WAN ZUL’S GAME PLAN

THESE are tumultuous times for the oil and gas industry, with even Petronas coming under great pressure. But the Fortune 500 corporation’s president and CEO is determined to turn the challenges into opportunities to address inefficiencies, and, ultimately, to maintain profitability.

REPORTS BY A JALIL HAMID AND MUSTAPHA KAMIL ON PAGES 6, 7, 8 & 9
Steering through tough times

ACKNOWLEDGING that the current global oil price doldrums could be prolonged, Petronas has mapped out a plan to help the oil giant tide over the trying times and to stay profitable.

Outlining his game plan, Petronas president and group chief executive officer Datuk Wan Zulkiflee Wan Ariffin said it would weed out inefficiencies, manage costs, cut back some capital expenditure and seek more revenue.

In an exclusive interview with the New Straits Times, his first with the media since assuming his job on April 1, Wan Zul said his set of challenges were markedly different from his predecessors.

The low oil price environment comes at an unfortunate time when the country’s biggest company has committed to three huge oil and gas projects that are unprecedented in its 41-year history.

“What we anticipate is that this will be a prolonged environment of low oil price. It is not a sudden dip in a cycle or anything,” Wan Zul, the 54-year-old chemical engineer by training, said in his office on the 1st floor of the Petronas Twin Towers.

Q&A with Datuk Wan Zulkiflee Wan Ariffin

Q: What is your take on the overall oil and gas industry?

A: What we anticipate is that this will be a prolonged environment of low oil prices. It is not a sudden dip in a cycle or anything. We think this would be prolonged because of the structural shift in the industry. And with many things happening at the same time, this confluence of world events has caused impact. When we look back, this is similar to what we experienced in 2008, where that, too, took quite a few years before prices picked up again.

This time around, I think technology really made a big shift, such as the United States shale producers, something that people did not expect to come at so fast a pace. Also, Opec (Organisation of the Petroleum Exporting Countries) did not perform the role that they normally do to act as a price stabiliser. We also have this scenario of lifting of the sanctions on Iran, Iraq is now producing higher than before.

On the demand side, the global gross domestic product has been lowered. Even the latest forecast has been lowered. China is a big issue here in terms of demand, and not many people realise the technology and increase in efficiency issue. In Japan for example, we see a drop in demand for petrol because efficiency plays a big role in terms of consumption. I think this will come with more and more efficient cars, hybrid cars, better batteries. So all this has got an impact. We also see the industry experiencing this where players need to recalibrate their expectations in terms of returns that they were used to. We are doing the same.

Q: Do you see this kind of timeline (like in 2008) this time around?

A: We are all afraid to use our crystal balls now. We plan our budgets to be conservative.

Q: When you say the industry must recalibrate, Petronas included, what does this mean to the layman?

A: For Petronas, these few years are about cash management. When prices dropped, cash flow from our operations also dropped. First half results compared with the same period last year, it was a 43 per cent drop in terms of profits. In terms of cash flow, it was a 30 per cent drop.

This is the period where we commit to very big projects. Never before in the history of Petronas have we undertaken capital projects of this size. These include RAPID (refinery and petrochemical integrated development) Johor, the Floating Liquefied Natural Gas (FLNG) project and, hopefully, our Canadian project.

Just one more approval before we can proceed with the projects.

Now the demand for capital expenditure is high and, at the same time, prices dropped, so we are focused on staying profitable. We can do it. I’m confident we can remain profitable during this cycle. There are measures that we have to take and this is a good window of opportunity for us to address the inefficiencies within the organisation, and the Malaysian oil and gas industry.

So, the first to be affected will be the players in the Malaysian oil and gas industry. When we reviewed our capex programmes, there was a cutback. The organisation responded very well. We cut 23 per cent of our operating expenditure. That is not a small number. It means that there are many things that we have to do differently, for example, eliminating discretionary spending, cutting down travelling expenses and relying more on information technology facilities.

I was looking at the data on linked video conferencing; it went up this quarter. We are adjusting internally.

I took this opportunity to step back to see what the focus areas are for this organisation.

It is more like addressing the inefficiencies. When the oil price was high, these inefficiencies were not obvious. But when times are more challenging, inefficiencies become more apparent.
Wan Zul a man with a mission

To the top man in Malaysia’s No. 1 company, the much sought-after work-life balance is a subjective issue. "If you feel comfortable spending 12 hours in the office, why not go home?" He said, adding that it has already cut 25% per cent in operating expenditure.

Wan Zul said his six-point strategy is as follows:

**Cash generation.** "What I mean by cash generation is our plants must be running at top speed. We must sell our products at the best value we can get, so it has to be all across the value chain."

**Delivering growth projects.** These include Rapid, floating LNG, more projects in Sabah and hopefully very soon, the project in the Philippines. We need to deliver these projects well, as the industry is highly demanding of both quality and production levels.

**Striking down costs and simplification.** We are reviewing some of the processes that hit across the group. These include HR, procurement and planning processes.

**Investing in technology.** "We are not cutting back on talent management spending but I must make sure that the money is well spent and we spend it in areas that we really need to spend."

**We are looking at how we can do this better.**

**Improving work culture.** "We are putting in the right person at the right place and letting the senior staff on the right track."

Wan Zul said oil and gas projects that have already been signed would be going ahead. But the company would also be looking at new opportunities, both in the domestic and international market.

He said the cutback in Petronas' capex programme would have an impact on service providers. "I think there has been some retrenchment and downgrading within the service providers."

"Today, if I look at the number of companies, I think the last six months there was a lot of oil and gas service providers. But Norway has only about 700, which means many of our companies are small and the industry is very fragmented.

"We are encouraging consolidation. This is what I have to go by doing since the industry will be more efficient once we get over this challenging period."

Wan Zul said Petronas, with a 51,000-strong workforce, has no immediate plans to lay off its staff. He said some of its staff had been redeployed to Rapid.

Wan Zul said he would continue to hire new staff, but at a slower pace. "The hiring will continue but maybe at a slower pace. We still need to bring in new people. We have not come to a point where you have to retrench."

"At this time, the market is looking for new opportunities. We are looking for opportunities that can be convincing and creating value in the increasingly chaotic oil and gas industry."

He took several steps backwards to have a better perspective of the company and saw several short-term issues that could be rectified in the short run.

As it grew over the years and enjoyed life in the limelight, Petronas has taken its eyes off one thing. The company has been laden with processes, many of which have been rendered obsolete by technology.

Wan Zul said he wanted to cut unnecessary processes and simplify work in the company so that the time spent writing reports, for instance, could be focused on revenue-generating activities.

Married with three kids — two boys and one girl — Wan Zul listens to music, the American singer Bruno Mars among his favourites.

He enjoys driving high-performance cars and travelling, and occasionally looks forward to being in the open and green farmlands of a golf course. More of a social golfer, he plays to a 22.

He also likes Indian food and follows the United States television series Breaking Bad, an action-packed crime series about a formerly blacklisted spy who uses his unique skills and training to help people in desperate situations.

Biodata of Datuk Wan Zulkiflee Wan Ariffin

**Age:** 54

**Qualification:** Bachelor of Chemical Engineering from the University of Adelaide, South Australia

**Career:**

- 1983 — Joined Petronas in 1983 as a process engineer in the development of several gas processing plants. In the ensuing years he held various positions within the Petronas Group, including serving as the president of the project director as assistant executive to the president, general manager, and managing director of various companies.
- 2000 — Attended the INSEAD Senior Management Programme.

**Selected Honours:**

- 2004 — Attended the Advanced Management Programme at Harvard Business School
- 2005 — Was conferred an honorary fellowship by the Institution of Chemical Engineers, United Kingdom
- April 2006 to April 2010 — Vice-president of Gas Business
- 2010 — Appointed chief operating officer of Petronas; executive vice-president and chief executive officer of Downstream Business; also the chairman of Petronas Chemicals Group Bhd and Petronas Dagangan Bhd
- April 2015 — Appointed president and CEO of Petronas
- **Other Positions:**
  - He is a board member of the Johor Development Corporation Bhd and the industry adviser to the Engineering Faculty, University of Tasmania.
  - He is a member of the National Petroleum Advisory Council of Malaysia, a member of the East Coast Economic Region (ECER) Council, and a council member of the ECER Council.
Key design parameters

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### How will these measures strengthen Internally Petronas' existing projects?

Adding to its efforts to enhance its existing projects, Petronas is intensifying its operations by focusing on sound business practices, in line with its vision to grow its production and expand its market share. The measures taken include:

1. **Cost Control**: By optimizing operations and reducing costs, the company aims to enhance its profitability and competitiveness.
2. **Innovation**: Investing in advanced technologies and processes to improve efficiency and productivity.
3. **Risk Management**: Strengthening risk management strategies to protect against unforeseen challenges and ensure sustainable growth.
4. **Customer Focus**: Enhancing customer satisfaction through better service and quality assurance.
5. **Environmental Sustainability**: Complying with international environmental standards and focusing on sustainable development practices.

### How many rigs will be operated in Malaysia over the coming year?

Petronas operates 10 rigs in Malaysia out of a total of 30 rigs globally. This includes 10 operational rigs and 10 rigs that are under construction or being maintained. These rigs are crucial in the production of natural gas and oil, contributing significantly to the country's energy security and economic growth.

### How to mitigate the impact of the current economic downturn?

In response to the economic downturn, Petronas has taken several measures to mitigate its impact:

- **Cost Cutting**: Implementing cost-cutting measures to reduce expenses without compromising quality.
- **Innovation**: Developing new technologies and processes to enhance efficiency and productivity.
- **Revenue Diversification**: Exploring new revenue streams to offset potential losses from reduced oil and gas prices.
- **Strategic Partnerships**: Forming strategic partnerships to optimize resources and expand markets.
- **Employee Engagement**: Engaging employees in decision-making processes to foster a sense of ownership and commitment.

### What is the impact of the current economic downturn on Malaysia’s economy?

The current economic downturn has had a significant impact on Malaysia’s economy, affecting various sectors such as manufacturing, tourism, and construction. However, the country has also taken several measures to mitigate these impacts, including fiscal stimulus packages and support for vulnerable sectors. While the economic situation remains challenging, the government continues to work towards stabilizing the economy and ensuring its long-term growth.
Q: Managing Malaysia’s No. 1 company, how do you take these challenges personally? For example, how many hours do you spend in the office every day?
A: I believe for an organisation like this, first, the system must work. It is just impossible for the CEO to be in control of the 51,000 personnel in the company. In terms of time, I am in the office by 9am and I think I spend probably between 10 to 11 hours in the office every day. The job also involves a lot of travelling, but I try to limit being away from the office to a maximum of 10 days a month. I still believe that it is important to spend time in the office and we do have meetings as well. I think the DNA of the company is very important. Everybody understands that this is a position of trust, a majority give their best and it is a matter of aligning everybody to give his best. I think that is the role of management.

Q: What is your take on the Bumiputera agenda?
A: My view is that it is in line with the government agenda. We should nurture owner-operators, not agencies or rent-seekers. That should be the way. On merit and owner-operators. We try to eliminate agencies. This is my intent. I want to help owner-operators. They are the ones who invest money, go to their offices and really work for their businesses and provide employment. We have seen many successful Bumiputera companies doing just that. We support them in line with government policy.

Q: Tell us a bit about work-life balance.
A: I have been asked this many times. I believe it is all very subjective. I think it is how you define this balance, but more importantly, you must be comfortable with it. I also believe there is a lot of trade-offs and I tell myself that if I am comfortable with the trade-offs, that is the balance that I want. I told people that, in these two to three years, my work will consume my life. I just tell myself that as long as I am comfortable, that will be the balanced position for me.

Q: What is it that has made you stay at Petronas this long?
A: I think I felt that I was part of a winning team. When I joined, Petronas was small. We grew and I always felt that I was part of a winning team. Then we went international. I think this has kept me here. I have no regrets and I think, in terms of personal development, too, Petronas has invested a lot in me. I am very grateful to the organisation.

Tomorrow: How the RAPID Pengerang and Canadian gas projects will reshape Petronas’s future. Also on Petronas looking at solar energy and its view on its investments in an F1 team.