

**Remarks by Khalid A. Al-Falih**  
**Saudi Aramco President & Chief Executive Officer**  
**At the Stanford University Graduate School of Business**  
**“View from the Top” Series**  
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Good morning, Ladies and Gentlemen. Thank you Dean Saloner for that introduction and for inviting me to speak here at Stanford.

Like any good businessman, I looked at the list of recent speakers to see what works well in these sessions, and to check out the competition.

You’ve had the CEO of Citigroup. A partner at McKinsey. And, just last week, the President of Turkey. A banker, a management consultant, and a politician...

It’s good to see that “Big Oil” is farther down the “hit list” for a change!

**Saudi Aramco & Stanford**

Seriously, it’s a genuine pleasure to speak at one of the finest business schools in the world, and to be back in northern California. I lived in San Francisco for a time during the early 80s and have some wonderful memories of the region. And back in the 1930s, this part of the world figured prominently in Saudi Aramco’s origins. The first concession agreement was granted by the Saudi Government to the Standard Oil Company of California—predecessor of today’s Chevron—which was headquartered in San Francisco. In fact, our company’s first name was the “California-Arabian Standard Oil Company”—and I note that “California” comes before “Arabia”!

So, given my own history and that of my company, being back in the Bay Area is both a personal and professional homecoming for me.

Those historic links with California are reflected in the multi-dimensional partnerships in education, research, and innovation that Saudi Aramco and Stanford have enjoyed for many decades. Forty of my fellow Aramcons are Stanford alumni—including Saudi Arabia’s Minister of Petroleum & Mineral Resources and the Chairman of our Board of Directors, Ali Al-Naimi—while another 13 are currently studying here.

Earlier this year, we also had the pleasure of hosting around 30 Stanford MBA students at our headquarters in Dhahran; some of you here today may have gone on that tour, and I hope you found it a rewarding experience.

Later today, I will join my good friend John Etchemendy, the Provost, in celebrating Saudi Aramco’s endowment of the Max Steineke Professorship in the School of Earth Sciences, further cementing the ties between Stanford and our company, and highlighting the legacy of an outstanding Stanford alumnus and an icon in the history of the global petroleum industry.

That chair is named for perhaps the most inspirational employee to pass through these hallowed halls, a first-generation Aramco pioneer and our former Chief Geologist, Max Steineke.

Sent to Saudi Arabia by Standard of California in the mid-1930s, his resilience and optimism overcame almost five years of frustration, as a number of wells were drilled and failed to deliver. Management back in San Francisco sent a telegram to the field crews in the Kingdom to stop working. However, the men

on the receiving end of that cable chose to ignore it—at least for a while—and Max Steineke ordered his men to “drill a little deeper.”

When they did, they discovered the first oil in Saudi Arabia in commercial quantities, and in March 1938, Dammam Well Number 7—“Lucky Number Seven,” as it was called—became our first gusher.

Now I am not advocating that in your future careers, you ignore the directives of your senior management—but I am glad that in this instance those early oil pioneers trusted their own instincts and superior local knowledge by “drilling deeper”!

And so it’s with the inspiration of Steineke “drilling a little deeper” that I’d like to approach our time together.

Today I want to drill a little deeper when it comes to understanding Saudi Aramco today, and where it is headed in the future. I want to drill a little deeper intellectually, to explore the theory and practice of leadership. And as well as drilling deeper, I’d like to talk about how we’re aiming higher when it comes to unleashing the full power and potential of an already successful organization through transformative change.

### **Saudi Aramco Today**

Let me begin by providing some context, because to appreciate the view from the top, you have to understand the organization being led and the context in which it operates. Saudi Aramco is in many ways a unique company, as are the leadership challenges it presents.

Earlier I mentioned the California Arabian Standard Oil Company, which became the Arabian American Oil Company—Aramco—once Texaco acquired a 50 percent stake. Eventually Exxon and Mobil also bought in—investment which was welcome given the size and scale of the upstream operation in Saudi Arabia. To bring the story full circle, the Saudi government acquired Aramco from those four American parent companies by 1980—though they continued to manage it on the government’s behalf until the establishment of Saudi Aramco back in 1988. And while the company began nearly eighty years ago as an upstream powerhouse, producing crude oil in one country, over time it has become an integrated global energy enterprise.

Saudi Aramco’s story is one of success, and it does well by multiple measures. For example, we’ve produced more oil in our history than any other company on the planet. Aside from being a sizable producer of natural gas, nearly one in every seven barrels of oil that will be produced around the world today will come from Saudi Aramco, and over the next 24 hours, we will provide more than 10 million barrels of oil to the global energy market. We are also the only producer with sizable spare production capacity, which plays a critical role in helping to stabilize markets and reduce volatility. Our ability to make up for production shortfalls elsewhere around the world has been demonstrated many times over the decades, most recently when Libyan supplies were disrupted last year. No one else has the capacity or capabilities we do, and that requires large investments, operational excellence, and political prowess!

Downstream, we have extensive refining assets in the Kingdom and around the world through a network of joint ventures, which stretch from Texas to Tokyo. We continue to build our refining capacity and move further down the value chain—initiatives I will come to later. We are in the privileged position of not

carrying any debt on our balance sheet and of being able to self-finance our own industrial initiatives.

But with such scale, competence and influence comes tremendous responsibility.

Certainly there is our global responsibility as a major energy provider, but as the national oil company of Saudi Arabia, we also bear tremendous responsibilities to the Kingdom and its people. To that end, we act as the engine of the Kingdom's economy not only as the predominant source of revenue and the sole provider of energy to the nation, but also by helping to build national capacity and grow the Saudi economy.

Of course, the revenues we generate are significant, and profitability is as vital to Saudi Aramco as to any multinational oil company. Although we are a state-owned enterprise, we maintain an arm's length fiscal relationship with the government, and pay taxes and royalties now just as we did when we were an American-owned company. And we report to an independent Board of Directors comprising both international and national business leaders, educators and officials.

We also exhibit a high degree of operational complexity, even beyond the technologically sophisticated core oil and gas business. Because of the scale of our operations, we operate our own fleet of fixed-wing and helicopter aircraft; operate a healthcare system with a patient population in the hundreds of thousands; and maintain housing compounds and remote area camps, with all the logistics that entails.

## **Challenges**

Because of the breadth and complexity of these various mandates—especially the national challenge—we must be absolutely clear about our mission or risk becoming distracted and unfocused. Our mission statement has profitability at its heart, and it reads, “Saudi Aramco's mission as an integrated international company is to engage in all activities related to the hydrocarbon industry, on a commercial basis and for the purpose of profit.”

Sounds good, but what does it mean in practice? Let me highlight four of the leadership challenges that flow from that mission.

First, we have to execute at “best in class” levels, because day-to-day performance is absolutely essential for business success. That goes beyond operational excellence, and extends to high levels of performance in executing projects, maintaining fiscal discipline, and ensuring safety and environmental stewardship. It also means building capacity in our work force, to ensure our men and women have the skills, expertise and job knowledge needed to achieve those high standards day in, and day out.

Second, we have to invest wisely and ensure we direct capital in the most effective manner in what is both a resource-intensive business and a long-term industry. To give you an example of those time horizons, I was in Texas yesterday to inaugurate an expansion of our joint-venture Port Arthur Refinery—a ten-billion-dollar project which makes it the largest refinery in the Western Hemisphere. That facility is state-of-the-art, but it was *first* built in 1903 in the wake of the Spindletop oil rush, more than a century ago! And last month, at our Board meeting in Tokyo, we presented our crude oil production strategy, showing the resources we will be producing a century from now, in the first decade of the 22<sup>nd</sup> century.

It is also a far-flung enterprise, with a worldwide reach and global partnerships. For example, in March I was in Beijing to sign agreements with two leading Chinese petroleum enterprises to build a refinery on Saudi Arabia's Red Sea coast and another in China's Yunnan Province. Those ventures will join partnerships we already have with American, Anglo-Dutch, French, Russian, Italian, Korean and Japanese companies.

Third, we have to not only to achieve profitability, but also to maximize our contributions to the Saudi economy and society, leverage our core strengths for the benefit of the nation, and strengthen our ability to meet growing global demand for oil, products and petrochemicals. That entails, among other areas of focus, developing human resources, promoting innovation and entrepreneurship, and expanding in areas of the business that are richer in terms of value addition and job creation.

Fourth, one of the most complex challenges for us or any petroleum company is the central position that energy occupies on the global public agenda. Oil is inseparable from economics, politics and the environment, and is often the subject of fierce debate. Unfortunately, those debates generate more heat than light. But we do our stakeholders and wider society a disservice if we fail to correct misperceptions and encourage a more rational discussion of the energy choices we face. We have to insert ourselves into the public narrative by engaging the minds (if not always the hearts) of audiences far and wide. This is one of my most important responsibilities—and it's why I am here.

To recap, we are one of the world's largest, most successful and most profitable energy enterprises. But we face tremendous challenges as an industry, and in terms of development in the Kingdom of Saudi Arabia—as well as a host of exciting opportunities on the horizon.

## **Leading Transformative Change**

Now, one response to that situation would be to focus only on our tried and true strengths and core competencies. There's something to be said for that strategy, and many companies have pursued it with success. But at Saudi Aramco, we view the situation differently. I have often compared Saudi Aramco to a high-performance racing car: if you drive it downtown through traffic and encounter lots of stoplights and intersections, it will never reach top speed. Instead, you have to get it out on the super speedway, rev the engine, and unleash the vehicle's true potential.

So we see our strengths as sources of leverage for new initiatives. Rather than being content with the status quo, we are challenging ourselves to unleash the full potential of our company—and above all, of our people. Of course change is never easy or resistance-free. Some ask why we are trying to undertake sweeping change at what is already the world's most successful oil and gas company; don't fix it if it's not broken, they say. I agree it's far from broken but it's not as good as it could be. And to me that's an irresistible challenge and a personal responsibility.

That's why last year I launched a major Strategic Transformation Initiative—called the Accelerated Transformation Program, or ATP—which will dramatically change our company.

The goals of that initiative are captured in our Strategic Intent for the company, namely that, “In 2020, Saudi Aramco will be the world's leading integrated energy and chemicals company, focusing on maximizing its income, facilitating the sustainable and diversified expansion of the Kingdom's economy, and enabling a globally competitive and vibrant Saudi energy sector.” Those 39

words are my mandate for moving our company forward over the next decade or so. We've broken that intent into 14 specific initiatives, grouped under four main focus areas, or what we've termed "pillars."

The first pillar is business strategy 101: building and developing our portfolio. That means leveraging our upstream success by exploring in frontier areas like the deep offshore Red Sea and assessing the resource potential of unconventional petroleum resources, like shale. It also means investing in the downstream space so that in the next decade our total global refining capacity—both wholly owned and joint ventures—will approach eight million barrels per day—the largest of any oil company on earth. It also means building a top-tier chemicals business by moving further down the value chain, and getting more involved in power generation, including, it might surprise you, investments in renewables, particularly solar.

The second pillar is all about our engagement with the Kingdom, and ensuring that as Saudi Aramco enhances its global leadership position, we leverage that leadership for the progress of the Kingdom. That means helping to develop the local energy support sector, so that we can source an increasing volume of our goods and services from domestic suppliers, including more high-value products. It means helping raise educational standards and developing a knowledge base for the Kingdom's future. And it means working to reduce the Kingdom's level of energy intensity and create a more energy efficient nation, and playing our part in diversifying the Saudi economy.

Some people think those two pillars are stretch targets, but for me, it is the third and fourth pillars which will be the most challenging.

The third pillar is about expanding Saudi Aramco's capacity and capabilities through enhancing the performance of its people. We have to develop leaders, managers and professionals for a new, more complex, and faster moving business environment that rewards well-reasoned and calculated risk-taking, and pushes decision-making down in the organization. At the same time, we are bringing a new generation of young men and women into our ranks—and by 2016, roughly 40 percent of our employees will be under the age of 30. They have a different worldview and different expectations, and I have spoken often of the need to not only get these young people ready for the company, but to get the company ready for these young people. That also means fostering a climate that encourages innovative thinking and solutions, and developing a technology and R&D engine that ranks among the strongest in the world.

Our fourth pillar is ultimately all about streamlining our business processes. I refer to it as fixing the plumbing and wiring in the company—and we all know how disruptive a process that can be in our homes! That's one of those calculated risks I just mentioned, but we need to do it if we are going to have organizational flexibility and dexterity.

Ladies and gentlemen, when I'm asked about transformation, I am reminded of a quote by "The Great One," Wayne Gretzky—and yes, I am probably the first Saudi oilman to derive business strategy from ice hockey! One of the keys to Gretzky's legendary success was his ability to be in the right place at the right time, which he explained like this: "I skate to where the puck is going to be, not where it's been."

But being able to do that requires hard work, as well as teamwork and coordination—after all, Gretzky never skated alone against six opponents! Getting ahead of the puck also requires physical conditioning, skating and stick-

handling skills, and situational analysis. And of course, sometimes hockey requires beating up on the competition, in more ways than one! Business is the same way—it's not enough to aspire to be in the right place at the right time; you also have to do the hard work of building capacity and building consensus, developing people and their skills, and delivering top-notch execution every single day.

In a nutshell, that's how I see my role. Doing it can be exhausting at times, but I love my job and I'm passionate about delivering the transformation our company needs.

Thank you for your attention as I've "drilled a little deeper." I hope I've set the scene for what I am sure will be an interesting and enlightening discussion.

Thank you.