

How TGS-NOPEC has proved the exception to the rule

While most seismic survey companies were bent on survival, 'spec' survey specialist TGS-NOPEC has continued to prosper in a depressed market. Andrew McBarnet asked CEO Hank Hamilton for some non-exclusive answers on the secret of the company's success

Things have really worked out at TGS-NOPEC Geophysical Company, the US-Norwegian alliance formed in June 1998 to grow a mutual interest in providing non-exclusive marine seismic data and associated products to the oil and gas industry.

After all, how many oil service companies can claim to have had a good year in 1999? TGS-NOPEC's pre-tax profit for year-end 1999 was NOK 193.1 million, less than the NOK 273.9 recorded in 1998 but still healthy. Even more remarkable, in the last quarter of 1999, pre-funding of the company's trademark non-exclusive surveys was running at an enviable 82%. No marine seismic contractor can boast figures like that.

Hank Hamilton, CEO of TGS-NOPEC, attributes the company's success to 'being focused and being able to generate new projects and pre-funding.' He agrees that it has also had a lot to do with being lean during the downturn. 'We are not in the same boat as the major seismic contractors. We only have a staff of 150, mainly technical, and our structure and philosophy is different. Most contractors have fixed assets – steel and equipment to keep busy. Any drop in the demand side means a lot of strife, with cuts in staff and assets, which all detract from running the business. In our case, we had to tighten our belts, but not with a lot of pain, and we were able to keep our focus.'



Northern Access

Hamilton says that TGS-NOPEC is now only committed to operating two boats, the *Northern Access* and the *Zephyr 1*. Both are 2D seismic vessels, the *Northern Access* being the more sophisti-

cated. Launched in 1998 it has the capability to tow streamer lengths from eight to 13 km. The company last year sold its other two idle vessels, *Atlantic Access* and *Odin Explorer*, in line with the TGS-NOPEC strategy of covering most of its vessel needs on short-term charters, often on a project-by-project basis, which is how some seven different seismic vessels were engaged in the company's survey activities at the end of last year. For the current season the company has already announced that it will be engaging the Russian 2D vessel *Professor Polshkov* for a six month period from Sevmorneftegeofizika (SMNG), which has supplied several vessels over the past 10 years to TGS-NOPEC or its predecessor companies.

Although the company's ambition is to increase its 3D business, there is no doubt that its concentration on the 2D market over the last few years has paid off. In the rush to capitalize on the more profitable 3D survey prospects, the main contractors lost interest in 2D work, which did not offer anything like the same returns. Petroleum Geo-Services (PGS), for example, sold off its 2D operations and made it clear that 3D was the only way to go. As a result only Veritas DGC, Western Geophysical and Fugro Geoteam (part beneficiary of the PGS sale) provide TGS-NOPEC with any serious competition



Hank Hamilton



for non-exclusive 2D survey projects around the world.

Hamilton insists that the day of the 2D survey is by no means over. In the last quarter of last year alone the company acquired 30 000 km of 2D around the world along with 1900 km² of 3D data. 'Multi-client 2D surveys are modulated to some degree by access to new areas, and we have no control over the point at which countries open up new attractive areas. But 2D is not an expensive option for oil companies, certainly not when compared with 3D. So, offshore Brazil for example, no oil company can afford not to have a look at the 2D to see what taking an acreage position may offer.'

TGS-NOPEC is currently heavily committed to Brazil. As reported in this month's news section of *First Break*, the company has bought into the 25 000 km non-exclusive survey by the Russian organization Laboratory of Regional Geodynamics (LARGE) which is undertaking the survey with its vessel *Mezen* in the overlooked Foz do Amazonas and Para-Maranhao Basins of northern Brazil. This venture adds to the massive survey operation of well over 100 000 km² which TGS-NOPEC is undertaking as a joint venture with

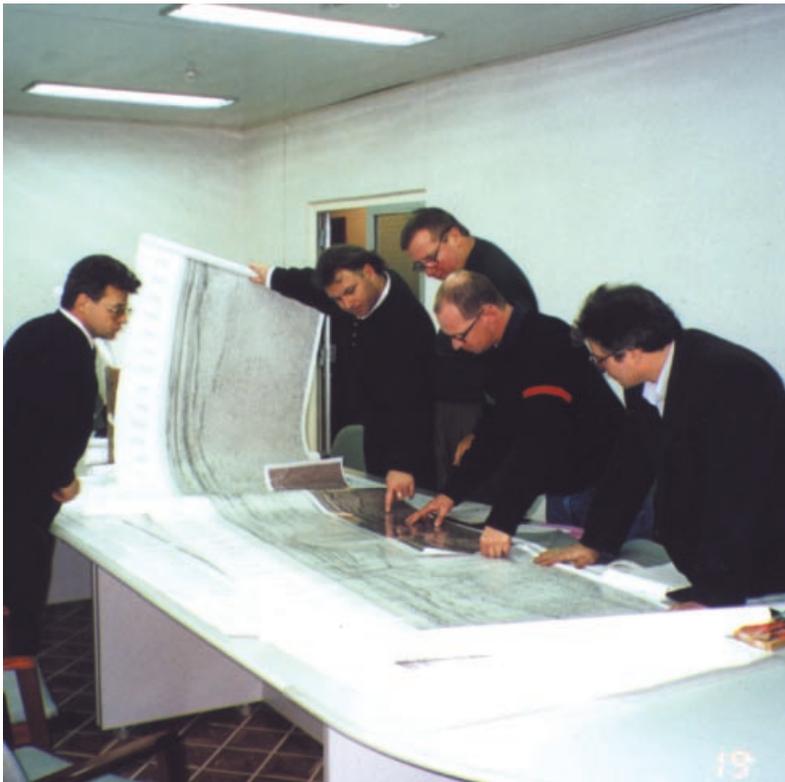
Schlumberger in the Santos, Campos and Espirito Santos Basins and to which it has committed the *Northern Access*, in 8000 m single streamer mode, to work with Schlumberger vessels.

The same team of TGS-NOPEC and Schlumberger collaborated on the 2D Phase 45 and 46 programs of what is said to have been a highly successful 125 000 km survey in deepwater Gulf of Mexico. Which raises the issue of how TGS-NOPEC operates vis-à-vis the main marine seismic companies who can at different times be partner or serious competitor, particularly in the 3D multi-client survey market. The company has been working for some time with Schlumberger Geco-Prakla's *Geco Searcher* and CGG's *Mistral* vessels in a joint operation agreement to acquire some 14 000 km² of 3D non-exclusive seismic

data over some 600 blocks in the deepwater Mississippi Canyon OCS region of the Gulf of Mexico. The seismic data processing for this project is being carried out by venture partner CGG at its Houston processing centre.

Hamilton is unfazed by the conflicting loyalties question. 'Some contractors may see us as a threat, but we don't operate 3D vessels ourselves, and others regard us as an opportunity and a marketing channel, particularly in view of our large 2D database. Most importantly, we generate good projects and have a record of attracting funds from the oil companies and investing our own money.'

Hamilton also makes a distinction between the company's 2D and 3D operations in terms of the competition. In 2D, he says, 'you'll never be exactly where someone else is, even if there's some overlap. Oil companies will often buy both surveys for infill, if it's 2D. With 3D it's a different story because it's too expensive to compete on the same acreage.' According to Hamilton, TGS-NOPEC is able to hold its own in the 3D multi-client survey market by having the flexibility and capability to react quickly when opportunities are identified. 'Our



expertise is to put projects together at the right place at the right time. We prefer to put money into km and km² of data rather than into boats.' He doesn't think the objections to multi-client surveys by oil companies on the grounds of exclusivity and control over what data is shot will ever come to much. 'Only in Norway is there any kind of consortium approach. In my opinion open access is good for everyone. Oil companies don't always like it, but it's inexpensive. Also, more and more they are coming to realize that their competitive advantage is not in being the only ones with the data, but in what they can do with the data in terms of analysis and interpretation.'

Having come from a large company background, Hamilton relishes the freedom to act quickly which the TGS-NOPEC structure allows. He joined the company in 1995 from Schlumberger Geco-Prakla where his last posting was vice president and general manager for North and South America based in Houston. Previously, he had been manager of Geco-Prakla's marine acquisition for Europe and Africa and presided over the fleet's rapid growth from six to 18 ves-

sels. A graduate in physics from the University of North Carolina, his first job was with Shell Oil, where he rose from exploration geophysicist to party chief, before moving on to Schlumberger.

Reflecting on the difference in company cultures, Hamilton says that large companies have their good points – like financial strength – but there can be a lot of bureaucracy which frustrates quick movement on project ideas.

TGS-NOPEC is currently excited by its ventures into Portugal and Morocco where it believes it has stolen a march on the competition. In Portugal the company has signed a five year agreement with the Institute of Geology and Mining, a department of the country's Ministry of Economy, to acquire and sell seismic data on a multi-client and/or proprietary basis over the entire Portuguese shelf. In Morocco the company

has agreed the right to acquire new geophysical data and re-process older data sets from open acreage in the Atlantic and Mediterranean aquatories.

Hamilton says that the company's idea is to look at the deep water off Portugal which was not explored in the 1970s when the technology was not developed for deep water E&P, and shallower waters were the target. The inspiration to survey off Portugal and Morocco is the clear geological relationship with Eastern Canada and the hope that similarly large sedimentary basins will be identified in the deep water areas. Meantime TGS-NOPEC will this summer continue its major seismic campaign in the current hot play of offshore Eastern Canada. Initiated two years ago, the intention is to acquire some 60 000 km of 2D seismic over three seasons.

Other recent company forays have seen a 2500 km 2D survey offshore Western Greenland, 5000 km in the Faroes Shetland Basin and the first stages in its five year Eastern Russia project with the Dalmorneftegeofizika Trust (DMNG) to acquire seismic over the Sakhalin, Kharbarovsk and Magadan basins in the Sea of Okhotsk. This year-one target area seems



sure to be West Africa along with more activity generally in the Africa, Middle East and Europe region (although it has been traditionally strong in Norway). The company is also looking to ex-CGG manager Pierre Benichou to develop more regional business in his newly appointed role as president of the company's Africa, Middle East and Far East division.

Looking down the road Hamilton would like to see TGS-NOPEC grow into being the leading provider of 2D and 3D multi-client seismic surveys and believes the company is already well on the way. He expects there to be some emphasis in future on enhancing the value of current products via processing and on derivatives such as regional study interpretations and regional velocity models. The company's processing – using ProMAX software – is centred at its Houston facility started in 1995 and at its Bedford site which is based on BiPS, the small UK processor acquired a couple of years ago. Most 2D survey data processing is done in-house, and the intention is to develop a larger 3D processing capability.

Hamilton recognizes that the market is moving to reservoir seismics. It will be a different business from multi-client sur-

veys, he says, but TGS-NOPEC will want to be there when it's clearer how the business is going to work.

A more pressing issue for Hamilton is the future financial structure of the company with a stock listing in the US a possibility. TGS-NOPEC has been traded on the Oslo Exchange since the merger of Houston-based TGS-CALIBRE and NOPEC in June 1998. Both companies were founded in the early 1980s by former oil company executives with the similar purpose of carrying out non-exclusive seismic surveys. TGS-CALIBRE built up one of the strongest 2D data libraries in the US Gulf of Mexico and expanded into other North American and West African markets, while building a 3D portfolio in the Gulf of Mexico. Oslo-based NOPEC, formed

originally by ex-Saga Petroleum executives, worked mainly in the North Sea, notably with a Central Graben regional project, and extended operations to Australia and the Far East. Financial ups and downs along the way, including a period of ownership by PGS, culminated in 1997 with Kjell Finstad, the original owner of NOPEC listing the company on the Oslo Stock Exchange.

The parallel paths of the two companies then came together when Finstad, looking to expand NOPEC's operations internationally and particularly in the Americas, approached TGS-CALIBRE about a merger. The timing was perfect because not only was TGS-CALIBRE also planning expansion overseas, but, as Hamilton explains, 'I was charged by the Board with finding a way of getting the company publicly traded. It didn't really matter where.'

The only worry now, according to Hamilton, is to ensure that if it goes ahead with a US listing the company doesn't get lost amongst all those glamour Internet stocks. Judging by its recent results, US investors should take a shine to TGS-NOPEC, dot com or not!