance.

- IFRS 15 Revenue from Contracts with Customers
  The IASB and the FASB have issued their joint revenue recognition standard, IFRS 15. The standard replaces existing IFRS and US GAAP revenue requirements. The core principle of IFRS 15 is that revenue is recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard applies to all revenue contracts and provides a model for the recognition and measurement of sales of some non-financial assets (e.g., disposals of property, plant and equipment). The standard is effective from 1 January 2017, but is not yet approved by the EU. TGS is currently assessing the impact of IFRS 15.

- IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets
  The amendments to these standards clarifiy that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The amendments also clarifies that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances. TGS is currently assessing the impact of the amendments to IAS 16 and IAS 38, which are effective from 1 January 2016.

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

## 2. Business Combinations

No significant business combinations, either individually or collectively, took place in 2014 or in 2013.

## 3. Segment Information

TGS' 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, TGS 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, Reservoir Solutions, 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 the 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 2014 or 2013. Employee bonuses and cost related to share options are recognized within "Corporate costs".

| 2014 | North & South America | Europe & Russia | Africa Middle East & Asia/Pacific | Other segments/Corporate costs | Consolidated |
|---|---|---|---|---|---|
| Net operating revenues | 444,291 | 241,832 | 126,107 | 102,554 | 914,785 |
| **Net external revenues** | **444,291** | **241,832** | **126,107** | **102,554** | **914,785** |
| Costs of goods sold-proprietary & other | 3,322 | 69 | 256 | 374 | 4,021 |
| Amortization of multi-client library | 129,667 | 90,986 | 153,927 | 22,086 | 396,666 |
| Operational costs | 9,860 | 16,085 | 9,356 | 113,459 | 148,761 |
| Impairment of Reservoir Solutions | - | - | - | 54,427 | 54,427 |
| Depreciation, amortization and impairment | 531 | 23 | 131 | 15,709 | 16,395 |
| **Operating profit** | **300,911** | **134,669** | **(37,563)** | **(103,500)** | **294,516** |
| **2013** | **North & South America** | **Europe & Russia** | **Africa Middle East & Asia/Pacific** | **Other segments/Corporate costs** | **Consolidated** |
| Net operating revenues | 430,594 | 279,609 | 75,612 | 97,629 | 883,444 |
| **Net external revenues** | **430,594** | **279,609** | **75,612** | **97,629** | **883,444** |
| Costs of goods sold-proprietary & other | 19,144 | - | 469 | 336 | 19,949 |
| Amortization of multi-client library | 120,352 | 125,145 | 63,428 | 20,903 | 329,829 |
| Operational costs | 10,446 | 7,517 | 10,030 | 102,322 | 130,316 |
| Depreciation, amortization and impairment | 645 | 22 | 139 | 15,568 | 16,374 |
| **Operating profit** | **280,007** | **146,925** | **1,546** | **(41,501)** | **386,976** |

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

| | 2014 | 2013 |
|---|---|---|
| Operating profit for reportable segments | 398,017 | 428,478 |
| Operating profit for other segments/corporate costs | (103,500) | (41,501) |
| **Total segments** | **294,516** | **386,976** |
| Financial income | 5,828 | 7,411 |
| Financial expenses | (1,147) | (3,654) |
| Exchange gains/losses | (12,381) | (9,273) |
| Gains on financial investments | 1,511 | - |
| **Profit before taxes** | **288,327** | **381,460** |

Total assets are not a part of the information regularly provided to executive management. TGS 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.

Net revenues from one customer amounted to USD 99.1 million in 2014, arising from sales in all the geographic areas (NSA, EUR and AMEAP). In 2013, no customers represented sales that amounted to 10% or more of net sales.

Analysis of revenues by product type:

| | 2014 | 2013 |
|---|---|---|
| 2D seismic | 222,405 | 199,202 |
| 3D seismic | 621,504 | 618,608 |
| Well logs and integrated products | 70,876 | 65,634 |
| **Total net revenues** | **914,785** | **883,444** |

# 4. Tangible Non-Current Assets

## 2014

| Acquisition Cost and Depreciation: | Machinery and Equipment | Buildings | Total |
|---|---|---|---|
| Cost as of 1 January 2014 | 132,057 | 11,789 | 143,846 |
| Reclassification | (2,781) | - | (2,781) |
| Additions | 19,410 | 1,483 | 20,893 |
| Disposals [1] | (9,525) | (571) | (10,096) |
| Exchange adjustment | - | 2 | 2 |
| Cost as of 31 December 2014 | 139,161 | 12,703 | 151,864 |
| Accumulated depreciation as of 1 January 2014 | 89,180 | 1,865 | 91,045 |
| Reclassification | (327) | - | (327) |
| Depreciation for the year | 8,278 | 1,558 | 9,836 |
| Impairment for the year (Reservoir Solutions) | 4,956 | - | 4,956 |
| Accumulated amortization/depreciation on disposals [1] | (9,517) | (341) | (9,858) |
| Capitalized to the multi-client library | 12,931 | - | 12,931 |
| Exchange adjustment | 52 | 53 | 105 |
| Accumulated depreciation as of 31 December 2014 | 105,553 | 3,135 | 108,688 |
| Net book value as of 31 December 2014 | 33,608 | 9,568 | 43,176 |
| Useful life | 2 to 7 years | 3 to 12 years | |

[1] Loss on disposal during the year was USD 0.2 million

## 2013

| Acquisition Cost and Depreciation: | Machinery and Equipment | Buildings | Total |
|---|---|---|---|
| Cost as of 1 January 2013 | 108,934 | 5,177 | 114,111 |
| Additions | 34,070 | 6,768 | 40,838 |
| Disposals [1] | (10,645) | (54) | (10,699) |
| Exchange adjustment | (302) | (102) | (404) |
| Cost as of 31 December 2013 | 132,057 | 11,789 | 143,846 |
| Accumulated depreciation as of 1 January 2013 | 81,173 | 904 | 82,077 |
| Depreciation for the year | 6,607 | 1,032 | 7,639 |
| Impairment for the year | - | - | - |
| Accumulated amortization/depreciation on disposals [1] | (10,645) | (54) | (10,699) |
| Capitalized to the multi-client library | 12,206 | - | 12,206 |
| Exchange adjustment | (161) | (17) | (178) |
| Accumulated depreciation as of 31 December 2013 | 89,180 | 1,865 | 91,045 |
| Net book value as of 31 December 2013 | 42,877 | 9,924 | 52,801 |
| Useful life | 2 to 7 years | 3 to 12 years | |

[1] Gain on disposal during the year was USD 0.1 million

# 5. Intangible Assets

## 2014

| Acquisition Cost and Depreciation: | Goodwill | Multi-client Library | Other Intangible Assets | Total |
|---|---|---|---|---|
| Cost as of 1 January 2014 | 119,774 | 2,913,872 | 119,906 | 3,153,552 |
| Reclassification | - | - | 2,781 | 2,781 |
| Additions | - | 462,318 | 2,735 | 465,053 |
| Disposals | - | - | (149) | (149) |
| Exchange adjustment | (1,808) | (23,366) | (912) | (26,086) |
| Cost as of 31 December 2014 | 117,966 | 3,352,824 | 124,361 | 3,595,151 |
| Accumulated depreciation as of 1 January 2014 | 35,011 | 2,155,779 | 73,155 | 2,263,945 |
| Reclassification | - | - | 327 | 327 |
| Amortization for the year | - | 325,252 | - | 325,252 |
| Depreciation for the year | - | - | 6,559 | 6,559 |
| Impairment for the year | 15,595 | 71,414 | 33,874 | 120,883 |
| Accumulated amortization/depreciation on disposals | - | - | (99) | (99) |
| Capitalized to the multi-client library | - | - | 1,584 | 1,584 |
| Exchange adjustment | - | (17,753) | (388) | (18,141) |
| Accumulated depreciation and impairment as of 31 December 2014 | 50,606 | 2,534,692 | 115,012 | 2,700,310 |
| Net book value as of 31 December 2014 | 67,361 | 818,132 | 9,349 | 894,841 |
| Useful life | | | 3 to 7 years | |

### 2013

| Acquisition Cost and Depreciation: | Goodwill | Multi-client Library | Other Intangible Assets | Total |
|---|---|---|---|---|
| Cost as of 1 January 2013 | 121,626 | 2,478,754 | 117,785 | 2,718,165 |
| Additions | - | 438,869 | 3,012 | 441,881 |
| Exchange adjustment | (1,852) | (3,751) | (891) | (6,494) |
| Cost as of 31 December 2013 | 119,774 | 2,913,872 | 119,906 | 3,153,552 |
| Accumulated depreciation as of 1 January 2013 | 35,011 | 1,827,589 | 62,144 | 1,924,744 |
| Reclassification | - | - | - | - |
| Amortization for the year | - | 275,927 | - | 275,927 |
| Depreciation for the year | - | - | 8,735 | 8,735 |
| Impairment for the year | - | 53,902 | - | 53,902 |
| Capitalized to the multi-client library | - | - | 2,540 | 2,540 |
| Exchange adjustment | - | (1,639) | (264) | (1,903) |
| Accumulated depreciation and impairment as of 31 December 2013 | 35,011 | 2,155,779 | 73,155 | 2,263,945 |
| Net book value as of 31 December 2013 | 84,764 | 758,093 | 46,751 | 889,607 |
| Useful life | | | 3 to 7 years | |

The activities of TGS' clients, oil and gas companies, may change following shifts in commodity prices in the market or future expectations of such, and this impacts TGS' activity and profitability. The future sales forecast for some multi-client projects have been reduced to reflect the uncertainty in the market. An impairment of USD 71.4 million is recognized on the net book value of the multi-client library in 2014, compared to USD 53.9 million in 2013.

See the Summary of Significant 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. Impairment Testing of Goodwill and Other Intangible Assets

The table below shows goodwill by cash generating unit.

| Specification of goodwill: | Imaging | GPS Well Logs | GPS Interpretations | Reservoir Solutions | Arcis | Other | Total |
|---|---|---|---|---|---|---|---|
| NBV as of 1 January 2014 | 28,147 | 12,219 | 7,558 | 15,595 | 20,169 | 1,076 | 84,764 |
| Impairments | - | - | - | (15,595) | - | - | (15,595) |
| Exchange adjustments during the year | (219) | - | - | - | (1,588) | - | (1,807) |
| NBV as of 31 December 2014 | 27,928 | 12,219 | 7,558 | - | 18,581 | 1,076 | 67,361 |

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.

Goodwill acquired through business combinations has been allocated to individual cash generating units (CGU) as referred to in the table above. GPS Well Logs, GPS Interpretations, Imaging and Reservoir Solutions form operating segments which are included in "Other segments/Corporate costs", while Arcis is part of "NSA" in Note 3.

Goodwill for all the CGUs has been tested for impairment. Based on the impairment testing performed, an impairment charge has been recognized for the Reservoir Solutions goodwill due to closure of that business.

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 asset. TGS bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of TGS' CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

### 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 2015. For the subsequent four years, an expected growth rate of 3% has been used, which is lower than the actual growth in recent years and reflects the increased uncertainty.

A terminal value in 2019 of the business unit was determined by discounting the projected cash flow in 2019 assuming a nominal growth of 3%, which is lower than the actual growth in recent years and reflects increased uncertainty. 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, which are mainly influenced by future E&P spending and demand for TGS' products. In addition the impairment calculations are sensitive to 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 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 2015. For the subsequent four years, an expected growth rate of 3% has been used, which is lower than the actual growth in recent years and reflects the increased uncertainty.

A terminal value in 2019 of the business unit was determined by discounting the projected cash flow in 2019 assuming a nominal growth of 3%, which is lower than the actual growth in recent years and reflects increased uncertainty. 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, which are mainly influenced by future E&P spending and demand for TGS' products. In addition the impairment calculations are sensitive to 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 2-5 million annually for the next five years. The lowest estimate has been used in the calculations together with a discount rate of 12% (pre-tax).

A terminal value in 2019 of the business unit was determined by discounting the projected cash flow in 2019 assuming a nominal growth of 3%.

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

### Arcis

The value in use of Arcis 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 2015. For the subsequent four years, a growth rate of 3% has been used.

A terminal value in 2019 of the business unit was determined by discounting the projected cash flow in 2019 assuming a nominal growth of 3%. The terminal value and the cash flows in the five year projection period were discounted using a 12% (pre-tax) discount rate.

The impairment calculations are sensitive to the changes in the forecasted growth rates which are mainly influenced by future E&P spending and demand for TGS' products. In addition the impairment calculations are sensitive to 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.

### Reservoir Solutions

Due to negative market developments, current oil price developments and uncertain market conditions for the Permanent Reservoir Monitoring market and the decision to focus on its core business, TGS has decided to exit the Reservoir Solutions business. Accordingly, TGS has recognized an impairment of the Reservoir Solutions goodwill in 2014 of USD 15.6 million.

The total impairment recognized from the Reservoir Solutions business:

| | |
|---|---|
| Goodwill | 15,595 |
| Other intangible non-current assets | 33,874 |
| Machinery and equipment | 4,958 |
| **Total impairment recognized** | **54,427** |

A deferred tax liability of USD 4.2 million related to the intangible assets has been recognized as tax income.

# 7. Salaries / Benefits / Number of Employees / Employee Loans / Audit Fees

| | 2014 | 2013 |
|---|---|---|
| Payroll | 109,194 | 99,548 |
| Social security costs | 8,500 | 7,651 |
| Pension costs | 5,581 | 4,669 |
| Other employee related costs | 6,994 | 7,425 |
| Salaries capitalized to developed software | (1,586) | (1,668) |
| Salaries capitalized to multi-client library | (40,680) | (36,789) |
| Personnel costs | 88,003 | 80,835 |
| Cost of stock options (see Note 8) | 5,003 | 4,445 |
| Personnel costs and cost of stock options | 93,006 | 85,280 |

The number of employees per 31 December 2014 was 943 versus 912 per 31 December 2013. No loans to employees are outstanding as of 31 December 2014 or 31 December 2013.

TGS has a profit sharing plan for all full-time employees following a six month trial period. The profit sharing (bonus) is payable quarterly, and is calculated as a function of operating profit versus budget and the individual employee's relative share which is based on several factors, such as performance, responsibility, etc. All bonuses earned in 2014 have been paid or accrued as of 31 December 2014.

The following table provides the stock and stock options held by executive management:

| Executive Management | No. of Shares Held 31/12/2014 | No. of Options Held 31/12/2014 | No. of Options Granted in 2014 | No. of Options Exercised in 2014 | WAEP [1] (in NOK) |
|---|---|---|---|---|---|
| Robert Hobbs (CEO) | 31,750 | 126,000 | - | 15,000 | 86.15 |
| Kristian Johansen (COO/CFO) | 1,500 | 65,500 | - | 14,000 | 113.80 |
| John Adamick (SVP Geological Products and Services) | 36,000 | 56,400 | - | - | - |
| Knut Agersborg (VP Global Services) | 2,100 | 63,000 | - | 7,000 | 113.80 |
| Martin Bett (SVP Reservoir Solutions) | - | 59,250 | - | - | - |
| Genevieve Erneta (VP Human Resources) | - | 49,200 | - | 7,200 | 113.80 |
| Stein Ove Isaksen (SVP Eastern Hemisphere) | 2,000 | 56,400 | - | - | - |
| Zhiming Li (SVP Data Processing and Research & Development) | 105,694 | 70,000 | - | 8,750 | 86.15 |
| Rod Starr (Resigned in January 2015) | 25,500 | 70,000 | - | - | - |
| Tana Pool (VP General Counsel and Corporate Secretary) | - | - | - | - | - |

[1] WAEP: Weighted average exercise prices on options exercised

The tables following show total expensed compensation to executive management.

## Executive Management 2014

| Executive Management | Salary | Bonuses | LTIP | Other Benefits | Share-based Payments Expensed | Total Remunerations |
|---|---|---|---|---|---|---|
| Robert Hobbs | 498 | 1,185 | 41 | 26 | 362 | 2,112 |
| Kristian Johansen | 402 | 337 | 22 | 25 | 233 | 1,019 |
| John A. Adamick | 230 | 378 | 23 | 24 | 192 | 847 |
| Knut Agersborg | 218 | 188 | 18 | 26 | 201 | 651 |
| Martin Bett | 267 | 107 | 20 | 36 | 163 | 593 |
| Genevieve Erneta | 193 | 127 | 23 | 18 | 171 | 532 |
| Rod Starr (Resigned in January 2015) | 268 | 326 | 23 | 24 | 201 | 841 |
| Stein Ove Isaksen | 300 | 273 | 18 | 28 | 171 | 790 |
| Zhiming Li | 298 | 406 | 23 | 21 | 201 | 948 |
| Tana Pool | 282 | 128 | 23 | 26 | - | 459 |

## Executive Management 2013

| Executive Management | Salary | Bonuses | Other Benefits | Share-based Payments Expensed | Total Remunerations |
|---|---|---|---|---|---|
| Robert Hobbs | 479 | 1,305 | 19 | 364 | 2,167 |
| Kristian Johansen | 414 | 371 | 28 | 225 | 1,038 |
| John A. Adamick | 220 | 426 | 24 | 161 | 831 |
| Knut Agersborg | 225 | 214 | 28 | 203 | 669 |
| Martin Bett | 247 | 100 | 31 | 152 | 530 |
| Genevieve Erneta | 193 | 127 | 18 | 161 | 499 |
| Rod Starr | 249 | 339 | 98 | 203 | 889 |
| Stein Ove Isaksen | 270 | 314 | 75 | 158 | 817 |
| Zhiming Li | 280 | 452 | 19 | 203 | 954 |
| Tana Pool (From 10 October 2013) | 55 | 25 | - | - | 80 |

In 2014, based on lack of sufficient support from shareholders, TGS elected to withdraw its proposal for a share based long-term incentive plan and instead proceeded with a one-time long-term cash incentive program (LTIP) for executive management.

In the 2014 plan each executive is granted a set cash award target which vests on the 3rd anniversary of grant. Executives can achieve between 0% and 190% of the original target dependent on how TGS performs against three weighted measures (one relative and two absolute) during the performance period of three years:

- Multi-client revenue market share – 45% weighting
- Earnings per Share (EPS) growth – 45% weighting
- Health, Safety & Environment (HSE) – 10% weighting

The LTI payment can be further increased by an "EBIT performance versus market expectations at the start of the performance period" multiplier for up to an additional 200% of the target achieved for a maximum payout of 380% of target. The performance period for the 2014 Long-Term Executive Cash plan is 1 January 2014 to 31 December 2016.

An executive terminating before the end of the plan period will not be awarded payment.

The LTIP expense for 2014 is reported in the 2014 table above.

For further information about remuneration to executive management, see section 12 "Remuneration to Executive Personnel" in the Report on Corporate Governance.

Together with the other members of the executive management, Robert Hobbs participates in TGS' profit sharing bonus plan in the same manner that all other Company employees participate. Mr. Hobbs receives a bonus that is proportional to TGS' 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 amount payable in the case of termination following a "change of control" event is three times the highest gross annual compensation received by Mr. Hobbs during the three years immediately preceding the "change of control" event.

Kristian Johansen has an employment contract providing for a maximum amount payable in case of termination of employment equal to six months base salary.

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

The members of executive management participate in the profit sharing cash bonus plan described above. The target amount of each year's annual bonus is determined by the Board.

The following set forth the compensation paid to the Board of Directors:

## Board of Directors 2014

| | Director's fee [1] | Value of Shares Received [2] | Total Remunerations |
|---|---|---|---|
| Hank Hamilton (Chairman of the Board) | 215 | - | 215 |
| Colette Lewiner | 23 | 42 | 65 |
| Elisabeth Harstad | 97 | - | 97 |
| Mark Leonard | 47 | 42 | 89 |
| Bengt Lie Hansen | 70 | 42 | 112 |
| Vicki Messer | 47 | 42 | 89 |
| Tor Magne Lønnum | 47 | 42 | 89 |

## Board of Directors 2013

| | Director's fee [1] | Value of Shares Received [2] | Total Remunerations |
|---|---|---|---|
| Hank Hamilton (Chairman of the Board) | 215 | - | 215 |
| Colette Lewiner | 50 | 45 | 95 |
| Elisabeth Harstad | 106 | - | 106 |
| Mark Leonard | 50 | 45 | 95 |
| Bengt Lie Hansen | 50 | 45 | 95 |
| Vicki Messer | 50 | 45 | 95 |
| Tor Magne Lønnum (Director from June 2013) | - | 45 | 45 |

1) The tables include Director's fees paid during the year. Directors receive fees on a bi-annual basis as decided by the AGM. Deviations in individual fees are related to the timing of the bi-annual payments.

2) In June 2014, each of the Directors, other than the Chairman received 1,650 restricted shares in TGS. 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.

| | No. of Restricted Shares Received during 2014 | No. of Shares Held 31/12/2014 |
|---|---|---|
| Hank Hamilton (Chairman of the Board ) | - | 1,352,400 |
| Colette Lewiner (Director) | 1,650 | 12,550 |
| Elisabeth Harstad (Director) | - | - |
| Mark Leonard (Director) | 1,650 | 15,550 |
| Bengt Lie Hansen (Director) | 1,650 | 8,050 |
| Vicki Messer (Director) | 1,650 | 6,450 |
| Tor Magne Lønnum (Director) | 1,650 | 3,250 |

| Compensation to the members of the Nomination Committee [1] | 2014 | 2013 |
|---|---|---|
| Tor Himberg-Larsen (Chairman) | 26 | 30 |
| Christina Stray | 13 | 16 |
| Jarle Sjo (Member from June 2014) | - | - |
| Ole Søeberg (Member until June 2014) | 8 | 12 |

[1] The table shows compensation paid during the year.

| Auditor's fee | 2014 | 2013 |
|---|---|---|
| Statutory audit | 647 | 826 |
| Other attestation services | 9 | 12 |
| Tax advisory services | 38 | 181 |
| Other services outside the audit scope | 2 | 23 |
| **Total fees** | **696** | **1,042** |

All amounts are exclusive of VAT.

# 8. Share-Based Payment Plans

TGS has historically issued stock options as long-term incentives, but decided to replace the stock options program in 2014 with a system that is both more performance-based and tied to long term share performance.

When stock options are exercised, TGS issues new shares or transfers treasury shares. Options granted under the 2011 plan and the 2012 plan are secured by treasury shares. Options granted under the 2013 plan are secured by free-standing warrants.

In 2010 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% of the SARs granted vested three years after grant and 100% were fully vested four years after grant. The SARs expire in 2015, five years after grant if not exercised.

In 2014 a limited amount of restricted share units (RSUs) were issued to key employees other than the executive management. The RSU plan is a cash-settled plan measured at the end of each reporting period. The RSUs will vest and pay out three years after grant. The cash value of each RSU will not exceed two times the fair market value of a share on the last trading day prior to the date of grant which was NOK 184.90.

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

| | 2014 | 2013 |
|---|---|---|
| Expense arising from equity-settled share-based payment plans | 5,003 | 4,445 |
| Expense arising from cash-settled share-based payment plans | 1,000 | 39 |

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

The strike 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.

107,774 RSUs were granted in 2014, while 600,000 share options were granted in 2013.

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

| | 2014 | | 2013 | |
|---|---|---|---|---|
| | No. | WAEP (NOK) | No. | WAEP (NOK) |
| Outstanding at 1 January | 2,054,813 | 145.01 | 1,855,750 | 121.95 |
| Granted during the year | 107,774 | 0.00 | 600,000 | 181.90 |
| Forfeited during the year | (24,000) | 116.56 | (120,000) | 127.57 |
| Exercised during the year | (348,838) | 92.35 | (280,937) | 78.94 |
| Expired during the year | - | | - | |
| Outstanding at 31 December | 1,789,749 | 146.93 | 2,054,813 | 145.01 |
| Exercisable at 31 December | 262,975 | | 167,938 | |

The weighted average remaining contractual life for the stock options outstanding on 31 December 2014 is 2.42 years (2013: 3.07 years).

The weighted average fair value of the RSUs granted during 2014 was NOK 168.60. The weighted average fair value of options granted during 2013 was NOK 69.78.

The range of strike prices for options and SARs outstanding at the end of the year was NOK 86.15 - NOK 181.90 (2013: NOK 78.66 - NOK 181.90).

The fair value of the RSUs granted in 2014 is measured based on the market value of the shares at the end of each reporting period. The model also includes a component which adjusts for the cap of the cash value at two times the market value of the share at the date prior to the grant.

The following table lists the input to the Black & Scholes model used for calculation of the share options granted in 2013:

| | 2013 |
|---|---|
| *Expected volatility* | |
| For options vested after 3 year | 0.41 |
| For options vested after 4 year | 0.48 |
| *Expected risk-free interest rate* | |
| For options vested after 3 year | 1.75% |
| For options vested after 4 year | 1.90% |
| Expected life of options beyond vesting period (years) | 1.00 |
| Expected annual turnover of employees | 1.00% |
| Dividend yield | 0.00% |
| Model used | Black & Scholes |

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 plans are equity-settled and the fair values are measured at grant date.

The fair values of the RSUs and the SARs are measured at every reporting date, and per 31 December 2014, the liabilities arising from the plans amounted to USD 0.3 million (RSUs) and USD 1.0 million (SARs).

## Outstanding Stock Options/Warrants as of 31 December 2014:

| No. of Options | Exercise dates | Holders | Price/ conditions | Granted |
|---|---|---|---|---|
| 445,200 | See below[1] | Key employees | NOK 113.80 Secured by treasury shares. Options expiring on 7 June 2016 | 11 August 2011 |
| 556,500 | See below[2] | Key employees | NOK 174.40 Secured by treasury shares. Options expiring on 5 June 2017 | 9 August 2012 |
| 591,500 | See below[3] | Key employees | NOK 181.90 Warrants expiring on 4 June 2018 | 8 August 2013 |
| **1,593,200** | | | | |

### Outstanding SARs and RSUs as of 31 December 2014:

| No. of SARs | Exercise dates | Holders | Price/ conditions | Granted |
|---|---|---|---|---|
| 88,775 | See below[4)] | Key employees | NOK 86.15 SARs expiring on 3 June 2015 | 12 August 2010 |
| **88,775** | | | | |

| No. of RSUs | Exercise dates | Holders | Price/ conditions | Granted |
|---|---|---|---|---|
| 107,774 | See below[5)] | Key employees | Fair market value (FMV) of a share capped at two times the FMV when granted (NOK 184.90) | 12 August 2014 |
| **107,774** | | | | |

[1)] 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.

[2)] The holders may request shares in exchange for the stock options as follows: Up to 50% beginning 9 August 2015 and 100% beginning 9 August 2016 less previously exercised.

[3)] The holders may request shares in exchange for the stock options as follows: Up to 50% beginning 8 August 2016 and 100% beginning 8 August 2017 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.

[5)] The holders will receive a cash settlement based on the share price on 12 August 2017.

All stock options, SARs and RSUs become immediately exercisable should a change of control occur as defined in the plan documents. The company, at its sole discretion, may permit terminated employees to 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 TGS 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 TGS 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:

| | 2014 | 2013 |
|---|---|---|
| Net profit attributable to ordinary equity holders of the Parent | 215,676 | 269,178 |
| Weighted average number of ordinary shares (excluding treasury shares) for basic earnings per share | 101,889 | 102,210 |
| Effect of dilution: | | |
| Share options | 1,310 | 1,555 |
| Weighted average number of ordinary shares (excluding treasury shares) adjusted for effect of dilution | 103,199 | 103,765 |
| Basic earnings per share | 2.12 | 2.63 |
| Diluted earnings per share | 2.09 | 2.59 |

On 19 February 2015, employees exercised 103,400 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 2013 | 103,431,474 | 3,712 |
| Issued 26 February 2013 for cash on exercise of stock options | 19,250 | 1 |
| Issued 15 May 2013 for cash on exercise of stock options | 5,000 | - |
| Issued 21 August 2013 for cash on exercise of stock options | 59,000 | 2 |
| Issued 11 November 2013 for cash on exercise of stock options | 7,000 | - |
| 31 December 2013 | 103,521,724 | 3,716 |
| Issued 25 February 2014 for cash on exercise of stock options | 31,500 | 1 |
| Issued 14 May 2014 for cash on exercise of stock options | 37,250 | 2 |
| Cancelled 406,186 treasury shares held, 25 July 2014 | (406,186) | (17) |
| 31 December 2014 | 103,184,288 | 3,702 |

## Treasury Shares

TGS, 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 2014 TGS held 1,843,512 treasury shares, 1.8% of the total shares issued (2013: 1,416,200 shares, 1.4%).

The following table shows the movement of treasury share holdings:

| | Number of shares | USD |
|---|---|---|
| 1 January 2013 | 1,317,200 | 57 |
| Treasury shares used to cover exercises and distributed to Board members (Note 7 and 8) | (96,000) | (3) |
| Shares bought back in 2013 | 195,000 | 8 |
| 31 December 2013 | 1,416,200 | 62 |
| Treasury shares used to cover exercises and distributed to Board members (Note 7 and 8) | (105,050) | (5) |
| Cancellation of treasury shares in 2014 | (406,186) | (17) |
| Shares bought back in 2014 | 938,548 | 35 |
| 31 December 2014 | 1,843,512 | 76 |

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

By resolution of the Annual General Meeting held 3 June 2014, the Board is authorized to, on behalf of the Company, increase share capital of the Company with up to NOK 2,588,830.50 by issuance of up to 10,355,322 new shares, each at the par value of NOK 0.25. This authorization shall be valid until the Annual General Meeting in 2015, but no later than until 30 June 2015. The Board of Directors may resolve that the shareholders shall not have their pre-emption rights to subscribe for the new shares as stipulated in the Norwegian 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 Norwegian 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 3 June 2014, the Board is authorized to, on behalf of the Company, acquire the Company's own shares for an aggregate par value of NOK 2,600,000, 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 shall be valid until the Annual General Meeting in 2015, however no longer than until 3 June 2015.

The Company acquired 823,548 own shares related to this authorization between 3 June 2014 and 31 December 2014.

### Dividends Paid and Proposed

The Board of Directors proposes to the shareholders at the May 2015 Annual General Meeting a dividend of NOK 8.50 per share of outstanding common stock.

The Annual General Meeting held 3 June 2014 approved the Board of Directors' proposal to distribute dividends for 2013 of NOK 8.5 per share. Following this approval, dividend payments totalling USD 144.8 million were made.

### The 20 Largest Shareholders as of 31 December 2014 as Registered with VPS:

| Name | Country | | Shares | % |
|---|---|---|---|---|
| STATE STREET BANK & TRUST COMPANY | U.S.A. | NOM | 6,927,210 | 6.8% |
| THE BANK OF NEW YORK MELLON | U.S.A. | NOM | 6,390,401 | 6.3% |
| FOLKETRYGDFONDET | NORWAY | | 4,410,978 | 4.4% |
| J.P. MORGAN CHASE BANK N.A. LONDON | GREAT BRITAIN | NOM | 4,250,613 | 4.2% |
| J.P. MORGAN CHASE BANK N.A. LONDON | GREAT BRITAIN | NOM | 4,216,748 | 4.2% |
| THE NORTHERN TRUST CO. | GREAT BRITAIN | NOM | 3,596,915 | 3.5% |
| CLEARSTREAM BANKING S.A. | LUXEMBOURG | NOM | 3,437,126 | 3.4% |
| BROWN BROTHERS HARRIMAN &CO | U.S.A. | NOM | 2,599,445 | 2.6% |
| RBC INVESTOR SERVICES TRUST | GREAT BRITAIN | NOM | 2,417,709 | 2.4% |
| J.P. MORGAN LUXEMBOURG S.A. | GREAT BRITAIN | NOM | 2,378,384 | 2.3% |
| EUROCLEAR BANK S.A./N.V. ('BA') | BELGIUM | NOM | 2,266,654 | 2.2% |
| SANTANDER SECURITIES SERVICES, S.A | SPAIN | NOM | 2,149,797 | 2.1% |
| STATE STREET BANK AND TRUST CO. | U.S.A. | NOM | 2,020,036 | 2.0% |
| THE BANK OF NEW YORK MELLON | U.S.A. | NOM | 1,961,645 | 1.9% |
| PERSHING LLC | U.S.A. | NOM | 1,948,006 | 1.9% |
| TGS-NOPEC GEOPHYSICAL COMPANY ASA | NORWAY | | 1,843,512 | 1.8% |
| PARETO AKSJE NORGE | NORWAY | | 1,837,333 | 1.8% |
| MORGAN STANLEY & CO. LLC | U.S.A. | NOM | 1,735,309 | 1.7% |
| STATE STREET BANK AND TRUST CO. | U.S.A. | NOM | 1,464,420 | 1.4% |
| HSBC TRINKAUS & BURKHARDT AG | GERMANY | NOM | 1,403,372 | 1.4% |
| **20 largest shareholders** | | | **59,255,613** | **57.4%** |
| **Total number of shares, par value of NOK 0.25** | | | **103,184,288** | **100.0%** |

Norwegian shareholders held 18,707,393 (18.5%) of TGS' outstanding shares (excluding treasury shares) at 31 December 2014. Shares held in treasury at 31 December 2014 were 1,843,512.

# 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 | 2014 | 2013 |
|---|---|---|
| Bank deposits | 255,891 | 280,088 |
| Restricted cash deposits | 525 | 600 |
| Total cash bank deposits | 256,416 | 280,688 |

The bank deposits are mainly denominated in USD and NOK. 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 2014 or 2013 with related parties. See Note 7 for further information of the remuneration to the Board of Directors and to the executive management.

All companies within TGS are 100% owned, directly or indirectly, by the Parent Company except for Calibre Seismic Company which is owned 50%. See Note 25 for further information about the subsidiaries. Internal transactions are eliminated in the consolidated financial statements and do not represent transactions with related parties.

# 13. Financial Risk Management Objectives and Policies

TGS 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 TGS' entities. TGS' principal financial liabilities comprise of trade payables and other current liabilities. TGS does not hold any currency or interest rate swaps.

It is, and has been, TGS' 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 TGS' revenues and costs are in US dollars. Due to this, TGS' operational exposure to exchange rate fluctuation is low. However, as the Parent 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 of the consolidated accounts. For taxes payable and deferred tax liabilities calculated in NOK, a change of 10% on the NOK/USD currency exchange rate could have an impact of equity of approximately USD 2.1 million (2013: USD 4.9 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. Per the balance sheet date, TGS held current assets of USD 777.7 million, of which cash and cash equivalents represent USD 256.4 million and other current assets represent USD 521.3 million. In comparison current liabilities amounted to USD 392.5 million. TGS had USD 51.6 million in undrawn credit facilities. TGS considers the liquidity risk to be low.

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

| 2014 | 0-6 months | 6-12 months | > 1 year | Total |
|---|---|---|---|---|
| Accounts payable and debt to partners | 160,863 | 2,419 | - | 163,282 |
| Other non-current liabilities | - | - | 7,149 | 7,149 |
| **Total** | **160,863** | **2,419** | **7,149** | **170,431** |
| 2013 | 0-6 months | 6-12 months | > 1 year | Total |
| Accounts payable and debt to partners | 155,830 | 4,965 | - | 160,795 |
| Other non-current liabilities | - | - | 16,698 | 16,698 |
| **Total** | **155,830** | **4,965** | **16,698** | **177,493** |

### Credit Risk

All placements of excess cash are either bank deposits or in financial instruments that at minimum carry an "investment grade" rating. TGS' clients are oil and gas companies. TGS is exposed to credit risk through sales and uses best efforts to manage this risk. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in the table below and the carrying value of the accounts receivables and other short-term receivables disclosed in note 16. 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.

TGS 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 TGS are discounted to reflect this element. TGS may also seek extra security from the clients in certain cases, such as pledges, overriding royalty interest agreements (ORRIs) or carried interests in an exploration license held by the client or a conversion right to equity.

At 31 December 2014, none of the outstanding accounts receivables were secured by ORRIs.

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

For details on other financial assets, please see Note 14.

## Capital Management

The goals for TGS' 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

As per 31 December 2014, total equity represented 76% of total assets and TGS had no interest bearing debt.

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 considers 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 Board of Directors proposes to the shareholders at the May 2015 Annual General Meeting a dividend of NOK 8.5 per share of outstanding common stock. During 2014, the shareholders approved a dividend of NOK 8.5 per share, which was paid to the shareholders in June 2014.

## 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 available-for-sale financial assets (ARS – only relevant for 2013) are estimated using appropriate valuation techniques
- Fair value of other financial non-current assets is evaluated by TGS 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

| | | | | Financial Instruments by Category | | | | |
|---|---|---|---|---|---|---|---|---|
| 2014 | Note | Carrying Amount | Fair Value | 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** | | | | | | | | |
| Auction rate securities (ARS) | | - | - | - | - | - | - | - |
| Other non-current assets | 14 | 43,882 | 43,882 | - | 43,882 | - | - | - |
| **Total** | | **43,882** | **43,882** | **-** | **43,882** | **-** | **-** | **-** |
| **Financial Liabilities** | | | | | | | | |
| Other non-current liabilities | 14 | 7,149 | 7,149 | - | - | - | - | 7,149 |
| **Total** | | **7,149** | **7,149** | **-** | **-** | **-** | **-** | **7,149** |

| 2013 | Note | 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** | | | | | | | | |
| Auction rate securities (ARS) | | 3,868 | 3,868 | - | - | - | 3,868 | - |
| Other non-current assets | 14 | 56,018 | 56,018 | - | 56,018 | - | - | - |
| **Total** | | **59,886** | **59,886** | **-** | **56,018** | **-** | **3,868** | **-** |
| **Financial Liabilities** | | | | | | | | |
| Other non-current liabilities | 14 | 16,698 | 16,698 | - | - | - | - | 16,698 |
| **Total** | | **16,698** | **16,698** | **-** | **-** | **-** | **-** | **16,698** |

### Fair Value Hierarchy

TGS 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.

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". Fair values of the two loans (see Note 14) and the receivables with extended payment terms have been determined by using a level 3-technique. The fair values are considered to be equal to net book values as the discount rate applied is consistent with the current interest rate.

The available for sale investments, which have previously been valued using a level 2-technique, have been sold during 2014.

In 2014, TGS recognized USD 1.5 million as a financial income in the statement of comprehensive income with respect to the available for sale investments (2013: USD 0.1 million) which were sold in 2014 and with no financial expense incurred for 2014 or 2013. USD 0.3 million was recognized as a loss in other comprehensive income in 2014 with respect to the available for sale investments (2013: USD 0 million).

## 14. 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 is due as per 31 December 2014.

Other non-current liabilities are due in 2016 (USD 2.5 million) and in 2017 (USD 4.6 million).

### Interest Bearing Loans to E&P Holding AS and Skeie Energy AS

During 2014, one of the two loans was 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, TGS has not recognized any interest revenue during 2014.

Based on the restructuring agreements signed on 23 December 2011, the Company reconsidered the fair value of the loans. As a result, the subsequent fair value assessments of TGS' net exposure to E&P Holding AS and Skeie Energy AS were USD 9.5 million at 31 December 2013. The fair value assessments of the loans to E&P Holding AS and Skeie Energy AS are based on estimated proceeds related to sale of assets with certain milestone payments owed by third party oil companies.

The negative oil price development in the second half of 2014 caused significant delays and uncertainties related to oil companies' plans for development and production. This impacted the timing and probability of realizing the proceeds related to the milestone payments. Due to the increased uncertainty, TGS reconsidered the fair value of the loans, and recognized an impairment of USD 9.5 million in 2014.

As of 31 December 2014, the interest bearing loans and the related revenue share agreements are recognized at USD 0 million.

### Other Non-Current Assets and Non-Current Liabilities

| | 2014 | 2013 |
|---|---|---|
| Other non-current receivables | 43,882 | 42,204 |
| Interest bearing loans | 42,128 | 42,128 |
| - Provision for impairment of other non-current receivables | - | - |
| - Provision for impairment of interest bearing loans | (42,128) | (28,314) |
| **Total other non-current assets** | **43,882** | **56,018** |

Movements on TGS' provision for impairment of loans are as follows:

| | 2014 | 2013 |
|---|---|---|
| At 1 January | 28,314 | 28,314 |
| Provision for impairment of loans | 13,814 | - |
| **At 31 December** | **42,128** | **28,314** |

### Non-Current Liabilities

As per 31 December 2014 other non-current liabilities of USD 7.1 million represent revenue share liabilities related to the receivables presented as "Other non-current receivables".

### Økokrim Investigation

On 6 May 2014, Økokrim, the Norwegian National Authority for Investigation and Prosecution of Economic and Environmental Crime, presented a criminal charge against TGS for violations of the Norwegian Tax Assessment Act and the Norwegian Securities Trading Act related to a seismic license agreement entered into in 2009 with Skeie Energy AS, later known as E&P Holding AS (Skeie). The charge claims that TGS contributed to an unwarranted tax refund received by Skeie through the Norwegian Petroleum Tax Act, as a result of the license of seismic data to Skeie, which included a license 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. The payment for the transaction was made through a combination of a cash payment and two loans with a total value of gross USD 42.1 million (net to TGS of USD 29.4 million) that matured at year end 2010 which were restructured as discussed above. Due to Skeie's failed attempt to raise new capital, the loans were not repaid according to the agreement at the maturity date. TGS has actively pursued collection of the receivables from the period since default.

Since the charges were presented, Økokrim has conducted an investigation of the matter. The company has cooperated fully in the matter. At this stage of the investigation, it is impracticable to render an outcome; however TGS believes the charges against it by Økokrim are not supported by sufficient evidence and is proactively and vigorously developing its defense against the charges.

## 15. Joint Operations

As part of its multi-client business, TGS invests in some of the multi-client projects as joint operations. Projects considered as joint operations are typically seismic projects organized between two parties where a vessel owning company provides the vessel used to acquire the seismic, while TGS provides the data processing services. Both parties have rights to the assets and liabilities relating to these arrangements.

TGS has not established any legal entities together with other companies with the purpose of acquiring a seismic project.

The table below provides TGS' share of 2014 revenues, amortization, impairment and net book value of the multi-client library at 31 December 2014 for projects considered as joint operations:

| | 2014 |
|---|---|
| Gross revenues (projects invoiced by TGS) | 395,734 |
| Revenue share (projects invoiced by TGS) | (190,853) |
| Net revenues (projects invoiced by TGS) | 204,880 |
| Net revenues (projects invoiced by partner) | 31,262 |
| Net revenues joint operations | 236,142 |
| Amortization | 69,074 |
| Impairment | 10,459 |
| Net book value of multi-client library (joint operations) at 31 December 2014 | 163,285 |

# 16. Accounts Receivables and Other Short-Term Receivables

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

The amount of revenues for in progress projects not yet invoiced, is presented as accrued revenues in the balance sheet.

Other short-term receivables consist primarily of prepayments made for multi-client projects during the seismic data acquisition phase.

For certain multi-client library projects, TGS has cooperation agreements whereby revenues are shared with other companies and or governments. In such situations accounts receivables are presented gross for projects where TGS issues the licence agreement and is responsible for invoicing, while the related partnershare is presented within "Accounts payable and debt to partners". See note 22 for a breakdown of gross revenues and revenue share and note 15 for gross revenues and revenue share from projects considered as joint operations.

In cases where extended payment terms have been agreed, the implied interest is reflected in the stated amount.

| | 2014 | 2013 |
|---|---|---|
| Accounts receivables | 245,081 | 241,474 |
| - Provision for impairment of accounts receivables | (3,562) | (7,135) |
| Accounts receivables - net | 241,519 | 234,339 |
| Accrued revenues | 235,781 | 172,493 |
| Other short-term receivables | 44,010 | 39,798 |
| **Total** | **521,310** | **446,630** |

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 |
|---|---|---|---|---|---|---|---|
| 2014 | 241,519 | 173,369 | 31,685 | 16,024 | 3,880 | 5,208 | 11,353 |
| | Total | Not due | < 30 days | 30 - 60 days | 60 - 90 days | 90 - 120 days | Over 120 days |
| 2013 | 234,339 | 184,879 | 15,290 | 4,536 | 3,276 | 1,811 | 24,547 |

Provisions for accounts receivables are based on an individual assessment. Receivables with impairment provisions are all within the aging group "Over 120 days".

Movements on TGS' provision for impairment of accounts receivables are as follows:

| | 2014 | 2013 |
|---|---|---|
| At 1 January | 7,135 | 3,774 |
| Provision for receivables impairment | 3,000 | 3,387 |
| Receivables written off during the year as uncollectible | (3,829) | (26) |
| Amount collected | (2,744) | - |
| **At 31 December** | **3,562** | **7,135** |

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 Payables and Other Payables

| | 2014 | 2013 |
|---|---|---|
| Accounts payable and debt to partners | 163,282 | 160,795 |
| Other current liabilities | 130,538 | 100,081 |
| **Total accounts payable and other payables** | **293,820** | **260,876** |

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

### 3 Year Term Secured Revolving Credit Facility:

In December 2014, TGS entered into a credit facility with a limit of USD 50.0 million. The terms are Libor + 1.75% per annum for any outstanding borrowings. For unused commitments, TGS will pay a facility fee of 0.20% per annum. TGS has the right to prepay any borrowing with 3 day notice to lender. Per 31 December 2014 TGS had not drawn on the facility. Prior to entering into the new facility, TGS had a multi-currency bank overdraft facility in the amount of USD 10.0 million. This facility was terminated in connection with the new facility. No amounts were outstanding at the end of 2013.

The facility is secured by a lien on the assets of TGS-NOPEC Geophysical Company (US), A2D Technologies and Volant Solution Inc. and is guaranteed by TGS-NOPEC Geophysical Company ASA and certain wholly owned subsidiaries.

### Demand Revolving Credit Facility (Canada):

The Revolving Credit Facility (Canada) has a limit of CAD 2.0 million. The facility can be drawn through CAD direct advances at Canadian Prime, or USD direct advances at USD direct advances at US Base Rate, CAD Bankers Acceptances and Letter of Credit. The terms are CAD Prime and US Base Rate + 0.75% per annum on drawn amounts. For CAD Bankers Acceptances and Letters of Credit, the terms are at CAD Prime +2.00% per annum on drawn amounts. Per 31 December 2014, TGS had drawn USD 0.1 million on the facility (2013: USD 0.2 million).

The facility is secured by a general security agreement over all of Arcis Seismic Solutions Corp.'s assets which totalled USD 132.7 million at 31 December 2014.

### Bank Guarantees

Per 31 December 2014, three bank guarantees have been issued on behalf of TGS of USD 2.9 million related to seismic programs.

## 19. Commitments and Contingencies

### Operating Leases - Group as Lessee

TGS has entered into commitments for five 3D seismic acquisition vessels, five 2D seismic acquisition vessels, three source vessels, two node crews and one electromagnetic crew. All these commitments will expire in 2015, and the amounts committed total USD 240 million (2013: USD 134 million) for the year 2015. In addition, TGS has made commitments for four land crews related to three land seismic projects. These commitments total USD 43.6 million (2013: USD 9.9 million), and the commitments will expire in 2015.

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

Operating leases of USD 10.7 million were recognized as expenses in 2014 (2013: USD 9.0 million).

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

| | 2014 | 2013 |
|---|---|---|
| Within one year | 19,185 | 18,063 |
| After one year but not more than five years | 36,184 | 45,790 |
| More than five years | 31,168 | 29,088 |
| | **86,537** | **92,941** |

## 20. Events After the Balance Sheet Date

### Operating Leases - Group as Lessee

On 3 March 2015, TGS signed an agreement to participate in the restructuring of SeaBird Exploration. SeaBird issued a USD 5.0 million 3-year secured bond carrying a 12% interest p.a. primarily secured by certain multi-client data assets of the SeaBird Group.

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 2014 that would impact the financial statements as presented for 2014.

## 21. Contingent Liabilities

Brenham Oil filed against TGS, among others, for tortious 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 claimed damages which TGS' damages evaluation expert has determined to be unrealistic and based upon false assumptions and improper modeling. The court has dismissed the case on the grounds of forum non-conveniens. Brenham is appealing the motion to the Texas Court of Appeals. A decision from the appellate court is expected in 2015. If the appellate court overturns the ruling, the parties will proceed to trial. If the appellate court upholds the ruling, it is possible the Brenham will seek to appeal the decision to the Texas Supreme Court.

TGS is vigorously defending the claim. No provision is recognized related to Brenham Oil's claim as the company believes the claims are not probable and any possible damages cannot be estimated.

See also note 14 for a description of the Økokrim investigation.

## 22. Gross and Net Revenues

TGS shares certain multi-client revenue with other companies (joint operations – see note 15) and the government in certain countries. Operating revenue is presented net of portion shared. The table below provides the breakdown of gross revenue for 2013 and 2014.

| | 2014 | 2013 |
|---|---|---|
| Gross revenues from sales | 1,128,371 | 1,114,470 |
| Revenue sharing | (213,586) | (231,026) |
| **Net revenues** | **914,785** | **883,444** |

Revenue sharing does also include amounts not considered to be classified as joint operations as reported in Note 15.

# 23. Financial Items

| | 2014 | 2013 |
|---|---|---|
| Interest income | 5,728 | 6,758 |
| Exchange gains | 1,838 | 147 |
| Gain on financial investments available for sale | 1,511 | - |
| Other financial income | 100 | 653 |
| Total financial income | 9,177 | 7,558 |
| Interest expense | (777) | (3,342) |
| Exchange loss | (14,219) | (9,419) |
| Other financial expenses | (370) | (313) |
| Total financial expenses | (15,366) | (13,074) |
| **Net financial items** | **(6,189)** | **(5,516)** |

# 24. Tax Expense and Deferred Tax

| | 2014 | 2013 |
|---|---|---|
| **Profit before taxes** | | |
| Norway | 167,154 | 270,200 |
| Outside Norway | 121,173 | 111,260 |
| Total profit before taxes | 288,327 | 381,460 |
| **Current taxes** | | |
| Norway | 79,424 | 110,085 |
| Outside Norway | 51,328 | 31,818 |
| Total current taxes | 130,752 | 141,903 |
| **Changes in deferred taxes** | | |
| Norway | (42,141) | (30,651) |
| Outside Norway | (16,358) | 1,102 |
| Total changes in deferred taxes | (58,499) | (29,549) |
| **Income tax expense reported in the income statement** | **72,253** | **112,354** |

| Tax expense related to other comprehensive income | 2014 | 2013 |
|---|---|---|
| Items related to deferred tax: | | |
| Unrealized gain/loss on available for sale financial assets | 177 | (62) |
| Exchange differences on translation of foreign operations | - | - |
| Tax expense - other comprehensive income | 177 | (62) |

| | 2014 | 2013 |
|---|---|---|
| Profit before taxes: | 288,327 | 381,460 |
| Expected income taxes according to corporate income tax rate in Norway (27% in 2014, 28% in 2013) | 77,850 | 106,811 |
| Tax rates outside Norway different from 27% (28%) | 14,821 | 6,319 |
| Adjustment in respect of current income tax of previous year | 81 | (1,030) |
| Deferred tax asset related to stock options | 397 | 906 |
| Change in deferred tax asset not recognized | 2,453 | - |
| Non-taxable income | (3,302) | (2,271) |
| Tax effect on exchange gain/(loss) on dividend | (805) | 1,929 |
| Non-deductible expenses | 6,485 | 4,686 |
| Currency effects | (25,727) | (4,996) |
| **Income tax expense** | **72,253** | **112,354** |
| **Effective tax rate in %** | 25% | 29% |

## Comments on Selected Line Items in the Preceding Table

### *Tax Rates different from the Norwegian tax rate*

The tax rates for subsidiaries outside Norway are on average higher than the Norwegian 27% tax rate (28% in 2013). The most significant effects relate to the US subsidiaries, which have a tax rate of 35%.

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

In some tax jurisdictions, TGS receives a tax deduction in respect of remuneration in the form of stock options. TGS 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 TGS is recognized directly to equity.

### *Tax Effect on Exchange Gain/(Loss) on Dividend*

The Parent Company recognized an exchange loss/gain related to the dividend accrual due to financial statements reported in accordance with general accepted accounting practices in Norway. The exchange loss/gain is deductible/taxable for the Parent Company, but the exchange loss/gain 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.

TGS has unused tax losses and deductible temporary differences of USD 18.4 million (2013: 0 million) where no deferred tax asset is recognized in the balance sheet, all outside Norway.

*Currency Effects*

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 Carry-Forwards as of 31 December

| | 2014 | 2013 |
|---|---|---|
| **Differences that give raise to a deferred asset or a deferred tax liability:** | | |
| Multi-client library/well logs | 5,867 | 33,446 |
| Fixed assets | (21,474) | (23,987) |
| Revenues on WIP seismic projects | (35,402) | (108,878) |
| Goodwill and intangibles | (757) | (4,628) |
| Accruals | 5,793 | 5,795 |
| Accounts receivable | 10,388 | 8,771 |
| Tax losses carried forward | 16,662 | 9,668 |
| Deferred revenue | (3,574) | (34) |
| Stock options | 645 | 1,043 |
| Financial instruments | 947 | 352 |
| Other | 144 | 42 |
| **Total net deferred tax liability** | **(20,760)** | **(78,407)** |
| Of which: | | |
| **Deferred tax asset** | **7,992** | **6,645** |
| **Deferred tax liability** | **28,752** | **85,052** |

| Change in net deferred tax liability | 2014 | 2013 |
|---|---|---|
| As of 1 January | 78,407 | 95,583 |
| Recognized in profit or loss | (58,499) | (29,549) |
| Taxes on "correction income" paid for 2010 [1] | - | 11,232 |
| Taxes charged to equity | - | - |
| Currency effects | 852 | 1,141 |
| **As of 31 December** | **20,760** | **78,407** |

[1] 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 were abolished with effect from 2012 and were applied for the last time on regular dividend distributions related to the 2011 financial statements that were approved at the Annual General Meeting in June 2012. From the income year 2012, companies could start reversing previously paid correction taxes. Per 31 December 2013, TGS had reversed all previously paid correction taxes.

## Tax Treatment of Multi-Client Projects

TGS reached a settlement with the Norwegian Tax Authorities in 2014, which implies that taxable revenue recognition and depreciation of multi-client projects should not commence until the final product is ready for delivery to a client. Further, the multi-client projects' depreciation rates for tax purposes will follow the depreciation profile in the financial statements. The settlement does not have any impact on the tax expenses except for foreign gains/losses resulting from calculating taxes in NOK and translating them into USD. As part of the settlement, it was agreed that both parties carried their own legal expenses.

# 25. Subsidiaries

## TGS 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 | Dormant | 100% | 100% |
| TGS AP Investments AS | Norway | Invests in multi-client seismic data | 100% | 100% |
| Maglight AS | Norway | Developed new acquisition methods for aeromagnetic data | 100% | 100% |
| TGS Contracting AS | Norway | Contracting of services for acquistion of seimsic and geophysical data | 100% | 100% |
| Magsurvey, Ltd. | UK | Dormant | 100% | 100% |
| TGS-NOPEC Geophysical Company | USA | 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 | USA | Digitizing and marketing well log data and providing related services | 100% | 100% |
| Parallel Data Systems, Inc. | USA | Seismic data processing services | 100% | 100% |
| TGS do Brasil Ltda | Brasil | Invests in multi-client seismic data | 100% | 100% |
| Calibre Seismic Company | USA | Invests in multi-client seismic data | 50% | 50% |
| TGS-NOPEC Geophysical Company , Ltd. | UK | Dormant | 100% | 100% |
| TGS Geophysical Investments, Ltd. | UK | Invests in multi-client seismic data | 100% | 100% |
| Aceca, Ltd. | UK | Dormant | 100% | 100% |
| TGS Geophysical Company (UK) Ltd | UK | Holds license to commercialize fibre-optic sensing technology for permanent reservoir monitoring, provides seismic data processing and interpretive products and acts as broker for multi-client projects owned by the Parent Company | 100% | 100% |
| Aceca Norge AS | Norway | Seismic data interpretive products and subsurface consulting services | 100% | 100% |
| TGS-NOPEC Geophysical Company PTY, Ltd. | Australia | 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% |
| TGS-NOPEC Geophysical Company PTE, Ltd. | Singapore | Brokerage services for multi-client projects owned by other TGS companies | 100% | 100% |
| Arcis Seismic Solutions Corp. | Canada | Invests in multi-client seismic data and provides seismic data processing | 100% | 100% |
| TGS Canada Ltd. | Canada | Invests in multi-client seismic data | 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 | Dormant | 100% | 100% |
| Rimnio Shipping, | Cyprus | Dormant | 100% | 100% |

# PARENT COMPANY FINANCIALS

Our mission is to provide immense value to our clients. We do not sell them products. We help them solve challenges and make informed decisions. This builds trust, which we believe has more business value than anything else. Every move our clients make has enormous financial and strategic implications. Giving them insight to succeed ensures our own success as well.

# Income Statement

All amounts in USD 1,000s

| | Note | 2014 | 2013 |
|---|---|---|---|
| Net revenues | 17 | 567,967 | 665,781 |
| **Net revenues** | | **567,967** | **665,781** |
| Cost of goods sold - proprietary and other | | 572 | 336 |
| Amortization of the multi-client library | 3 | 238,610 | 271,537 |
| Personnel costs | 4 | 12,046 | 12,238 |
| Cost of stock options | 4 | 821 | 758 |
| Other operating expenses | 13, 18 | 85,265 | 97,809 |
| Depreciation, amortization and impairment | 2, 3 | 688 | 542 |
| **Total operating expenses** | | **338,002** | **383,220** |
| **Operating profit** | | **229,965** | **282,560** |
| Interest income | 15 | 2,772 | 3,497 |
| Financial Income | 15 | 124 | 147 |
| Exchange gains/losses | 15 | (15,664) | (695) |
| Interest expenses | 15 | (1,584) | (4,001) |
| Financial expenses | 15 | (23,376) | (23) |
| **Net financial items** | | **(37,728)** | **(1,075)** |
| **Profit before taxes** | | **192,238** | **281,485** |
| Tax expense | 16 | 34,653 | 74,059 |
| **Net income** | | **157,585** | **207,426** |
| Profit for the year is proposed allocated as follows: | | | |
| Dividends | 6 | 115,634 | 142,659 |
| To other equity | 6 | 41,951 | 64,767 |
| **Total allocated** | | **157,585** | **207,426** |

# Balance Sheet

As of 31 December. All amounts in USD 1,000s

| | Note | 2014 | 2013 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| **Intangible non-current assets** | | | |
| Multi-client library | 3,12 | 620,769 | 562,021 |
| Other intangible assets | 3 | - | - |
| **Total intangible non-current assets** | | **620,769** | **562,021** |
| **Tangible non-current assets** | | | |
| Machinery and equipment | 2, 12 | 2,493 | 2,399 |
| **Total tangible non-current assets** | | **2,493** | **2,399** |
| **Financial non-current assets** | | | |
| Investments in subsidiaries | 7, 21 | 96,108 | 117,485 |
| Other non-current assets | 19 | 43,773 | 55,121 |
| **Total financial non-current assets** | | **139,880** | **172,605** |
| **Total non-current assets** | | **763,143** | **737,025** |
| **Current assets** | | | |
| **Receivables** | | | |
| Accounts receivable | 9 | 350,631 | 351,805 |
| Current receivables group companies | 10 | 41,937 | 32,524 |
| Other receivables | 9 | 32,784 | 24,278 |
| **Total receivables** | | **425,352** | **408,606** |
| Cash and cash equivalents | 8 | 100,216 | 149,153 |
| **Total current assets** | | **525,569** | **557,759** |
| **Total assets** | | **1,288,711** | **1,294,784** |

# Balance Sheet

As of 31 December. All amounts in USD 1,000s

| | Note | 2014 | 2013 |
|---|---|---|---|
| **Equity and Liabilities** | | | |
| **Equity** | | | |
| **Paid-in capital** | | | |
| Share capital | 5, 6 | 3,702 | 3,716 |
| Treasury shares held | 5, 6 | (75) | (61) |
| Share premium | 6 | 58,107 | 57,206 |
| Other paid-in capital | 6 | 5,145 | 4,324 |
| **Total paid-in capital** | | **66,878** | **65,184** |
| **Retained earnings** | | | |
| Other equity | 6 | 290,015 | 269,270 |
| **Total retained earnings** | | **290,015** | **269,270** |
| **Total equity** | | **356,893** | **334,454** |
| **Liabilities** | | | |
| **Non-current liabilities** | | | |
| Other non-current liabilities | 19 | 4,965 | 16,698 |
| Deferred tax | 16 | 5,126 | 44,171 |
| **Total non-current liabilities** | | **10,091** | **60,869** |
| **Current liabilities** | | | |
| Accounts payable and debt to partners | | 116,341 | 136,987 |
| Current liabilities group companies | 10 | 564,908 | 503,069 |
| Taxes payable | 16 | 73,487 | 72,149 |
| Social security, VAT and other duties | | 1,060 | 957 |
| Provisions for dividends | 6 | 115,634 | 142,659 |
| Other current liabilities | 11 | 50,298 | 43,641 |
| **Total current liabilities** | | **921,727** | **899,461** |
| **Total liabilities** | | **931,818** | **960,330** |
| **Total equity and liabilities** | | **1,288,711** | **1,294,784** |

24 March 2015

Henry H. Hamilton III
Chairman

Mark S. Leonard
Director

Colette Lewiner
Director

Bengt Lie Hansen
Director

Elisabeth Harstad
Director

Vicki Messer
Director

Tor Magne Lønnum
Director

Robert Hobbs
CEO

# Cash Flow

All amounts in USD 1,000s

| | Note | 2014 | 2013 |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| Received payments from customers | | 616,213 | 703,707 |
| Payments for salaries, pensions, social security tax | | (10,935) | (10,950) |
| Other operational costs | | (86,031) | (101,396) |
| Paid taxes | | (76,117) | (98,645) |
| **Net cash flow from operating activities [1]** | | **443,129** | **492,717** |
| **Cash flow from investing activities** | | | |
| Received payments from sale of tangible assets | 2 | - | 123 |
| Investment in tangible assets | 2 | (782) | (1,031) |
| Investments in multi-client library | 3 | (315,508) | (353,570) |
| Investments in subsidiaries | 7 | (1,400) | (18) |
| Interest received | 15 | 2,772 | 3,497 |
| **Net cash flow from investing activities** | | **(314,918)** | **(350,998)** |
| **Cash flow from financing activities** | | | |
| Interest paid | 15 | (1,584) | (4,001) |
| Dividend payments | 6 | (144,786) | (142,164) |
| Purchase of treasury shares | 6 | (23,999) | (4,958) |
| Proceeds from share offerings | 6 | 2,918 | 2,556 |
| **Net cash flow from financing activities** | | **(167,451)** | **(148,567)** |
| Net change in cash and cash equivalents | | **(39,239)** | **(6,849)** |
| Cash and cash equivalents at the beginning of the period | 8 | 149,153 | 155,461 |
| Exchange rate effects | | (9,697) | 540 |
| **Cash and cash equivalents at the end of the period** | | **100,216** | **149,153** |
| **1) Reconciliation** | | | |
| Profit before taxes | 16 | 192,238 | 281,485 |
| Depreciation/amortization/impairment | 2, 3 | 239,298 | 272,079 |
| Impairment shares in subsidiaries and receivables | 7, 10 | 28,873 | 3,388 |
| Gain/(loss) on disposal | | - | (123) |
| Unrealized currency gain/(loss) | | 5,967 | (1,235) |
| Changes in accounts receivables and accrued revenue | | 2,167 | (102,432) |
| Changes in other receivables | | 7,009 | (4,967) |
| Changes in other balance sheet items | | 43,694 | 143,167 |
| Paid taxes | | (76,117) | (98,645) |
| **Net cash flow from operating activities** | | **443,129** | **492,717** |

# 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.

The Company's financial statements were authorized by the Board of Directors on 24 March 2015.

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.

#### *Multi-client Library Amortization and Impairment*

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 and gas exploration and production 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. The future sales forecasts are also the basis for the impairment evaluations. The revenue estimates are evaluated regularly and changes in amortization rate and impairments are recognized in the period they occur. Due to the oil price decrease experienced during 2014, TGS put additional focus on the sales forecasting to make sure that the updated expectations were properly reflected in impairment evaluations.

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

#### *Provision for Impairment of Accounts Receivables*

The Company has made provisions for impairment 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 stock appreciation rights 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.

*Revenue Recognition*

The Company recognizes revenues from multi-client surveys in progress 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. Any unearned components of the payments received from customers are deferred where the revenue recognition criteria have not been met.

For a detailed descriptions of the accounting policies for revenue recognition see Summary of Significant Accounting Policies below.

## 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)*

Revenue from projects 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 commencement of acquisition for each project are recognized on 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 progress and presented as POC 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*

TGS shares certain multi-client revenues with other companies and governments. Revenues are recognized as described elsewhere and 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 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 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 quarterly. 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 an 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 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 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 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.

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 Stock Appreciation Rights (SARs) and Restricted Stock Units (RSUs).

The cost of equity-settled transactions with employees (stock options) 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.

SARs and RSUs are cash settled share-based payments. The fair value of the SARs and 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 SARs and 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 direct method.

# 2. Tangible Non-Current Assets

## 2014

| Acquisition cost and depreciation: | Machinery and Equipment |
|---|---|
| **Cost as of 1 January 2014** | **3,755** |
| Additions | 782 |
| Disposals [1] | (6) |
| **Cost as of 31 December 2014** | **4,531** |
| **Accumulated depreciation as of 1 January 2014** | **1,356** |
| Depreciation for the year | 688 |
| Accumulated depreciation on disposals [1] | (6) |
| **Accumulated depreciation as of 31 December 2014** | **2,038** |
| **Net book value as of 31 December 2014** | **2,493** |

| | |
|---|---|
| Straight-line depreciation percentage | 14% - 33.3% |
| Useful life | 3 - 7 years |

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

## 2013

| Acquisition cost and depreciation: | Machinery and Equipment |
|---|---|
| **Cost as of 1 January 2013** | **12,230** |
| Additions | 1,031 |
| Disposals [1] | (9,505) |
| **Cost as of 31 December 2013** | **3,755** |
| **Accumulated depreciation as of 1 January 2013** | **10,320** |
| Depreciation for the year | 542 |
| Accumulated depreciation on disposals [1] | (9,505) |
| **Accumulated depreciation as of 31 December 2013** | **1,356** |
| **Net book value as of 31 December 2013** | **2,399** |

| | |
|---|---|
| Straight-line depreciation percentage | 14% - 33.3% |
| Useful life | 3 - 7 years |

[1] Profit on disposals during the year was USD 123.

# 3. Intangible Non-Current Assets

## 2014

| Acquisition cost and depreciation: | Goodwill | Multi-client Library [1] | Other Intangible Assets | Total |
|---|---|---|---|---|
| **Cost as of 1 January 2014** | **3,073** | **2,376,855** | - | **2,379,928** |
| Additions | - | 297,358 | - | 297,358 |
| Disposals | - | - | - | - |
| **Cost as of 31 December 2014** | **3,073** | **2,674,213** | - | **2,677,287** |
| **Accumulated amortization as of 1 January 2014** | **3,073** | **1,814,834** | - | **1,817,908** |
| Amortization for the year | - | 238,610 | - | 238,610 |
| Accumulated amortization on disposals | - | - | - | - |
| **Accumulated amortization as of 31 December 2014** | **3,073** | **2,053,444** | - | **2,056,518** |
| **Net book value as of 31 December 2014** | **-** | **620,769** | - | **620,769** |
| Straight-line amortization percentage | 10% | | | |
| Useful life | 10 years [2] | max 5 years | | |

[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.

## 2013

| Acquisition cost and depreciation: | Goodwill | Multi-client Library [1] | Other Intangible Assets | Total |
|---|---|---|---|---|
| **Cost as of 1 January 2013** | **3,073** | **2,011,972** | **4,280** | **2,019,325** |
| Additions | - | 364,883 | - | 364,883 |
| Disposals | - | - | (4,280) | (4,280) |
| **Cost as of 31 December 2013** | **3,073** | **2,376,855** | - | **2,379,928** |
| **Accumulated amortization as of 1 January 2013** | **3,073** | **1,543,297** | **4,280** | **1,550,650** |
| Amortization for the year | - | 271,537 | - | 271,537 |
| Depreciation for the year | - | - | - | - |
| Accumulated amortization on disposals | - | - | (4,280) | (4,280) |
| Capitalized to the multi-client library | - | - | - | - |
| **Accumulated amortization as of 31 December 2013** | **3,073** | **1,814,834** | **-** | **1,817,908** |
| **Net book value as of 31 December 2013** | **-** | **562,021** | **-** | **562,021** |
| Straight-line amortization percentage | 10% | | | |
| Useful life | 10 years [2] | max 5 years | | |

[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.

For the year ended 31 December 2014, USD 38.2 million of impairment of the multi-client library is included in the amortization for the year (2013: USD 45.5 million)

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

| | 2014 | 2013 |
|---|---|---|
| Payroll | 10,054 | 10,110 |
| Social security costs | 1,432 | 1,539 |
| Pension costs | 394 | 392 |
| Other employee related costs | 166 | 197 |
| Salaries capitalized | - | - |
| **Personnel costs** | **12,046** | **12,238** |
| Cost of stock options | 821 | 758 |
| **Payroll and cost of stock options** | **12,867** | **12,996** |
| Number of employees at 31 December | 50 | 51 |
| Average number of employees | 52 | 51 |

As of 31 December 2014, the Company had 50 employees: 29 male employees and 21 female employees.

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

| Auditor Fees | 2014 | 2013 |
|---|---|---|
| Statutory audit | 203 | 294 |
| Other attestation services | 9 | 10 |
| Tax advisory services | 0 | 42 |
| Other services outside the audit scope | 2 | 0 |
| **Total fees** | **213** | **346** |

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 2014 was NOK 25,796,072 consisting of 103,184,288 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 | Other Reserves | Retained Earnings | Total Equity |
|---|---|---|---|---|---|---|
| **Balance 1 January 2014** | **3,716** | **(61)** | **57,206** | **4,324** | **269,270** | **334,454** |
| Capital increase during 2014 | 3 | - | 901 | - | - | 904 |
| Purchase of treasury shares | - | (35) | - | - | (23,963) | (23,999) |
| Treasury shares distributed | - | 5 | - | - | 2,009 | 2,014 |
| Treasury shares cancelled | (17) | 17 | - | - | - | - |
| Cost of stock options | - | - | - | 821 | - | 821 |
| Variance of provisions for dividends and paid dividends | - | - | - | - | 748 | 748 |
| Provisions for dividends (NOK 8.50 per share) | - | - | - | - | (115,634) | (115,634) |
| Profit for the year | - | - | - | - | 157,585 | 157,585 |
| **Balance 31 December 2014** | **3,702** | **(75)** | **58,107** | **5,145** | **290,015** | **356,893** |
| | | | | | | |
| **Balance 1 January 2013** | **3,712** | **(57)** | **56,008** | **3,566** | **208,264** | **271,493** |
| Capital increase during 2013 | 4 | - | 1,198 | - | - | 1,202 |
| Purchase of treasury shares | - | (8) | - | - | (4,951) | (4,958) |
| Treasury shares distributed | - | 3 | - | - | 1,351 | 1,354 |
| Treasury shares cancelled | - | - | - | - | - | - |
| Cost of stock options | - | - | - | 758 | - | 758 |
| Variance of provisions for dividends and paid dividends | - | - | - | - | (161) | (161) |
| Provisions for dividends (NOK 8.50 per share) | - | - | - | - | (142,659) | (142,659) |
| Profit for the year | - | - | - | - | 207,426 | 207,426 |
| **Balance 31 December 2013** | **3,716** | **(61)** | **57,206** | **4,324** | **269,270** | **334,454** |

## 7. Investments in Subsidiaries

As of 31 December 2014, 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) | NOK100 | 100,000 | NOK 1 | 180 | 100% |
| TGS AP Investments AS (Asker, Norway) | NOK 100 | 1,000 | NOK 100 | 5,000 | 100% |
| Marine Exploration Partners AS (Asker, Norway) | NOK 800 | 800,000 | NOK 1 | - | 100% |
| TGS Contracting AS (Asker, Norway) | NOK 100 | 1,000 | NOK 100 | 147 | 100% |
| TGS-NOPEC Geophysical Company (Houston, U.S.A.) | 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% |
| TGS Geological Products and Services Ltd. (Surbiton, UK) | GBP 50,762 | 507,620 | GBP 0,1 | 14,023 | 100% |
| TGS Geophysical Company (UK) Ltd. (Surrey, UK) | GBP 166,035 | 16,603,534 | GBP 0,01 | - | 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 3.295.500 | 1,000 | BRL 1 | 1,848 | 90% |
| Arcis Seismic Solutions Corp. (Calgary, Canada) | CAD 73,945 | 100,000 | CAD 73.9 | 72,471 | 100% |
| 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 | - | 100% |
| Riminio Shipping Ltd. (Limassol, Cyprus) | CYP 1 | 1,000 | CYP 1 | - | 100% |
| Balance sheet value | | | | 96,108 | |

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

In 2014 the shares in TGS Geophysical Company (UK) Ltd have been impaired by USD 20.0 million and TGS AP Investments by USD 2.7 million.

## 8. Restrictions on Bank Accounts

As of 31 December 2014, USD 0.5 million of cash and cash equivalents are restricted to meet the liability arising from payroll taxes withheld. (2013: USD 0.6 million).

## 9. Accounts Receivable and Other Receivables

Accounts receivable, included accrued revenues, is stated in the balance sheet at net realizable value and totaled USD 350.6 million as of 31 December 2014 (2013: USD 351.8 million). The Company has made a bad debt provision of USD 3.5 million in 2014 (2013: USD 3.3 million). The Company expects to collect the stated balance of receivables as of 31 December 2014. Realized losses on trade receivables in 2014 amounted to USD 3.7 million (2013: USD 0). Prepayments to suppliers and other short-term receivables totaled USD 32.8 million as of 31 December 2014 (2013: USD 24.3 million).

# 10. Current Receivables and Liabilities Group Companies

| | 2014 | | 2013 | |
|---|---|---|---|---|
| Company | Receivables | Liabilities | Receivables | Liabilities |
| Maglight AS | - | 35 | - | 34 |
| Marine Exploration Partners AS | - | - | - | - |
| TGS AP Investments AS | - | 754 | - | 3,132 |
| Aceca Norge AS | - | 2,830 | - | 3,661 |
| TGS-NOPEC Geophysical Company | - | 545,005 | - | 348,274 |
| A2D Technologies Inc. | - | - | - | 272 |
| TGS Geophysical Company (UK) Ltd. | - | 14,516 | - | 26,162 |
| TGS-NOPEC Geophysical Company PTY Ltd | 19,943 | - | 27,829 | - |
| Arcis Seismic Solutions Corp. | 6,332 | 1,768 | 4,687 | - |
| TGS do Brasil Ltda. | 15,661 | - | 7 | - |
| MxP Marine Seismic Services Ltd | - | - | - | - |
| **Total** | **41,937** | **564,908** | **32,524** | **381,536** |

The Company has entered into an intercompany credit revolving facility with TGS NOPEC Geophysical Company 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 short-term liability. The interest is equal to the monthly short-term Applicable US Federal Rate.

Realized losses on intercompany receivables in 2014 amounted to USD 0 (2013: USD 0).

# 11. Other Current Liabilities

| | 2014 | 2013 |
|---|---|---|
| Deferred revenues | 19,028 | 14,774 |
| Accrued project costs | 26,273 | 25,715 |
| Other accrued expenses | 4,996 | 3,152 |
| **Total other current liabilities** | **50,298** | **43,641** |

# 12. Interest-Bearing Loans and Borrowings

**Bank Guarantees**

As of 31 December 2014, 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 also, together with other TGS companies, guaranteed for a three year term secured revolving credit facility of USD 50.0 million entered into in December 2014 by one the subsidiaries.

# 13. Commitments and Contingencies

### Operating leases - Company as lessee

The Company has entered into commitments for five 3D seismic acquisition vessels, five 2D seismic acquisition vessel, three source vessels, two node crews and one electromagnetic crew. All these commitments will expire in 2015, and the amounts committed total USD 165 million for the year 2015. In addition the Company has made commitments for four land crews related to three land seismic projects in the US. These commitments total to USD 41.7 million, and the commitments will expire in 2015.

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 USD 0.6 million for the year ended 31 December 2014.

Future minimum payments for operating leases as of 31 December 2014 are as follows:

| | 2014 | 2013 |
|---|---|---|
| Within one year | 500 | 610 |
| After one year but not more than five years | 2,033 | 2,537 |
| More than five years | 1,017 | 2,430 |
| **Total other current liabilities** | **3,549** | **5,576** |

The Company does not have any financial leases.

# 14. Related Parties

No material transactions took place during 2014 with related parties, other than operating business transactions between the companies in the TGS. 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:

| | 2014 | 2013 |
|---|---|---|
| Data processing costs | 52,927 | 38,948 |
| Brokerage fees | 49,783 | 66,182 |
| Management fees | 13,740 | 19,016 |

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: | 2014 | 2013 |
|---|---|---|
| Interest income | 2,382 | 3,090 |
| Interest income subsidiaries | 390 | 407 |
| Exhange gain | 3,706 | 10,259 |
| Other financial income | 124 | 147 |
| Total financial income | **6,602** | **13,902** |
| Interest expense | (203) | (3,097) |
| Interest expense subsidiaries | (1,381) | (905) |
| Exchange loss | (19,370) | (10,954) |
| Other financial expenses | (23,375) | (23) |
| Total financial expense | **(44,330)** | **(14,978)** |
| Net financial items | **(37,728)** | **(1,075)** |

# 16. Tax Expense

| Current tax: | 2014 | 2013 |
|---|---|---|
| Profit before taxes | 192,238 | 281,485 |
| Permanent differences [1] | 23,548 | 3,926 |
| Changes in temporary differences | 144,608 | 124,774 |
| Group contribution | - | - |
| Currency exchange effects on base for current tax | (88,219) | (22,214) |
| **Basis for current tax** | **272,174** | **387,971** |
| **Total tax expense for the year:** | | |
| Deferred tax - changes | (39,044) | (36,573) |
| Taxes payable | 73,485 | 110,672 |
| Tax effect group contribution | - | - |
| Tax outside Norway | 212 | (40) |
| **Total tax expense for the year** | **34,653** | **74,059** |
| **Effective average tax rate** | **18%** | **26%** |

| **Taxes payable** | **2014** | **2013** |
|---|---|---|
| Taxes payable on current year profit | 73,487 | 68,062 |
| Withholding tax payable due to Norwegian Tax Authorities' resolution | - | 4,087 |
| **Total taxes payable** | **73,487** | **72,149** |

**Specification of basis for deferred taxes:**

| **Offsetting differences:** | **2014** | **2013** |
|---|---|---|
| Non-current assets and liabilities | 82,383 | 363,783 |
| Intangible non-current assets | (63,396) | (200,188) |
| **Total** | **18,987** | **163,595** |
| Deferred tax liability | 5,126 | 44,171 |

| **Explanation of total tax expense versus nominal taxrate on pre-tax profit:** | **2014** | **2013** |
|---|---|---|
| Tax calculated using nominal tax rate on pre-tax profit | 51,904 | 78,816 |
| Effect of permanent differences [1] | 6,358 | 1,099 |
| Effect tax outside Norway | 212 | (40) |
| Effect of change in tax rate [2] | - | (1,636) |
| Exchange gain/loss reported as tax expense | (23,821) | (4,180) |
| **Total tax expense recorded in income statement** | **34,653** | **74,059** |

[1] Permanent differences related to non-tax deductible items. In 2014 the main items relates to write-down of shares in subsidiaries of USD 22.8 million and cost of stock options USD 0.5 million.

[2] From income year 2014, the nominal tax rate on ordinary income was reduced to 27%. Basis for deferred taxes per 31 December 2013, was calculated with the new tax rate.

### Tax treatment of multi-client projects

TGS reached a settlement with the Norwegian Tax Authorities in 2014 which implies that taxable revenue recognition and depreciation of multi-client projects should not commence until the final product is ready for delivery to a client. Further, the multi-client projects' depreciation rates for tax purposes will follow the depreciation profile in the financial statements. The settlement does not have any impact on the tax expenses except for foreign gains/losses resulting from calculating taxes in NOK and translating them into USD. As part of the settlement, it was agreed that both parties carried their own legal expenses.

# 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 2013 and 2014.

| | 2014 | 2013 |
|---|---|---|
| Gross revenues from sales | 760,004 | 895,067 |
| Revenue sharing | (192,036) | (229,286) |
| **Net revenues** | **567,967** | **665,781** |

# 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. The Company does pay income taxes in Norway in NOK, and is consequently also 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. As of balance sheet date, the Company held current assets of USD 525.6 million, of which cash and cash equivalents represents USD 100.2 million, and current liabilities of USD 921.7 million, of which debt to subsidiaries represents USD 564.9 million. 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. As of 31 December 2014, the Company made a provision of USD 3.5 million against certain accounts receivables. 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 is due as per 31 December 2014.

### Interest-Bearing Loans to E&P Holding AS and Skeie Energy AS

During 2014, one of the two loans was 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, TGS has not recognized any interest revenue during 2014.

Based on the restructuring agreements signed on 23 December 2011, the Company reconsidered the fair value of the loans. As a result, the subsequent fair value assessments of TGS' net exposure to E&P Holding AS and Skeie Energy AS were USD 9.5 million at 31 December 2013. The fair value assessments of the loans to E&P Holding AS and Skeie Energy AS are based on estimated proceeds related to sale of assets with certain milestone payments owed by third party oil companies.

The negative oil price development in the second half of 2014 caused significant delays and uncertainties related to oil companies' plans for development and production. This impacted the timing and probability of realizing the proceeds related to the milestone payments. Due to the increased uncertainty, TGS reconsidered the fair value of the loans, and recognized an impairment of USD 9.5 million in 2014.

As of 31 December 2014, the interest bearing loans and the related revenue share agreements are recognized at USD 0 million.

### Økokrim Investigation

On 6 May 2014, Økokrim, the Norwegian National Authority for Investigation and Prosecution of Economic and Environmental Crime, presented a criminal charge against TGS for violations of the Norwegian Tax Assessment Act and the Norwegian Securities Trading Act related to a seismic license agreement entered into in 2009 with Skeie Energy AS, later known as E&P Holding AS (Skeie). The charge claims that TGS contributed to an unwarranted tax refund received by Skeie through the Norwegian Petroleum Tax Act, as a result of the license of seismic data to Skeie, which included a license 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. The payment for the transaction was made through a combination of a cash payment and two loans with a total value of gross USD 42.1 million (net to TGS of USD 29.4 million) that matured at year end 2010 which were restructured as discussed above. Due to Skeie's failed attempt to raise new capital, the loans were not repaid according to the agreement at the maturity date. TGS has actively pursued collection of the receivables from the period since default.

Since the charges were presented, Økokrim has conducted an investigation of the matter. The company has cooperated fully in the matter. At this stage of the investigation, it is impracticable to render an outcome; however TGS believes the charges against it by Økokrim are not supported by sufficient evidence and is proactively and vigorously developing its defense against the charges.

## 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 2014 that would impact the financial statements as presented for 2014.

## 21. Contingent Liabilities

Brenham Oil filed against TGS, among others, for tortious 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 claimed damages which TGS' damages evaluation expert has determined to be unrealistic and based upon false assumptions and improper modeling. The court has dismissed the case on the grounds of forum non-conveniens. Brenham is appealing the motion to the Texas Court of Appeals. A decision from the appellate court is expected in 2015. If the appellate court overturns the ruling, the parties will proceed to trial. If the appellate court upholds the ruling, it is possible the Brenham will seek to appeal the decision to the Texas Supreme Court.

TGS is vigorously defending the claim. No provision is recognized related to Brenham Oil's claim as the company believes the claims are not probable and any possible damages cannot be estimated.

See also Note 19 for a description of the Økokrim investigation.

Building a better working world

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Medlemmer av Den norske revisorforening

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 2014, 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 31 December 2014, the consolidated 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 financial statements of 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.





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 at 31 December 2014 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 at 31 December 2014 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 on the reports 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 Directors' report and in the reports on corporate governance and corporate social responsibility 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, 24 March 2015
ERNST & YOUNG AS

Nina Rafen
State Authorised Public Accountant (Norway)

# CORPORATE GOVERNANCE

# Report on Corporate Governance

## 1. Implementation and Reporting on Corporate Governance

TGS-NOPEC Geophysical Company ASA (TGS or the Company) 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 30 October 2014. The Code of Practice covers 15 topics. Further details of how TGS operates in accordance with each of these topics, including any deviations, is further explained in this Report on Corporate Governance. The Code of Practice may be found at www.nues.no. In accordance with the Norwegian Accounting Act section 3-3b, TGS is required to give an annual account of the principles and practices related to corporate governance in the Board of Directors' report or a document referred to in the Board's report. TGS refers to this document in the Board of Directors' Report included elsewhere in this Annual 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 at: www.tgs.com/about-tgs. TGS has also developed and implemented a compliance program that is managed by a full-time Board-appointed compliance officer. The compliance officer provides quarterly and annual reports to the Board.

TGS believes that corporate social responsibility is a fully compatible and integrated part of conducting business successfully. TGS' long-standing **Statement of Values** recognizes that the Company is responsible to a number of stakeholder groups, and describes the principles to which the Company adheres. A more detailed description of TGS' Corporate Social Responsibility Policy is included as a separate section in the Annual Report and on TGS' website: www.tgs.com.

### Code of Conduct

IIn 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 on an annual basis. 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 of compliance activities and objectives.

### 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 in this report provide 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 of the Company is in the provision, procurement and sale of seismic and geophysical data. The Company's Articles of Association are published in the Investor Relations Section on the TGS website at www.tgs.com. TGS' operations are described in the Board of Directors Report and the Annual Report for 2014 and on www.tgs.com.

TGS pursues a long-term strategy of generating value for its shareholders. The Company constantly strives to understand and exceed customer expectations in delivering a quality product on time. 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

As of 31 December 2014, total equity amounted to USD 1,339.2 million including a share capital of USD 3.7 million. This corresponds to an equity ratio of 76%, which the Board considers to be satisfactory. The adequacy of the Company's capital is monitored closely with respect to the Company's objectives, strategy and risk profile.

### Dividend Policy

Because of the highly cyclical nature of the oil services industry, TGS' Board of Directors remains confident that the Company's unique business model and strong balance sheet and 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 considers 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 ("AGM") held 3 June 2014 approved the Board of Directors' proposal to distribute a dividend for 2013 of NOK 8.5 per share. Following this approval, dividend payments totaling USD 144.8 million were made.

At its quarterly meeting on 4 February 2015, the Board of Directors decided to propose to the shareholders at the 6 May 2015 AGM a dividend of NOK 8.5 per share of outstanding common stock from the Company's 2014 earnings.

At its meeting on 24 March 2015 approving the annual accounts, the Board of Directors decided to propose 7 May 2015 as the ex-dividend date and 21 May 2015 as the dividend payment date.

The Company announced on 6 February 2014 a share buy-back program of USD 30 million. The shares are purchased from the open market and in accordance with the Safe Harbour provisions of the EU Commission Regulations for buy-back programs. The plan to repurchase stock started 7 February 2014 and the authorization expires at the AGM in 2015. As of 31 December 2014, TGS had purchased shares as part of this program for a total value of USD 24.6 million.

### Board Authorizations

The Board of Directors' authorizations to increase share capital are 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 AGM.

Following the AGM held on 3 June 2014, the Board received the following shareholder authorizations:

- To issue up to 10,355,322 new shares in the Company; and
- To acquire, on behalf of the Company, the Company's own shares for an aggregate par value of NOK 2,600,000, 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, and all shares have equal rights. The Company has only one class of shares and each share gives the right to one vote at the AGM. The Board of Directors emphasizes, 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 Treasury Shares

TGS' transactions in its own shares are carried out at market price. TGS, from time to time, buys back shares under authorizations given by the shareholders. The shares may be held in treasury, used as payment in merger and acquisition transactions, used in relation to the exercise of employees' stock options, or eventually cancelled. In 2014, the Company purchased 938,548 of its own shares in the market. The Company held 1,843,512 treasury shares on 31 December 2014. At the June 3 2014 Annual General Meeting, the shareholders voted to cancel 406,186 treasury shares.

There have been no share capital increases in the Company in recent years except for shares issued in connection with the Company's stock option program. Should the Board wish to propose that the 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 any of the Company's shareholders. None of the Board members represent companies that are significant customers or suppliers of TGS. There were no material transactions taking place with related parties in 2014, but any transaction with close associates is required 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 (under the Code of Conduct) to ensure that senior executives inform their manager and/or 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 are described in TGS' Articles of Association. Transactions in TGS' shares 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. Refer to Note 7 to the Consolidated Financial Statements for further information. Beyond this, there are no other limitations to trading of shares imposed by the Company, other than Insider Trading Rules applicable to employees and the directors.

## 6. General Meetings

The General Meeting is the Company's ultimate corporate body. The Board strives to ensure that general meetings are an effective forum for communication between shareholders and the Board. The Chairman of the Board of Directors and the Chief Executive Officer are both present at the General Meetings as well as the Company's auditor. The minutes of general meetings are made available for inspection by shareholders at the Company's office in Asker, Norway. These minutes are also made available on the Company's website shortly after the date of the general meeting.

The next Annual General Meeting (AGM) will be held on 6 May 2015. The notice calling the AGM and any Extraordinary General Meeting and all supporting documentation are made available on the Company's website (www.tgs.com) no later than three weeks in advance of the meeting. The notice and supporting documentation will also be mailed to any shareholders who request this service. The notice and supporting documentation include all the necessary information to allow shareholders to form a view on the matters to be considered. The Annual Report for 2014 is available on the Company's website.

In accordance with the Company's Articles of Association, the deadline for shareholders to notify the Company of their intention to attend the 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 General Meeting appoints a chairperson for the meeting, thereby ensuring that the General Meeting has an independent chairperson in accordance with the recommendations of the Norwegian Code of Practice of Corporate Governance.

The General Meeting is open for all shareholders, and any shareholder not in attendance can give proxy to vote on his/her behalf. Forms of Proxy are made available on the Company's website and are mailed to any shareholders who request this service, together with the notice of 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 General Meeting follow the agenda outlined in the call for the meeting. Shareholders who wish to raise a topic in the General Meeting 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 meeting is dispatched. The AGM cannot decide for a higher dividend than the Board of Directors has proposed for that year.

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 Board of Directors may also resolve that the shareholders may, within a limited time period prior to the shareholders' meeting, deliver their votes in writing, which shall include the use of electronic means. The right to vote in writing prior to the shareholders' meeting is conditioned upon that an adequately secure method to authenticate the sender exists. The Board of Directors may lay down guidelines for advance voting in writing. The notice to the shareholders' meeting shall provide information about whether the shareholders may vote in advance in writing, and about the guidelines that apply to such voting.

Shareholders are currently not allowed to participate in the General Meeting through the internet.

In accordance with the Norwegian Public Limited Liability Companies Act, the AGM is required to approve 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 an advisory vote shall be held at the AGM following the Board of Directors' guidelines for the determination of salary and other remuneration to senior managers. The AGM shall also deal with the report on corporate governance.

The last General Meeting was 3 June 2014 and the minutes are available on www.tgs.com.

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 recommended remuneration payable to the directors. The Annual General Meeting 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 members serve for a period of two years. The members of the Nomination Committee currently are Tor Himberg-Larsen (Chair), Jarle Sjo and Christina Stray, all independent of the Board of Directors and executive personnel. Sjo was elected for a two-year period at the Annual General Meeting on 3 June 2014, while Himberg-Larsen and Stray were elected for a two-year term at the Annual General Meeting on 4 June 2013.

The Company posts an invitation to shareholders at www.tgs.com prior to the Annual General Meeting every year to propose to the committee candidates as directors and members of the Nomination Committee.

As part of its work, the Nomination Committee meets at least annually with the Board of Directors and members of the executive management. Also, the committee consults relevant shareholders to ensure that its recommendations have their support.

The committee's recommendation provides a justification of how its recommendations take into account the interests of shareholders in general and the Company's requirements. The justification includes information on each candidate's competence, capacity and independence.

If the committee recommends the re-election of a member of the Board of Directors, the justification also provides information on how long the candidate has been a member of the Board of Directors and his or her record in respect of attendance at Board meetings. If the recommendation includes candidates for election to the Nomination Committee, it also includes relevant information on these candidates.

In accordance with Section 6 above, the Nomination Committee's recommendations and report are made available in accordance with the 21-day deadline for the notice calling a general meeting.

## 8. Board of Directors: Composition and Independence

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

The members of the Board of Directors are proposed by the Nomination Committee and elected by the AGM. The Chairman of the Board is also 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 Chief Executive Officer of the Company, 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. Prior to the merger between TGS and NOPEC International in 1998 that created TGS as a listed company, Mr. Hamilton was a significant shareholder in TGS. As of 31 December 2014, he holds approximately 1.3% of the Company's outstanding shares. Because he was formerly a member of the Company's executive personnel, Mr. Hamilton does not meet the independence criteria. Accordingly he 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 2009. He started his career as a Geophysicist with Shell Offshore (1981-1987) before he became employed by Schlumberger (1987-1995), where he ultimately held the position of VP and General Manager for all seismic product lines in North and South America.  Mr. Hamilton joined TGS as its CEO in 1995 and remained in the position following the 1998 merger with NOPEC International. He also serves on the Board of Odfjell Drilling. Mr. Hamilton was first elected as a director in 1998 and as Chairman in 2009.

Dr. Colette Lewiner, Director (Independent)

Born 1945. Dr. Lewiner is currently an independent consultant, advising the Capgemini chairman on energy matters. Previously she held the positions of Assistant Professor at Paris University, Executive Vice President at Electricité de France, Chairperson and CEO of SGN-Eurisys and Corporate Vice President & Global Leader of the Energy, Utilities and Chemical sector at Capgemini. Dr. Lewiner serves as a board member for Bouygues Group, Electricité de France, Eurotunnel, Nexans, and Crompton Greaves.  She was first elected as a director in 2006.

Elisabeth Harstad, Director (Independent)

Born 1957. Ms. Harstad is currently an Executive Director/Advisory of DNV GL Energy in the Netherlands, a subsidiary of Det Norske Veritas (DNV). She has held various positions within DNV since 1981, including Corporate Director for Research and Innovation from 2006-2011 and COO for the Oil and gas business area from 2002-2006. 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. He retired in 2007 from Shell Oil Company after 28 years of service. During his tenure at Shell, Mr. Leonard 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 from 1983 – 2006, 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 (1980–1983) and Head of Division at Norway's Ministry of Petroleum (1975–1980). Mr. Hansen serves as a board member of Odfjell Drilling. He was first elected as a director in 2010.

Vicki Messer, Director (Independent)

Born 1949. Mrs. Messer is currently 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.

Tor Magne Lønnum (Independent)

Born 1967, Mr. Lønnum is currently Group CFO in Tryg AS and Tryg Forsikring AS. Previously he held the positions of CFO in Skipper Electronics AS, Accountant in Samarbeidende Revisorer AS, Manager in KPMG, Group CFO and Group Director in Gjensidige NOR Insurance, Deputy CEO and Group CFO in Gjensidige Forsikring ASA.  Mr. Lønnum serves as a board member of Bakkafrost. He was first elected as a director in 2013.

## 9. The Work of the Board of Directors

The Board of Director'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 of the Board of Directors.

The Board of Directors currently consists of seven members, six of which are independent. (refer to section 8).

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 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 also sets specific objectives for the CEO on an annual basis.

The Board conducted a total of eleven meetings in 2014:  three physical meetings, three by videoconference and five by teleconference. All three physical meetings lasted two days. All directors attended all meetings.

**Board Committees**

The following committees, composed entirely of the Company's independent directors, are established by the Board to monitor and guide certain activities. Each committee operates under a defined charter that may be viewed at: www.tgs.com/about-tgs/policies/corporate-governance.

### Audit Committee

The Audit Committee is appointed by the Board, and its primary responsibility is to supervise the Company's internal controls over financial reporting and to ensure that the Company's external auditor is independent. Further the responsibility of the committee is to ensure that the annual accounts provide a fair picture of the financial results and financial condition of the Company 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 committee also provides oversight on corporate governance issues and the Company's compliance officer reports to the committee in this regard.

The Audit Committee conducted a total of six meetings in 2014. Tor Magne Lønnum was unable to attend one of the meetings. All other members of the committee attended all other meetings.

The members of the Audit Committee with effect from the 2014 AGM are:

- Bengt Lie Hansen, Chairman
- Colette Lewiner
- Tor Magne Lønnum

### Compensation Committee

The Compensation Committee reviews the compensation practices of TGS and its peer group and 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 Compensation Committee conducted a total of eight meetings in 2014 and all members attended all meetings.

The members of the Compensation Committee with effect from the 2014 AGM are:

- Mark Leonard, Chairman
- Elisabeth Harstad
- Vicki Messer

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 an annual evaluation of the CEO's performance.

## 10. Risk Management and Internal Control

The Board of Directors monitors TGS' risk exposure, and the Company continually 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 risk workshops a number of strategic and operational risk factors are evaluated and prioritized in a risk matrix. Action plans are developed to manage any significant risk factors, and the process is made continuous with annual workshops and quarterly updates regarding action plan status. The key risk factors and related 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. As part of this review, the Company has over the last few years completed a significant update on its financial procedures manual, which provides 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 2014.

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 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 Board of directors 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 quarterly and annual reports 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 must read and acknowledge the Company's Code of Conduct, Statement of Values and Policy on Insider Trading on an annual basis.

## 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' compensation 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 2014. 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

### TGS Total Compensation Philosophy

TGS' Total Compensation Philosophy, as approved by the Board, is to provide a robust and competitive total rewards package that attracts and retains exceptionally talented people and provides the greatest rewards for its employees who consistently and continually demonstrate the highest levels of performance. TGS uses a blend of components: base salary, incentive compensation (short-term and long-term awards) and non-financial rewards. TGS base salaries are targeted below the median of the compensation peer group. TGS' total cash compensation, defined as base salary and short-term incentives (an annual performance cash bonus directly linked to the TGS Group's operating profit), is intended to exceed the market average in years where the company performs above market (target above 50th and up to 75th percentile of the market). It is also heavily weighted in variable pay so that employees share in the same risk and rewards as its shareholders. The Board of Directors believes that the issuance of long –term incentives 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.

### Executive Remuneration

It is critical to TGS' continued success to attract and retain highly engaged executives with great vision, global experience and a strong drive for results. The compensation program for executive officers consists of industry competitive benefit programs, base salaries, short-term incentives and long-term incentives such as stock options, share appreciation rights (SARs) or other share-based awards. The various compensation elements are balanced in a way that recognizes the individual executive's responsibilities and his or her abilities to influence the short and long-term profitable growth of the Company. Base salaries are consciously set low for executives (around 25th percentile of our competitive group) while the short-term incentive can be comparatively high.

### Short Term Incentives (STI)

Each year between 6.5 and 7.5% of the TGS Group's operating profit is designated as the pool for employee annual performance cash bonuses (executive and non-executive). Less than 1% of TGS' operating profit (included within the 'pool') is designated for executives. Based on the annual budget, individual bonus targets are set at the beginning of each plan year. Employees are assigned a factor of their base salary that is influenced by individual level of responsibility in the organization, individual contribution, performance in the previous year and other criteria. This individual factor may go up or down from year to year. The total of all factored bonus targets are compared to the budgeted pool to calculate and apply an adjustment ratio. The resulting adjusted bonus amount is the individual's annual target cash performance bonus. The CEO's target bonus amount is limited to a multiple of three times base salary. All other executives are limited to two times base salary.

Individual STI targets as a percentage of base salary can vary from year to year depending upon individual performance, contribution and responsibility in the organization. The STI payout is capped at two times an individual's annual STI target. Over the last 20 years, the maximum STI plan payout has been 1.46 times target and the minimum payout has been 0.67 times target. The actual bonus amounts are paid quarterly and are directly proportional to the actual operating profit. This ensures that there is short term direct linkage to Company performance.

For executive team members, TGS reserves the right to demand the repayment of any cash performance bonus that has been paid on the basis of facts that were incorrect, or as the result of misleading information supplied by the individual in question.

### Long-Term Incentives (LTI)

A limited amount of share-based awards are usually issued each year upon the approval of and authority from shareholders at the Annual General Meeting (AGM).

Subsequently, a detailed plan incorporating the terms approved by the AGM is then subject to the review and approval 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 the individual participants in the share-based LTI.

The Company historically issued stock options as long-term incentives, but decided to replace the stock options program in 2014 with a system that is both more performance-based and more tightly coupled to long term shareholder interests. For past stock option programs, the Compensation Committee recommended to the Board of Directors the amount of stock options to be issued to executives. The number of stock options granted was directly linked to Company and individual performance. As a general policy, stock options were 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 stock option pool was approved by shareholders at the AGM. Under Norwegian law and the respective resolutions from the AGM, five years is the maximum lifetime of a warrant to secure a stock option.

### Remuneration in 2014

In 2014, based on lack of sufficient support from shareholders, TGS elected to withdraw its proposal for a LTI Plan and instead proceeded with a one-time long-term executive cash incentive program for executive management. The 2014 LTI plan aligns with the TGS Total Compensation Philosophy and our commitment to our shareholders.

In the 2014 plan each executive was granted a cash award target which vests on the third anniversary of the grant. Executives can achieve an earned award of a maximum of 190% of the original target award or a minimum of 0%, depending on how TGS performs against three weighted measures (one relative and two absolute) during the performance period of three years:

- Multi-client revenue market share – 45% weighting
- Earnings per Share (EPS) growth – 45% weighting
- Health, Safety & Environment (HSE) – 10% weighting

The LTI payment can be further increased by a multiplier of up to 200% of the earned award. The multiplier is based on EBIT (earnings before interest and taxes) performance against a defined target representing consensus at the start of the plan performance period. Applying the multiplier may result in a maximum payout of 380% of the target award. The maximum amount payable to any individual plan participant is USD 1,395,360. The performance period for the 2014 Long-Term Executive Cash plan is 1 January 2014 to 31 December 2016.

An executive terminating employment before the end of the plan period will forfeit any award.

In 2015, TGS plans to revert to a revised share based long-term incentive plan for future LTI programs based on shareholder input and subject to AGM approval.

### Executive Share Ownership Guidelines

In 2014, the Board implemented share ownership guidelines for executives. These guidelines are designed to encourage long-term share ownership and to ensure that executives hold stock. The CEO is required to hold three times base salary in TGS stock, the COO/CFO is required to hold two times his base salary and all other members of the executive team are required to hold one time their base salaries in TGS stock. Executives have until 12 August 2019 or, if later, five years from the date the executive is first subject to the guidelines, to meet the ownership requirement. If an executive does not meet the Executive Share Ownership Guidelines, the Executive must retain all shares awarded from any LTI plan until the requirement is satisfied.

### Governance

The CEO is responsible for proposing the compensation packages (excluding his own) for all executive officers for Compensation Committee review and Board approval. The Compensation Committee is composed of completely independent directors: Mark Leonard (Chair), Elisabeth Harstad and Vicki Messer.

The Compensation Committee is also responsible for recommending the CEO's compensation package to the Board for final review and approval. This includes the CEO's target bonus, which is specifically set by the Board and is directly linked to results achieved on measurable key performance indicators in the previous year.

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 should be understandable relative to scale, complexity and performance. The Board strives to ensure that executive compensation is administered consistently according to the TGS Total Compensation Philosophy.

The Compensation Committee retains an independent third party compensation benchmarking firm to assess and recommend changes to TGS' executive compensation practices relative to its peer group. The peer group is composed of several competitors and international oil and gas services companies. The peer group is determined by considering a combination of relative factors including annual revenue, EBITDA, market capitalization, return on equity (ROE) and return on invested capital (ROI). This independent executive compensation analysis is conducted annually.

**The 2014 TGS peer group for executive remuneration**

| | |
|---|---|
| Aker Solutions | ION Geophysical Corporation |
| Carbo Ceramics Inc. | Key Energy Services |
| CGG | Oceaneering International, Inc. |
| Core Laboratories | Petroleum Geo-Services |
| Dawson Geophysical, Inc | Prosafe SE |
| Dresser-Rand | RPC, Inc. |
| Dril-Quip, Inc. | Seitel Inc. |
| Fred. Olsen Energy | Songa Offshore SE |
| Global Geophysical Services Inc. | Subsea 7 |
| Helix Energy Solutions Inc. | Superior Energy services |

The peer group for executive remuneration will be updated in 2015.

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 executive compensation to the Annual General Meeting on 6 May 2015, see item 12 on the agenda. In addition, the Annual General Meeting is invited to approve the Long-Term Incentive Stock Plan and resolution to issue Free-Standing Warrants, see item 13 on the agenda.

In the event of a Change of Control, as defined in each LTI plan document, and subject to the provisions of each plan, the LTI award shall become immediately vested and/or exercisable in full, without limitation to exercise period.

For further information on executive management compensation, please refer to Note 7 of the Consolidated Financial Statements.

In the event of a Change of Control, as defined in each LTI plan document, and subject to the provisions of each plan, the LTI award shall become immediately vested and/or exercisable in full, without limitation to exercise period.

For further information on executive management compensation, please refer to Note 7 of the Consolidated Financial Statements.

## 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 OSE. In addition, any interim information of significance for assessing the Company's value is distributed as stock exchange announcements through InPublic – Nasdaq OMX, a commercial publisher of financial information. This information is also available via the Company's website www.tgs.com.

The Company places great emphasis on complying with the Stock Exchange regulations by providing the same information to all investors, national and international. The Company uses the Code of Practice for Reporting of IR information issued by Oslo Børs and the Norwegian Investor Relations Association (NIRA) as a guideline for IR reporting.

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: www.tgs.com/investor-center/financial-reports/financial-calendar/.

## 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 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 hinder or obstruct take-over bids for the Company's activities or shares.

In the event of a take-over bid for the Company's shares, the 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.

Any agreement with the bidder that acts to limit the Company's ability to arrange other bids for TGS shares will only be entered into where it is self-evident that such an agreement is in the common interest of TGS and its shareholders. This provision shall also apply to any agreement on the payment of financial compensation to the bidder if the bid does not proceed. Any financial compensation will be limited to the costs the bidder has incurred in making 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 of Directors 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 as well as the Board of Directors where the Company's management is not represented. In addition, the auditor participates at meetings of the Board relating to the preliminary annual financial statements. If there are any significant changes from the preliminary accounts, the auditor will also participate in the meeting that approves the annual financial statements. In 2014, the auditor has participated in all meetings of the Audit Committee relating to the unaudited quarterly financial statements.

The Company's external auditor presents the primary features of the plan for the execution of the audit to the Audit Committee and reports on the key accounting principles and estimates and the results of the audit to the Audit Committee and the Board of Directors. The auditor also presents to the Audit Committee and the Board any internal control weaknesses and improvement opportunities.

TGS has established guidelines for the right of 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 also presents any threats to his/her independence and documents measures implemented to reduce these, as required by the Audit and Auditors Act Section 5a-3 3. The external auditor provides the Audit Committee with an annual written confirmation of independence. The Board of Directors reports the remuneration paid to the auditor at the annual general meeting, including details of the fee paid for audit work and any fees paid for other assignments.

The auditor's fee is determined at the Annual General Meeting. Refer to Note 7 to the Consolidated Financial Statements for auditor's compensation for 2014.

The auditor is required to attend a General Meeting if the business to be transacted is of such a nature that his or her attendance must be considered necessary. In addition, the auditor is, in any case, entitled to participate in the General Meeting.

# CORPORATE SOCIAL RESPONSIBILITY

*"TGS is responsible to our customers, our employees, the communities in which we live and work, to the world community and to our shareholders. Living the TGS Values every day, in everything that we do, helps us to meet or exceed the expectations of our stakeholders both today and in the future, and is critical to delivering sustainable growth over the long term."*

**– Hank Hamilton, Chairman**

# Sustainability Report

## 1. Report on Corporate Social Responsibility

The term "Corporate Social Responsibility" (CSR) is often used interchangeably with "Corporate Sustainability." The Dow Jones World Sustainability Index defines Corporate Sustainability as "a business approach that creates long-term shareholder value by embracing opportunities and managing risks deriving from economic, environmental and social developments."

TGS has prepared a CSR report to communicate to stakeholders how it integrates sustainability priorities within its business operations and strategy. Specifically the report covers TGS' CSR policies, actions, results and future ambitions and plans, focusing on our People and our Conduct, namely our anti-corruption, health and safety, and environmental efforts within the Company and with our Stakeholders. Our commitments, activities and performance on the priorities identified by TGS are set forth in the case studies, facts and figures set forth below. It is the opinion of the Board of Directors that this report complies with the CSR requirements of the Norwegian Accounting Act section 3-3c.

## 2. Responsibilities Towards Our Stakeholders

TGS believes that Corporate Social Responsibility is a fully compatible and integrated part of conducting business successfully. The foundation of our Company's superior business performance is built on our long-standing values of honesty, integrity, accountability, and respect for others. In order for TGS to prosper, we need the trust and respect of our customers, shareholders, employees, and the communities in which we work and live. These values have long been a fundamental part of how TGS has chosen to do business and the Company has developed and refined these values over time. The purpose of the TGS Statement of Values is to provide a moral and ethical compass to assist and guide the Company in business situations that arise every day.
These standards apply to all its activities in every market that TGS serves.

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

**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.

**TGS is responsible to its 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 aims to provide 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.

**TGS is responsible to the communities and environment** in which it operates and works and to the world community as well. TGS monitors its environmental performance versus plans and is dedicated to the continuous improvement of its environmental programs and standards for all of its operations. TGS works with its suppliers to ensure that their health, safety, and environmental standards are consistent with that of TGS. The Company actively supports reputable charitable programs and organizations, as well as local social welfare programs within the countries in which seismic data acquisitions are performed, that serve people and communities in need by providing ongoing financial donations. In addition, TGS implemented a program that encourages employees to donate their time and energy to help those in society who are less fortunate. The largest contributions were donated to organizations that work with underprivileged youth, homeless families and organizations that provide medical and humanitarian assistance in disease plagued regions. TGS supports the United Nations Universal Declaration of Human Rights and strives to apply the declaration's principles regarding the freedom, rights, dignity and worth of the human person and promotion of equality irrespective of gender, race or religion throughout business operations.

**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.

## 3. Priority Identification

In identifying CSR priorities for TGS, it is important that the Company considers how its business impacts stakeholders across the value chain, from planning projects and consulting with local communities and regulatory authorities (including permitting requirements), to selecting and working with partners, agents and contractors, to managing HSE risks in geophysical operations, and to ensuring compliance with the TGS Code of Conduct and anti-corruption program in dealings with third parties.

On an annual basis, TGS conducts a risk assessment process whereby risks from across the business (including CSR risks) are assessed by different groups within TGS: Strategic, Operations, Legal and Compliance, and Finance. These groups identify the top risks, along with the current mitigation measures in place for each of those risks, and rank the risks based upon their impact to TGS, likelihood, and whether the risk is increasing, stable or decreasing. From these analyses, TGS' Executive Team identifies the top risks to TGS, some of which may relate to CSR risks, and implements a mitigation plan to address these risks for the coming year. In addition, certain TGS departments, including Human Resources, Compliance, and Health, Safety and Environment, set annual goals for each year, and TGS executive team and Board of Directors participate in reviews of compliance, health, safety and environmental performance on at least a quarterly basis.

TGS also seeks feedback from stakeholders through its biennial customer feedback survey and a biennial employee engagement survey (with industry benchmarking), both completed in 2013, as well as regular meetings with shareholders and the International Association of Geophysical Contractors (IAGC).

From these inter-related processes TGS identified its CSR priority areas, set the CSR goals, plans and actions for 2014. These priorities focused on:

- Employee engagement
- Anti-corruption efforts
- Promoting safe, healthy, and environmentally sound practices within the company
- Influencing vendors and suppliers, promote safe, responsible, and sustainable practices in its business relationships

# 4. People

## 4.1. Who We Are

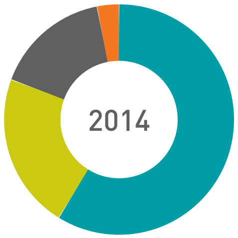
TGS strives to promote and maintain a work environment in which people are treated with dignity, decency and respect. TGS expects all relationships among persons in the workplace will be business-like and free of unlawful bias, prejudice and harassment. It is TGS' policy to ensure equal employment opportunity without discrimination or harassment on the basis of race, color, national origin, religion, sex, age, disability, or any other status protected by law.

| Employee Statistics | 2014 | 2013 |
|---|---|---|
| Total # of Employees at year end | 943 | 912 |
| New Hires | 121 | 65 |
| Internal Job Fill | 29% | 25% |
| Employee Turnover | 9% | 12% |
| Industry Average* | 12% | 15% |

*Oil & Gas Average, source: HRLC – Corporate Executive Board

### Tenure

| | | |
|---|---|---|
| 0 - 5 | 2013 / 55% | 2014 / **59%** |
| 5 - 10 years | 2013 / 25% | 2014 / **22%** |
| 10 - 20 years | 2013 / 17% | 2014 / **16%** |
| +20 years | 2013 / 3% | 2014 / **3%** |




### Gender – Management

**72%**

2014 / Male 72%
2013 / Male 68%

**28%**

2014 / Female 28%
2013 / Female 32%

### Gender – Total Employee Population

**59%**

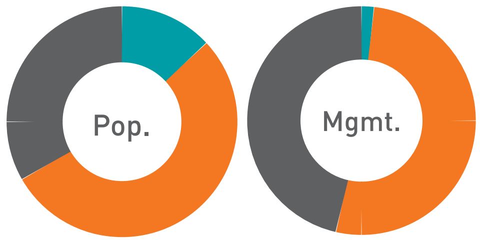
2014 / Male 59%
2013 / Male 58%

**41%**

2014 / Female 41%
2013 / Female 42%

### Age / 2014

| | | |
|---|---|---|
| - 30 y/o | Total Pop. / **13%** | Mgmt. / **2%** |
| 30 – 50 y/o | Total Pop. / **54%** | Mgmt. / **52%** |
| 50+ y/o | Total Pop. / **33%** | Mgmt. / **47%** |



## 4.2. What We Did in 2014

Employee engagement is critical to the long-term sustainability of TGS. TGS seeks to maintain high levels of employee engagement through recognizing labor rights and providing favorable work conditions. Specifically, TGS seeks feedback from employees through a biennial global employee engagement survey conducted anonymously by a third-party consultant. The purpose of the survey is to assess TGS' areas of strength and opportunities for improvement as TGS recognizes that its workforce needs to be engaged, appreciated and motivated. TGS' last Global Employee Engagement Survey was completed in 2013 and had a response rate of 90%. Professional Development and Communication were identified as areas of focus whereas TGS scored highly in the areas of Employee Commitment, Culture/Values, Leadership and Customer Service. As discussed in detail below, TGS endeavored to improve communication across the organization and increase professional development opportunities for its employees.

**9.0%**

*These are some of the reasons why, TGS reduced its employee turnover by over 2%, resulting in a turnover rate of 9% for 2014, down from 11.5% in 2013.*

### 4.2.1. Internal Communication

Communication across the organization is vital to create an informed and effective workforce in which employees are motivated to contribute and improve performance. Therefore, it is necessary for TGS' leaders to be visible and accessible to the entire workforce and employees be encouraged to share their opinions on important issues facing the organization. TGS holds quarterly meetings across all of its offices, which include a Q&A session with the CEO and presentations from various projects or business units on their operations, and new employees are invited to breakfast meetings with the CEO. Additionally, all business groups and departments hold a multi-day planning session at the start of the year in which all members of that department participate in planning and discussing business objectives and goals for the coming year.

In 2014, TGS further facilitated communication within the organization by creating the "Live the Energy" webpage for TGS employees which discusses global and business news, professional and personal successes, community involvement, and volunteerism and opportunities to improve cross-office and cross-department communications.

To improve communication between managers and employees, TGS encouraged managers and teams to attend weekly or bi-weekly team meetings, end-of-project team presentations and peer reviews. Finally, TGS' Human Resources Department held focus groups with employees to brainstorm and discuss various topics such as work-life balance, work environment, and professional development.

### 4.2.2. Training and Conferences

TGS is committed to strengthening our culture of excellence, and providing professional development opportunities for our workforce is a cornerstone to that end. Building upon long-term corporate objectives and continuing with the three-year strategic plan, TGS aims to provide general management skills and business acumen courses and technical training at each of its core offices in 2014.

TGS offers both onsite and out-of-office professional development training opportunities to employees, encourages employee participation in industry events, and provides tuition assistance for higher education courses for employees. TGS also held its biennial Leadership Forum in 2014, and has instituted an Executive Mentorship program in which members of the Executive team mentor TGS employees.

**3,214 hrs**

*2014 was the first full year of TGS' revamped technical training program, and employees participated in over 3,214 hours of in-house geological and imaging courses and lunch-and-learn sessions.*

Additionally, TGS provides technical training to its employees through onsite training programs and lunch and learns as well as encouraging employees to participate in industry events.

TGS employees also participated in five University Consortia in 2014, and the University of Tulsa Continuing Education for Science & Engineering held a two-day training for TGS employees on the Fundamentals of Petroleum Exploration in August 2014.

### 4.3. Our Ambitions and Plans

TGS recognizes the value of providing a variety of learning opportunities for its employees and will continue to offer professional development opportunities in 2015. TGS will remain committed to providing multiple avenues for managers and employees to communicate with one another. To ensure that TGS remains committed to providing effective and beneficial working conditions for its employees, TGS intends to conduct a Global Engagement Survey in 2015 and will evaluate the results to determine areas for improvement and areas of success.

# 5. Anti-Corruption and Compliance

### 5.1. Our Code of Conduct

TGS expects the highest levels of personal conduct from its Board of Directors, its entire staff, regardless of position, and its agents and contractors. The TGS Code of Conduct sets the standard of responsible conduct for every TGS employee and serves as the Company's ethical roadmap – ensuring all employees perform their duties with honesty and integrity and in accordance with the law.

*As a function within the TGS executive team, the Compliance Program endeavors to foster an open, transparent and ethical environment in accordance with the TGS Code of Conduct.*

The TGS Compliance Officer reports to the Board of Directors and the CEO and provides updates on at least a quarterly basis. The Compliance Officer aims to educate TGS employees on potential compliance concerns as well as implement policies, procedures, and guidelines to detect and prevent potential compliance concerns. In January of each year, an annual letter from the CEO is issued to all TGS employees that outline TGS' expectations regarding ethical and compliant conduct.

TGS employees are to complete an annual certification that represents each employee's personal pledge that he or she has read, understood, and will uphold the Code in his or her business activities, as well as to participate in annual Code of Conduct trainings, either held in-person or online, and other compliance training initiatives.

TGS provides multiple avenues for TGS' internal and external stakeholders to discuss or report potential non-compliance. Employees are encouraged to report any violation of TGS' values or policies to their supervisor, the Compliance Officer, or through the TGS hotline, which allows employees to report suspected instances of non-compliance anonymously. TGS wants to know about potential problems before they become serious, and policies are in place that prohibit retaliation against reporting employees. TGS investigates all potential violations of its Statement of Values and Code of Conduct, such as illegal acts, conflicts of interest, financial fraud, corruption issues or breaches of TGS' corporate policies. TGS also engages internal or external legal counsel as needed in dealing with possible violations of its corporate policies.

### 5.2. What We Did in 2014

As a Company that operates throughout the world, TGS recognizes that bribery and corruption is a serious risk in today's business environment. TGS works to ensure that its employees understand that when conducting business in other countries, employees must be sensitive to the legal requirements that apply to foreign operations, including the U.S. Foreign Corrupt Practices Act, the OECD Convention on Combating Bribery of Foreign Public Officials in International Business, and the U.K. Bribery Act.

TGS' Anti-Corruption policy expressly prohibits bribery, kickbacks and other illegal payments, as well as facilitation payments and political contributions on behalf of TGS. Review and prior approval is required for gifts or entertainment provided to government officials, as well as charitable or social welfare contributions to be made by TGS in foreign countries. TGS conducts due diligence on third party relationships based upon various risk factors, including but not limited to the location of where services are to be performed, the types of services to be performed, and the entity performing the services. TGS includes anti-corruption provisions in relevant agreements with third parties, and third parties deemed to be high-risk must complete annual anti-corruption training and certification requirements.

Finally, TGS continually conducts assessments of its anti-corruption policies, and guidelines to identify weaknesses and areas for improvements. International agents are periodically audited to ensure their compliance with their agreement to TGS and applicable anti-corruption laws.

In 2014, TGS conducted a risk assessment to identify key areas of compliance risk. The goals of the risk assessment included measuring the compliance culture and strength of internal controls at TGS, identifying best practices, and detecting new risk areas.

One risk identified and addressed in 2014 pertained to implementing additional policies establishing limitations and procedures for remittances to international agents and governments, including travel and training expenses provided to government officials, as these present enhanced anti-corruption concerns.

The policies and procedures now document approval requirements, preventative measures to avoid payments to tax havens, financial coding, and bank account verification processes. The policies and procedures also require that travel and training expenses for government officials be pursuant to TGS' agreement with that government, and any potential expenses must be reviewed and pre-approved by TGS' Compliance Officer and Finance Director. In the coming years, TGS will conduct audits and transaction tests to monitor compliance with these new policies.

Each year, key TGS employees and managers who interact with government officials or oversee employees who interact with government officials are required to annually certify compliance with TGS' Anti-Corruption policy as well as complete additional anti-corruption and anti-bribery training. In 2014, one-hundred percent (100%) of TGS employees completed their anti-corruption certification and ninety five percent (95%) of key TGS employees completed their online anti-corruption compliance training. In an effort to achieve 100% completion of anti-corruption training, TGS is working with management to ensure that there is clear and consistent communication on TGS' compliance training objectives. No employee-related corruption issues arose during 2014.

TGS continued to work with its third party agents to stress the importance of and ensure compliance with international anti-corruption laws in 2014. TGS updated the due diligence for international agents' whose due diligence information was older than five years, and revised the agreements to incorporate additional contractual provisions requiring compliance with international anti-corruption laws and TGS' anti-corruption program.

All of TGS' international agents are required to annually certify compliance with TGS' Anti-Corruption policy and complete online anti-corruption training. In 2014, one-hundred percent (100%) of TGS' international agents completed their annual certification of compliance with TGS' Anti Corruption policy and their anti-corruption training.

### 5.3. Our Ambitions and Plans

Going forward TGS intends to continue implementing the actions undertaken during 2014 with emphasis on strengthening the procedures for monitoring TGS' anti-corruption policies, and continuing to update due diligence and agency agreements for all international agents. Specifically TGS will focus on international agents retained between 2009 and 2013 to update the due diligence and revise agency agreements to ensure compliance both with anti-corruption laws and with TGS' anti-corruption program. In addition, agent activities and payments made to agents will be reported on a quarterly basis to the Compliance Officer, as well as other members of the Executive team, as needed to ensure agents are complying with the terms of their agreements. Finally, TGS aims to develop more robust testing and auditing practices and guidelines to ensure compliance with TGS policies and procedures in 2015.

## 6. Health and Safety

### 6.1. What We Believe

TGS is dedicated to the continuous improvement of health, safety and security standards for its people and insists on the same policy from its contractors. TGS has defined safe operating procedures in the HSE Management System that are designed to meet or exceed all appropriate legal requirements and, in the absence of any defined standards, to meet or exceed generally accepted industry-wide "best operating practices." TGS actively participates with all relevant client/contractor associations and relevant authorities in developing HSE standards.

TGS maintains a high level of safety awareness by means of safety meetings, internal auditing, review meetings and general communications. All employees and contractors are actively encouraged to participate in the conduct, management and continuous improvement of safety. TGS requires all employees and contractors to be accountable for and committed to their own health and safety as well as for those with whom they work. Employees and contractors are empowered to intervene and STOP any operation or activity that they feel is unsafe or hazardous, with the knowledge that such action will be supported by management.

Both the TGS HSE Director and senior management have responsibility for the communication and implementation of TGS health and safety policies, including provision of information, training and resources to employees.

### 6.2. What We Did in 2014: HSE Reviews and Training

TGS conducts quarterly HSE reviews with the executive team. In 2014, TGS implemented a new HSE system to track employee completion of HSE training, incidents, and corrective action. TGS continued to promote a top-down message of health and safety by making its senior management responsible for ensuring that all employees complete at least one HSE training module during 2014. Management also participated in audits of all office locations, and all TGS staff are assessed on active HSE commitment.

There were three lost time incidents for contractor field crews in 2014. Investigations were performed for each of these three instances, and remedial measures were put in place to prevent similar incidents from occurring in the future. With respect to TGS employees (primarily office-based), there were no lost time incidents in 2014.

There were 69 field visits from senior management and operations managers during 2014, and full compliance with vessel and land crew audit requirements was achieved. Additionally, inspections were performed at each office location with management participation.

**2.12**

The Vehicle Accident Rate in 2014 (per 1,000,000 miles) continued to decrease from prior years, and was 2.12, compared to 4.21 in 2013

One hundred percent (100%) of employees completed their annual HSE training requirements in 2014. Finally, TGS added a certified trainer to teach and train on First Aid/CPR/AED.

| Employee Health & Safety Statistics | 2014 | 2013 |
|---|---|---|
| Man-hours | 1,661,076 | 1,544,897 |
| Fatalities | 0 | 0 |
| Lost Time Injuries (LTI) | 0 | 0 |
| Medical Treatment Cases | 2 | 1 |
| Restricted Work Cases | 1 | 0 |
| Recordable Case Frequency* | 1.81 | 0.65 |
| LTI Frequency* | 0.00 | 0.00 |
| Working Days Lost | 1,192 | 1,327 |
| Sickness Absence Frequency | 0.57% | 0.69% |

| Contractor Health & Safety Statistics | 2014 | 2013 |
|---|---|---|
| Man-hours | 4,646,905 | 3,810,306 |
| Fatalities | 0 | 0 |
| Lost Time Injuries (LTI) | 3 | 0 |
| Medical Treatment Cases | 13 | 10 |
| Restricted Work Cases | 17 | 8 |
| Recordable Case Frequency* | 7.10 | 4.72 |
| LTI Frequency* | 0.65 | 0.00 |

*Per million man-hours

### 6.3. Our Ambitions and Plans

TGS will continue to emphasize training and management by leading by example and will increase the number of training courses required to be completed by employees to two annually. In 2015, the Company intends to implement a Contractor Management System that defines how TGS qualifies, evaluates, selects and manages Contractors, Vendors and Suppliers so that associated HSE risks are identified and properly managed and applicable legislative, regulatory and industry standards are adhered to. This system is intended to ensure that only contractors who's HSE Management Systems are compatible with, or have an equal or greater standard than that of TGS, are utilized for critical operations and project activities. This process will assess all field operations contractors prior to the commencement of work, and a written agreement or master services agreement will require the contractor to at a minimum comply with TGS' HSE standards.

## 7. Environment

### 7.1. What We Believe

TGS is committed to leading the industry in minimizing the impact of its activity on the environment. To achieve this, TGS continually assesses its impact on the environment and endeavors to plan operations that minimize environmental impact. TGS typically conducts environmental impact assessments as part of the permitting process prior to initiating seismic data acquisition. TGS monitors its environmental performance versus plans and is dedicated to the continuous improvement of its environmental programs and standards for all of its operations.

TGS strives for zero spills and unplanned releases to the marine environment during seismic vessel operations and zero reportable spills in the onshore environment. Through TGS's charters of the seismic vessels, TGS influences and aims to ensure our contractors comply with all applicable environmental laws and regulations. Seismic vessels chartered by TGS undergo audits from the International Marine Contractors Association/Offshore Vessel Inspection Database (IMCA/OVID audits), either conducted by TGS, the vessel, or another third party, that evaluate compliance with all applicable health, safety, and environmental regulations and industry requirements, and ensure that all required health, safety, and environmental permits and certificates are valid.

TGS understands the importance of working with local governments, regulatory authorities, and non-government organizations, and therefore, TGS maintains positive communication with regulatory authorities and other governmental and non-governmental organizations to help identify, understand and mitigate environmental risks associated with geophysical activities.

Finally, we work to implement improved environmental awareness in office locations and minimize waste and manage waste output, minimize carbon emissions by survey design, guard against accidental and operational pollution, and mitigate against any active or operational pollution.

### 7.2. What We Do

TGS continues to include environmental aspects within IMCA/OVID accredited audits on all chartered seismic vessel and monitor spills and unplanned releases during seismic operations. TGS assesses and reports upon biologically-important areas, which include marine mammal migration paths, spawning grounds, sanctuary areas, or other ecologically sensitive locations where TGS has activities. In 2014, 24 IMCA/OVID audits were conducted on seismic vessels chartered by TGS, and no unresolved environmental issues were identified. Further, there were no recordable spills or unplanned releases to the marine environment and no reportable spills or releases to the onshore environment.

TGS actively supports the IAGC both financially and through employee participation in committees and projects. TGS' CEO, Robert Hobbs, continued to serve as IAGCs chairman in 2014. Through its work with the IAGC, TGS seeks to positively influence sensible and sustainable legislation and address environmental misconceptions associated with the geophysical industry. TGS supports the IAGCs efforts to create standards and protocols for seismic in frontier areas, and to plan seismic surveys to minimize environmental implications and liaise with stakeholders (including local fishing industry). TGS is also involved with the International Association of Oil & Gas Producers (IOGP). Each year, TGS participates in IOGP's global forum, which includes both clients and competitors, to share best practices and to troubleshoot challenges that may have arisen in the industry.

### 7.3. Our Ambitions and Plans

Going forward TGS intends to continue its work with the IAGC and IOGP. This includes efforts for zero spills and unplanned releases to the marine environment during seismic vessel operations. In addition we strive to have zero reportable spills in the onshore environment. In addition, as part of the Contractor Management System to be implemented in 2015, TGS will assess each contractor, vendor and supplier's environmental policies and practices to ensure each upholds TGS' environmental goals in the performance of services for TGS. As part of this process, contractors and suppliers will be required to provide information regarding their environmental practices, and efforts employed to prevent spills, unplanned releases, or other environmental concerns, and agree to maintain environmental practices in accordance with TGS' environmental practices.

## 8. Human Rights

TGS supports the UN Universal Declaration of Human Rights and aims to apply its principles throughout our business operations. These principles include recognition of the freedom, the rights, the dignity and the worth of the human person and promotion of equality irrespective of gender, race or religion. TGS will not use or support child labor or slavery in any of its offices. TGS also works with contractors and vendors to ensure that our field and seismic vessel operators abide by the UN Universal Declaration of Human Rights. Going forward, TGS' Contractor Management System to be implemented in 2015 will include, among other things, review of vendors, contractors and supplier's human rights and labor practices to ensure that any contractors or third parties with whom TGS contracts maintain the same commitment to human rights as TGS.

## 9. Community and Charitable Relations

Through the TGS Charitable Contributions Committee and in accordance with its charitable contributions guidelines, TGS actively supports reputable charitable programs and organizations that serve people in need by providing ongoing financial donations as well as encouraging employees to donate their time and energy to help those in society who are less fortunate.

Where relevant, TGS consults with local communities to seek input and address concerns relating to seismic data acquisition projects, especially in relation to onshore seismic activities, areas sensitive to the fishing industry and the Arctic.

During 2014 TGS continued to engage closely with a number of communities in areas where seismic data acquisition surveys were performed. For example, the Ebola crisis plagued many of the African communities where TGS performs seismic data acquisitions, such as Liberia. TGS worked with the Liberian government to provide assistance to both the federal government and local hospitals and organizations to ensure they had basic medical supplies, protective equipment, food, and other necessities.

Significant contributions were made to 48 charitable organizations during 2014. The largest charitable contributions were made to organizations that help underprivileged youth. Donations were also made to organizations that help homeless families and organizations researching and curing chronic diseases. TGS employees reported that they had spent more than 360 hours on TGS-supported charitable activities during 2014.

# INVESTOR RELATIONS

# Investor Relations

## TGS Shareholder Facts

**Symbol:** TGS

**Listing:** Oslo Stock Exchange (member of the OBX index)

**ADR:** TGSGY (traded on the U.S. over-the-counter market)

**Analyst coverage:** 23 firms; for list see www.tgs.com/investor-center/stock-information/analyst-coverage/

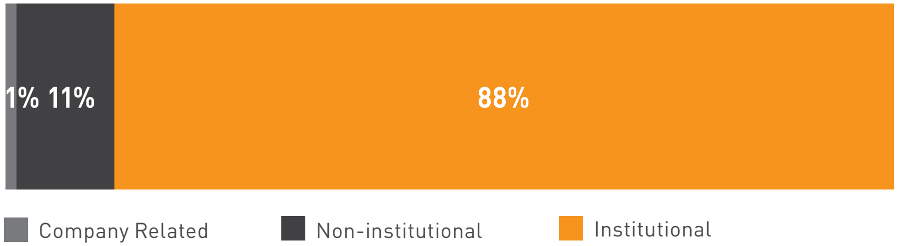
**Volume traded on the OSE during 2014:** 155,149,403 shares

**Average daily trading volume in 2014:** 620,598 shares

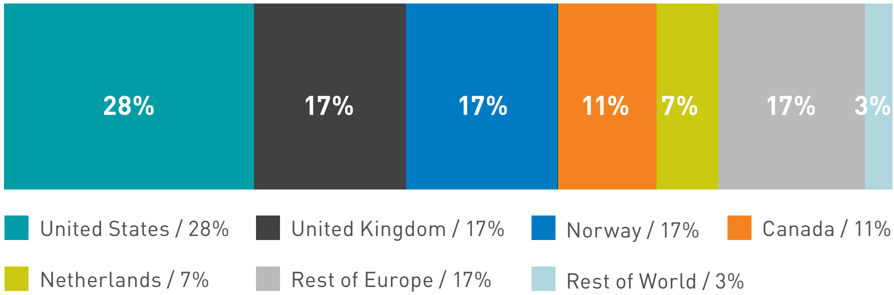
| Shareholder Facts | 2014 | 2013 | 2012 | 2011 | 2010 |
|---|---|---|---|---|---|
| Market Value at 31 December (USD 1000s) | **2,236,444** | 2,742,148 | 3,358,639 | 2,298,358 | 2,307,758 |
| Shareholder Equity at 31 December (USD 1000s) | **1,339,201** | 1,292,979 | 1,168,360 | 973,021 | 908,771 |
| Shares Outstanding 31 December | **103,184,288** | 103,521,724 | 103,431,474 | 103,424,374 | 103,485,825 |
| of which Treasury Shares 31 December | **1,843,512** | 1,416,200 | 1,317,200 | 1,816,250 | 1,567,151 |
| Volume Traded on the OSE | **155,149,403** | 118,438,925 | 133,452,000 | 188,639,796 | 271,015,247 |
| Average Daily Trading volume | **620,598** | 475,658 | 531,681 | 748,571 | 1,075,457 |
| Share Price at 31 December (NOK) | **161.70** | 160.80 | 181.50 | 132.50 | 131.50 |
| Share Price High (NOK at close) | **209.70** | 229.30 | 198.90 | 164.10 | 133.20 |
| Share Price Low (NOK at close) | **145.40** | 140.00 | 136.30 | 97.00 | 73.65 |
| Earnings per Share (Fully Diluted) | **2.09** | 2.59 | 2.76 | 1.65 | 1.49 |
| Dividend per Share (NOK) | **8.5** | 8.5 | 8.0 | 6.0 | 5.0 |
| Yield (at day of announcement) | **5.2%** | 4.9% | 4.0% | 3.9% | 3.5% |
| Market Price/Earnings per Share (P/E) | **10.37** | 10.23 | 11.77 | 13.47 | 14.97 |
| Market Price/Equity per Share (P/B) | **1.67** | 2.12 | 2.87 | 2.36 | 2.54 |
| Enterprise Value/Operating profit (EV/EBIT) | **6.72** | 6.36 | 7.52 | 8.18 | 8.94 |

## Distribution of Share Holdings*:

TGS Shareholder Composition




TGS Shareholder Composition



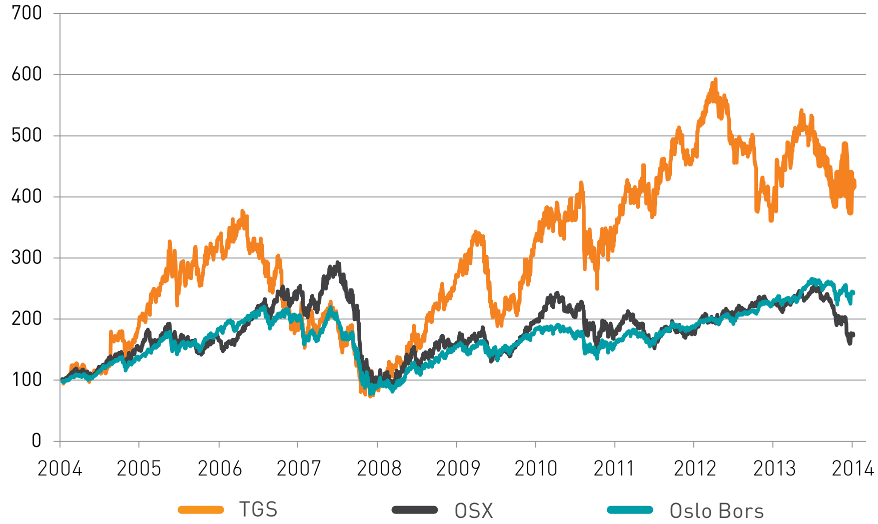

*Based on location of beneficial owners of TGS shares rather than location of nominee accounts at 31/12/2014

## Stock Performance

TGS is listed on the Oslo Stock Exchange and also has an American Depositary Receipt (ADR) facility managed by The Bank of New York Mellon. TGS is part of the OBX index, being among the 25 most liquid stocks in Norway.

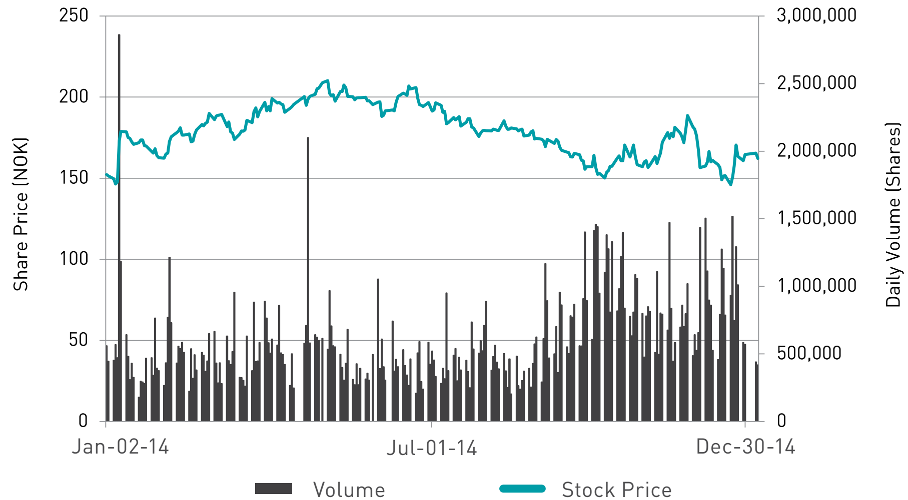
TGS share price over the last six years has outperformed both the Company's peer group and the Oslo Stock Exchange.

Share Price Performance vs. Benchmarks




* The OSX Index (PHLX Oil Service Sector Index) is a price weighted index composed of companies involved in the oil services sector

TGS Share Price and Volume

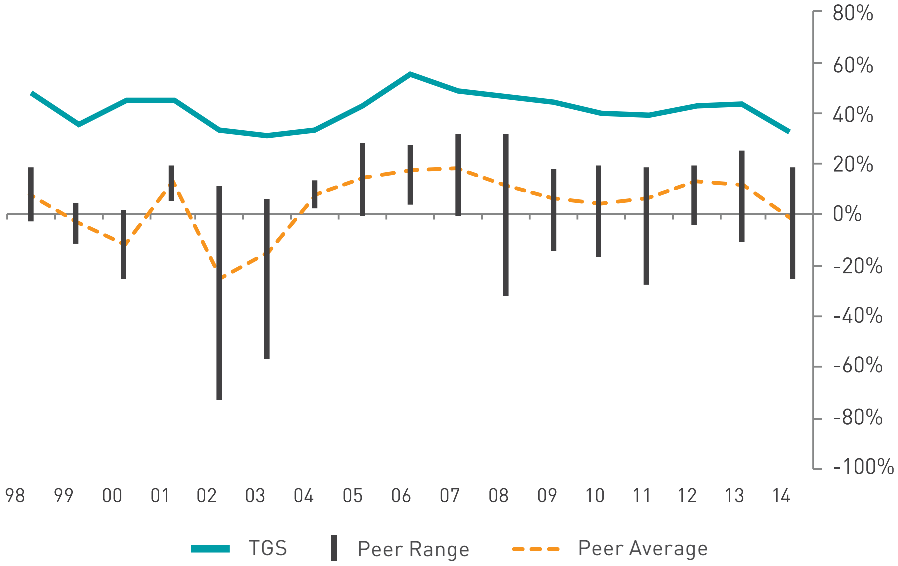


## Superior Financial Returns

TGS continues to be diligent at generating long term return for its shareholders. TGS' asset-light multi-client geoscience data business has historically delivered strong financial performance through the cycles. The charts below highlight TGS' financial track record with an average EBIT margin above 40% combined with stable returns through the cycles significantly above TGS' weighted average cost of capital.

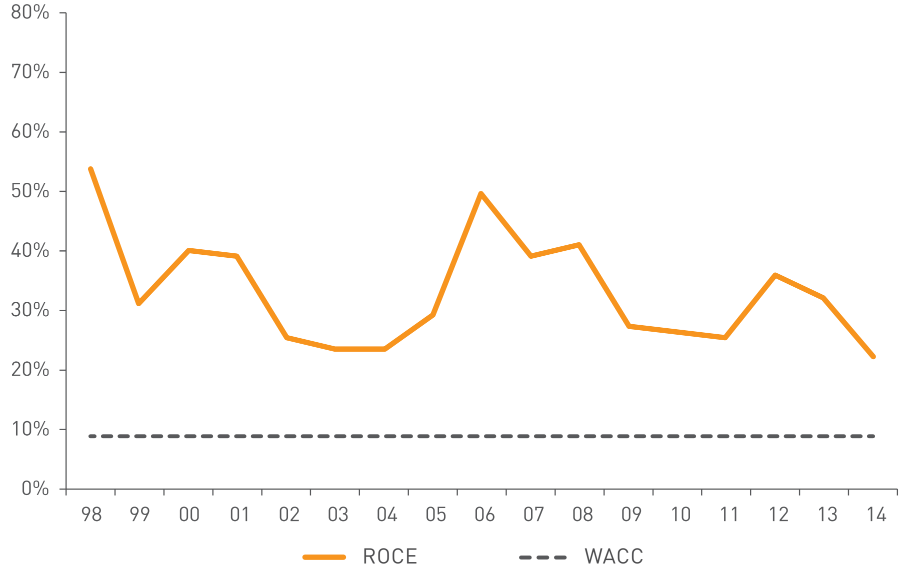
TGS continues to target long-term growth at least in line with Exploration and Production expenditure and also has an aspiration to continue growing market share by continuously targeting quality investments.

### EBIT Margin vs. Seismic Peers




**Peer group includes CGG, Geokinetics, ION Geophysical, PGS, Western Geco, Dolphin, Polarcus*

### Return on Capital Employed

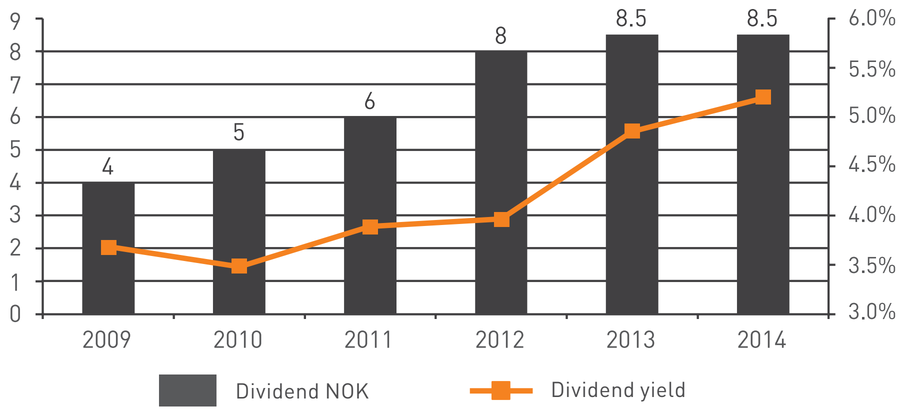



## Capital Distribution to Shareholders

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 healthy returns. In addition, the company from time to time uses cash for the acquisition of businesses that add value to the TGS offering or a technology that can benefit the ongoing library growth.

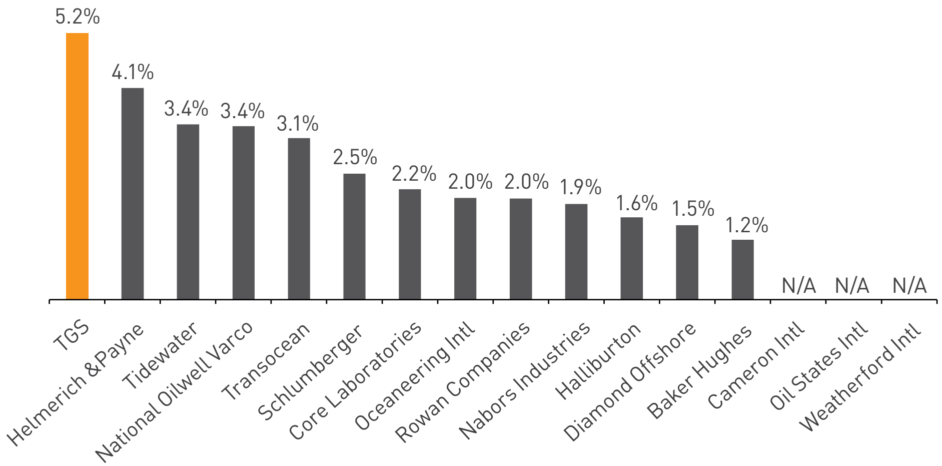
It is the ambition of TGS to pay an annual cash dividend that is in line with its long-term underlying cash flow. When deciding the annual dividend amount, TGS will consider expected cash flow, investment plans, financing requirements and a level of financial flexibility that is appropriate for the TGS 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. During 2014 TGS paid a 8.5 NOK per share dividend. In addition the Board authorized a share buy- back program of USD 30 million of which approximately USD 25 million was implemented during the year. In 2015 the Board has proposed to the Annual General Meeting a dividend of 8.5 NOK per share.

**Dividend per Share (NOK) and Dividend Yield***




* Dividend yield calculated based on share price at day of announcement

**2015 Dividend Yield vs OSX Index**




## Investor Relations at TGS

TGS places great emphasis on providing accurate and timely information to the market and shareholders. The earnings reports and press releases are issued only 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 opening on the date of the release. TGS entertains questions at the live presentations and the CEO and CFO 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. 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.

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 three 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 Norwegian Central Securities Depository (VPS), in due time before the shareholders meeting.

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 in both Europe and North America. Historical financial reports can be found on the TGS website at www.tgs.com/investor-center/financial-reports/.

For more information regarding TGS, contact Kristian Johansen or Will Ashby.

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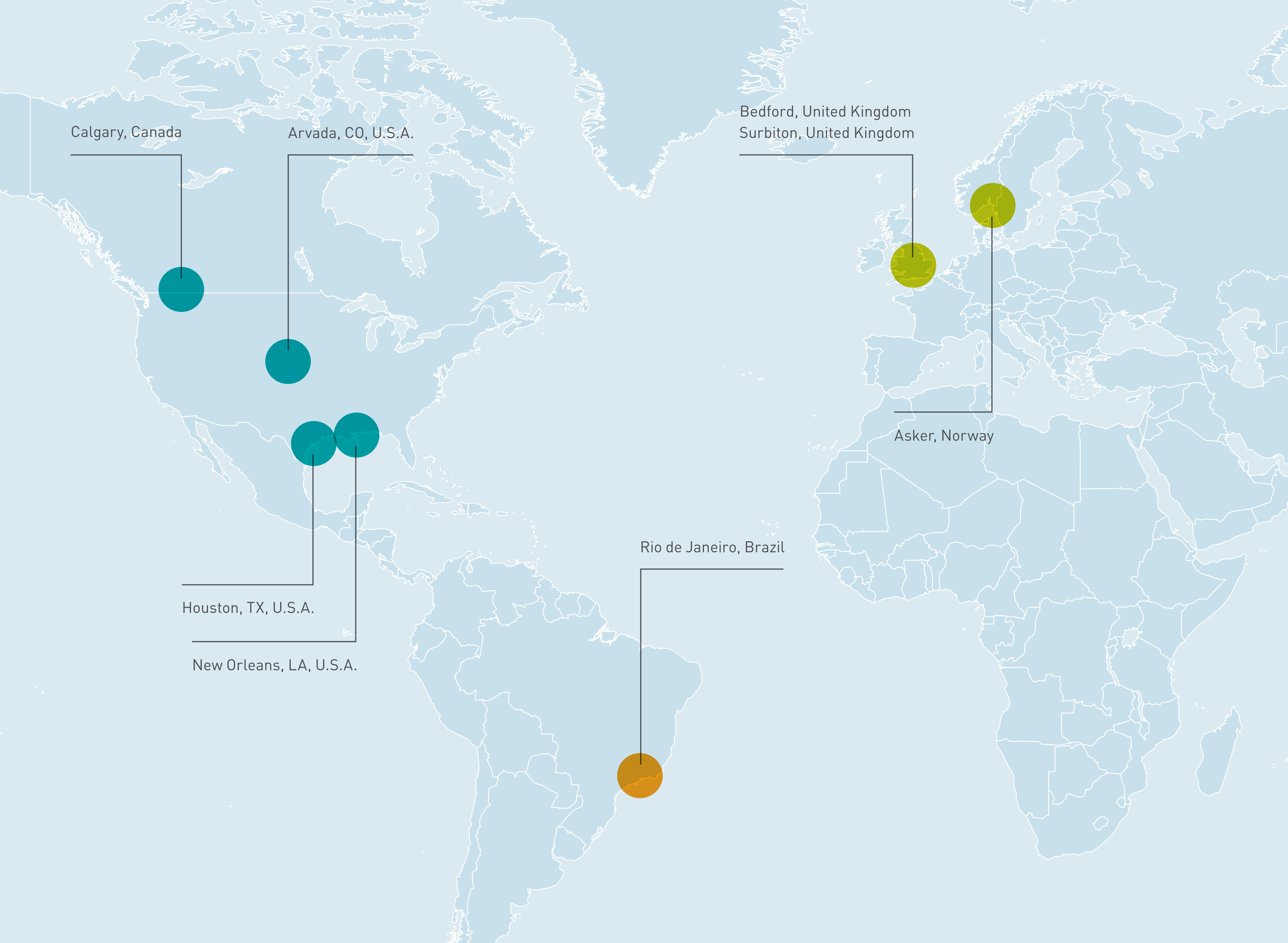
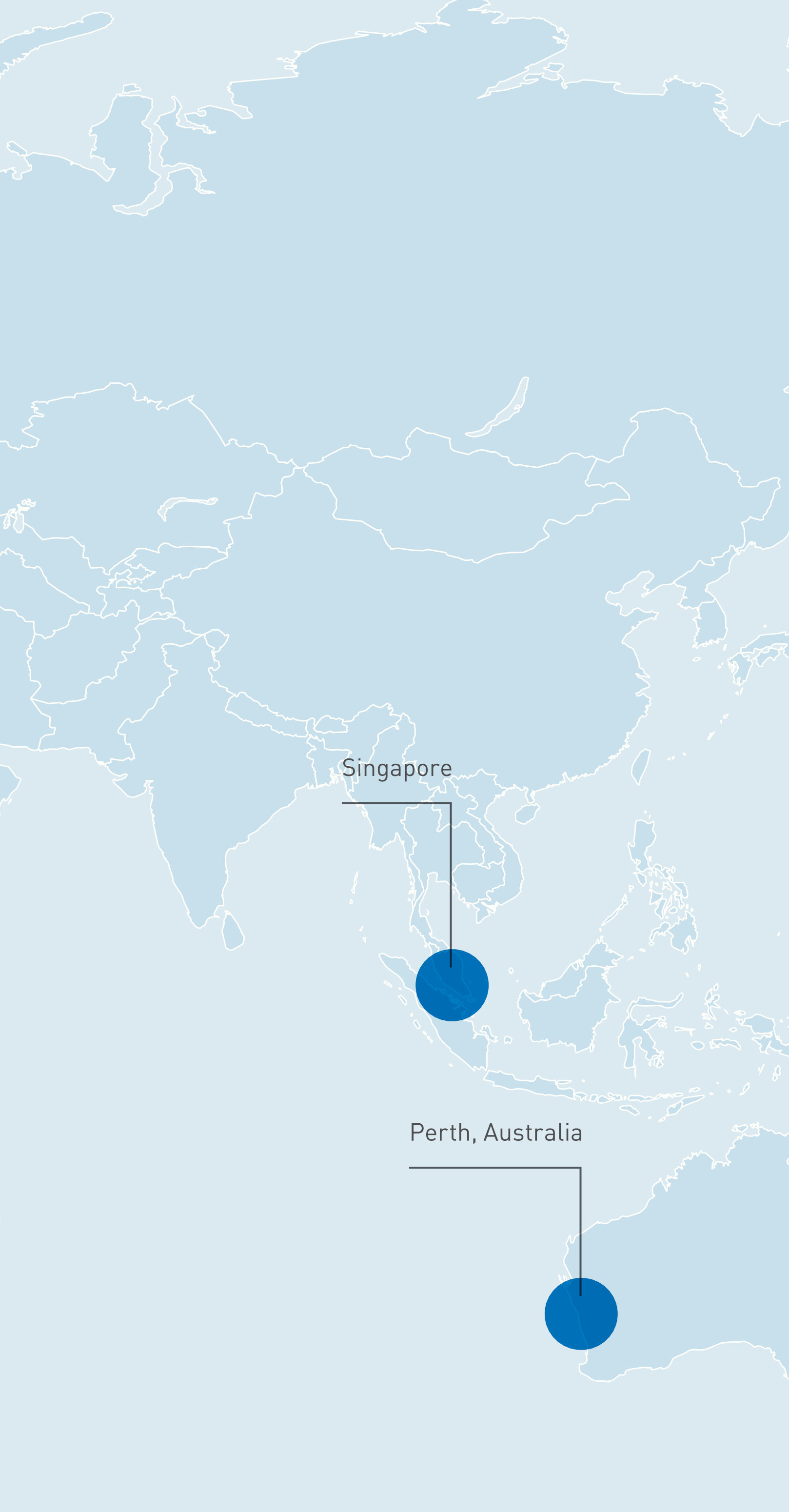
COO
Interim CFO
Norway / U.S.A

**Will Ashby**
Director, Finance Western Hemisphere and Investor Relations
Houston, TX U.S.A



Calgary, Canada
Arvada, CO, U.S.A.
Bedford, United Kingdom
Surbiton, United Kingdom
Asker, Norway
Houston, TX, U.S.A.
New Orleans, LA, U.S.A.
Rio de Janeiro, Brazil

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